PHOENIX
HEALTHCARE
GROUP
凤凰医疗集团

# Phoenix Healthcare Group Co. Ltd

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1515

# Annual Report 2015

# Contents

# Corporate Information

As of March 30, 2016

## Directors

### Executive Directors:

Mr. Liang Hongze
*(Chairman of the Board and Chief Executive Officer)*
Ms. Xu Jie
Mr. Zhang Xiaodan
*(Executive General Manager)*
Mr. Xu Zechang *(Deputy General Manager)*
Mr. Jiang Tianfan *(Chief Financial Officer)*
Mr. Shan Baojie *(Deputy General Manager)*
*(appointed with effect from February 1, 2016)*
Mr. Cheng Libing *(Vice Chairman of the Board)*
*(appointed with effect from February 1, 2016)*

### Non-executive Directors:

Mr. Yang Huisheng
*(resigned with effect from February 1, 2016)*
Mr. Rui Wei
*(resigned with effect from February 1, 2016)*

### Independent Non-executive Directors:

Mr. Kwong Kwok Kong
Ms. Cheng Hong
Mr. Sun Jianhua
Mr. Wang Bing
*(resigned with effect from August 21, 2015)*
Mr. Lee Kar Chung Felix
*(appointed with effect from August 21, 2015)*

## Audit Committee

Mr. Kwong Kwok Kong *(Chairman)*
Ms. Cheng Hong
Mr. Sun Jianhua

## Remuneration Committee

Mr. Sun Jianhua *(Chairman)*
*(appointed as its chairman with effect from August 21, 2015)*
Mr. Zhang Xiaodan
Mr. Lee Kar Chung Felix
*(appointed as its member with effect from August 21, 2015)*

## Nomination Committee

Ms. Cheng Hong *(Chairman)*
Mr. Liang Hongze
Mr. Lee Kar Chung Felix
*(appointed as its member with effect from August 21, 2015)*

## Authorized Representatives

Mr. Jiang Tianfan
Ms. Ngai Kit Fong

## Company Secretary

Ms. Ngai Kit Fong
*(appointed with effect from March 1, 2016)*

## Headquarters and Principal Place of Business in China

E-825, No. 6 Taiping Street
Xicheng District
Beijing 100050
China

## Principal Place of Business in Hong Kong

Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

## Registered Office

Harneys Services (Cayman) Limited
4th Floor, Harbour Place
103 South Church Street
PO Box 10240, Grand Cayman
KY1-1002, Cayman Islands

# Corporate Information

As of March 30, 2016

## Principal Share Registrar and Transfer Office in Cayman Islands

Harneys Services (Cayman) Limited
4th Floor, Harbour Place
103 South Church Street
PO Box 10240, Grand Cayman
KY1-1002, Cayman Islands

## Hong Kong Branch Share Registrar

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

## Auditors

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

## Legal Advisers

### As to Hong Kong law

Dentons Hong Kong
3201 Jardine House
1 Connaught Place
Central
Hong Kong

## Principal Bankers

China Merchants Bank
2nd Floor, Tower A
156 Fuxingmennei Street
Xicheng District
Beijing, China

Industrial and Commercial Bank of China
55 Taoranting Road
Xicheng District
Beijing, China

## Stock Code

1515

## Company Website

www.phg.com.cn

# Chairman's Statement

## Dear Shareholders,

**In 2015, the Group proactively expanded the scale of our hospital network in tandem with the steady development of our healthcare operation. We have successfully expanded into the Beijing-Tianjin-Hebei region from the Beijing municipal. The number of medical institutes under our operation and management increased to 60, while the number of operating beds increased to 5,780. This was a meaningful year over the years of our Group's business development.**

For the year ended December 31, 2015, the Group recorded revenue of RMB1,372 million, representing a year-on-year increase of 13.8%. Net profit attributable to Shareholders amounted to RMB167 million, representing a year-on-year decrease of 27.4%. After netting off non-recurring profit or loss and special expenditure, net profit attributable to Shareholders amounted to RMB238 million, representing a year-on-year growth of 7.7%. The Board recommends the distribution of a final dividend of HK$11.9 cents per share for the year ended December 31, 2015.

The year 2015 saw further reform in the healthcare system in China. On the basis of a series of policies on public healthcare system reform issued in 2014, the Chinese government specifically reviewed various practical problems encountered during the course of prior healthcare reforms and illustrated key problems such as insufficiency, inferiority and uneven allocation of overall resources of the national healthcare resources. It had pointed out the necessity of coping with further public healthcare reform by way of public-private partnership to introduce private capital into the healthcare system, in conjunction with the launching of a series of policies related to the reform of the healthcare system by governments in various levels across China so as to support the smooth implementation of healthcare reform.

# Chairman's Statement

During the course of IOT model (or the ROT model, which refers to Restructure-Operate-Transfer) reform on public hospitals in close cooperation with the government over the years, we have become experienced in the transformation and reform of public hospitals. Supported by the favorable reformation policies of the Chinese government, the Group successively completed key projects such as the development of the community collaborative healthcare system in Shunyi District, Beijing and the reform of the public hospital in Baoding, Hebei as a pioneer in successfully tapping on the IOT model, achieving ground-breaking development in our network presence and depth of reformation.

Looking forward, the Group will sufficiently leverage on favorable external conditions offered by the healthcare reform in China to proactively expand the scale of our hospital network by utilizing both internal and external resources. We will proactively identify innovative models such as the community collaborative healthcare system development model as well as the treatment and caring combination business model, with a view to fully enhance the standards and capabilities of the Group's healthcare services. The Group will set up sound and effective incentive system for the new in-network hospitals for ongoing cultivation and attraction of talents. Thus laying down a solid foundation for the Group's development into a leading large-scale healthcare group in Asia and create long-term stable returns for our Shareholders.

**Liang Hongze**
*Chairman*

Hong Kong, March 30, 2016

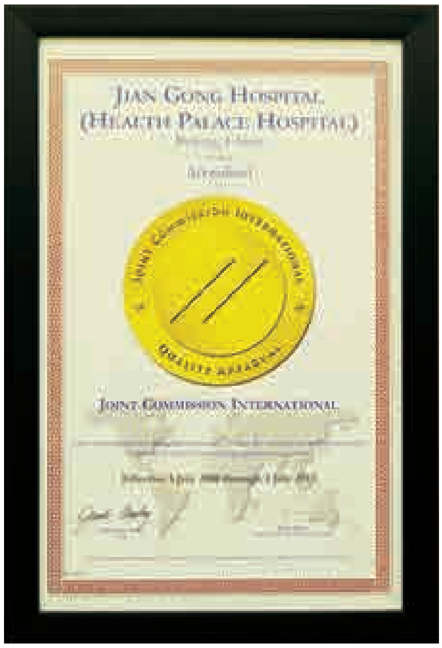
# MANAGEMENT DISCUSSION and ANALYSIS

# Management Discussion and Analysis

## Business Overview and Outlook

### China Healthcare Services Industry

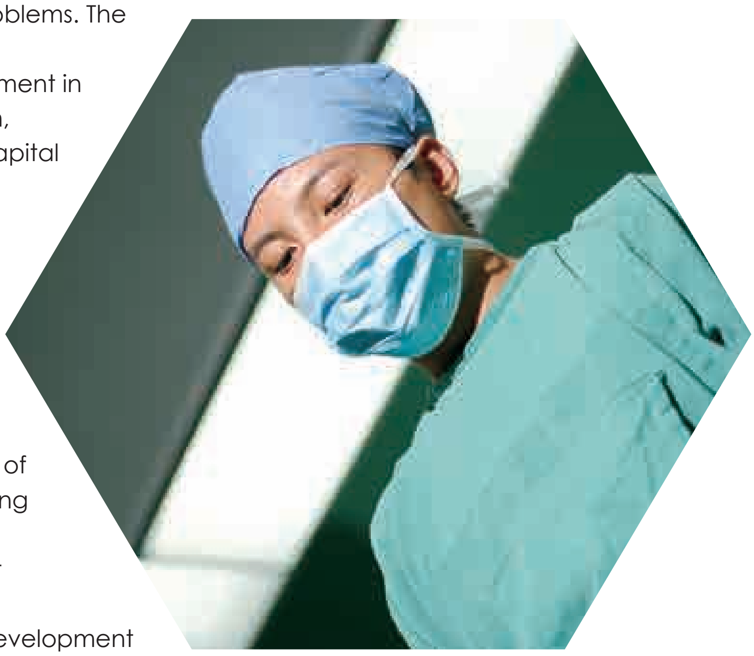
China has a high economic volume and large population, creating one of the world's fastest growing and largest healthcare services market during the rapid development and urbanization over the past two decades. This offers a sound environment for the long term development of the healthcare services and related industries. However, due to the factors such as uneven population distribution and economic development, quality healthcare resources are mainly concentrated in the public medical institutes in the major cities of the core economic regions such as the Pan Bohai Rim, the Yangtze Delta and the Pearl River Delta regions. The healthcare services expenditure per capita is significantly below the average standard of developed economies. Also, as the pace of industrialization, urbanization and population aging accelerate, in addition to the commencement of the new cycle in economic development, the conflicts between the trending down economy against the increasing public demand in healthcare services has become more prominent, as well as the problems such as insufficient overall healthcare resources and structural imbalance. These raised new and significant challenges to the development of the healthcare services industry of the PRC.




With a view to achieve effective balance distribution of the healthcare resources, increase the overall supplies and efficiency of the healthcare services system, during recent years, the PRC government took the initiative to proactively roll out the comprehensive and deepening reformation of the healthcare system and the nation-wide public healthcare insurance, thus facilitating the rapid growth in the scale of healthcare industry. For example, in the Outline of the Planning of the National Healthcare Service System (2015-2020) (《全國醫療衛生服務體系規劃綱要(2015–2020年)》) issued by the State Council of the PRC in March 2015, emphasis is placed on problems such as insufficiency, inferiority, imbalanced structure and uneven allocation of overall resources of the national healthcare resources, fragmented services mechanism and unreasonable scale expansion of certain public hospitals. This has formulated quantitative objectives for national healthcare system development in areas such as healthcare resources allocation, different level medical institute structure organizations, healthcare talents development and integration of healthcare networks. The importance of developing healthcare by private capital has also been specifically raised. The target has been set up to 2020, the number of beds in healthcare institutions should be maintained at six units per thousand residents and the number of beds in healthcare institutions in privately-invested hospitals should be no less than 1.5 units. The purpose is to achieve the following under the government-leading and market oriented mechanism: to enhance resources allocation for the healthcare system, to develop an integrated healthcare services system which can meet the national economy and social development standards and the healthcare needs of the residents and to develop a comprehensive, complementary and cooperative integrated healthcare services system with clear division of labour.

# Management Discussion and Analysis

In the 2014 Work Review and 2015 Major Tasks on Further Reform on the Medical and Healthcare System (《深化醫藥衛生體制改革2014年工作總結和2015年重點工作任務》) issued by the State Council of the PRC in April 2015, the effective development in and proactive situation of the reform on the national medical and healthcare systems were sufficiently recognized, meanwhile, it is also recognized that the healthcare system reform is a long, challenging and complicated system-wide project which faces certain difficulties and problems. The Major Tasks formulated the core ideas of further comprehensive reform on public hospitals, improvement in the nation-wide public healthcare insurance system, fostering the healthcare development by private capital investment, improvement in the pharmaceutical supplies security system and improvement in the multi-level diagnostic and treatment system targeting to the authorities of the PRC such as National Health and Family Planning Commission, National Development and Reform Commission, Ministry of Human Resources and Social Security, Ministry of Finance, China Insurance Regulatory Commission and Medical Reform Office of the State Council. These aim at proactively facilitating the investment of private capital in the healthcare industry, so as to put into practice the development philosophy of improving social welfare by industrial development and ensuring the long term healthy development of national healthcare system.



Moreover, in order to sufficiently encourage and attract private capital investment in the public infrastructure projects and to enhance the supply capacity and service quality in the public sector, in 2015, government authorities at different levels such as the State Council of the PRC, National Development and Reform Commission, National Health and Family Planning Commission, Ministry of Finance and the municipal government of Beijing, successively issued various important documents, such as the Guiding Opinions on the Pilot Integrated Reform Program of the Urban Public Hospitals (《關於城市公立醫院綜合改革試點的指導意見》), the Key Opinions on Deepening Economic Restructuring in 2015 (《關於2015年深化經濟體制改革重點工作意見》), the Guiding Opinions on Fostering the Development of the Diagnostic and Treatment Hierarchy (《關於推進分級診療制度建設的指導意見》), Certain Policy Initiatives on Accelerating the Promotion of Healthcare Development by Private Capital Investment (《關於促進社會辦醫加快發展若干政策措施》), the Guiding Opinions on Further Reform on State-owned Enterprises (《關於深化國有企業改革的指導意見》), the Guiding Opinions on the Promotion of the Cooperation Model between the Government and the Private Capital in the Public Services Sector (《關於在公共服務領域推廣政府和社會資本合作模式指導意見》), the Implementation Opinions on Innovating the Investment and Financing System of Key Areas for the purpose of Encouraging Private Investment (《關於創新重點領域投融資機制鼓勵社會投資的實施意見》), with aims to promote the adoption of public and private partnership model through cooperation between the government and private capital in key areas, facilitate the reform on the system and mechanism, provide favorable policy foundation and development conditions for the participation of private capital in the transformation and reform of different types of medical institutes at different levels creating room for the promotion and opportunities for the development of the diversified public hospital reforming model of the Group.

# Management Discussion and Analysis

## Business Review for 2015

During 2015, the Group continued to enhance its management and operation capability of the medical institute network, incentivized internal team and attracted external talents though (amongst others) share-based incentive scheme, further optimized the management processes and medical service standardization to enhance the operational efficiency and facilitate the resources sharing among various hospitals. Meanwhile, the Group has also developed long-term cooperation relationship with domestic and overseas partners in the healthcare industry, academic institutions and medical groups by utilizing the platform offered by the Group's listing status, which allowed the Group to raise its overall healthcare technology and medical service standards, to provide patients with enhanced quality healthcare services and create long-term and stable returns for the Company's shareholders.

While focusing on improving the service quality and operational efficiency of the meliced institute network, the Group also proactively expanded the scale of hospital management network in the Beijing-Tianjin-Hebei region in 2015, and successively completed several key projects such as the development of the community collaborative healthcare system in Shunyi District, Beijing, the reform of the public hospital in Baoding, Hebei, which expanded the group's medical institute network of one Grade IIIA hospital, the No.1 Central Hospital in Baoding, two Grade IIA hospitals, the Beijing Airport Hospital of Shunyi District and the Third Center Hospital in Baoding, one Grade IA hospital, Shunyi District No. 2 Hospital and 11 community clinics. The inclusion of these new hospitals led to an increase of beds in operation from 3,382 to 5,780 in 2015, representing an increase of 70.9% as compared to the corresponding period in 2014. The number of patients treated by us increased from 3,935,000 to 5,577,000, representing an increase of 41.7% as compared to the corresponding period last year.

Moreover, in 2015, the Group and UMP Healthcare Holdings Limited in Hong Kong commenced in-depth cooperation on equity and business levels. With reference to the mature organizational structure and industrialized model of clinics in Hong Kong and by leveraging on the existing medical institute resources of the Group, we will establish a for-profit general practice clinic network in Beijing . Through the extension of preliminary general practice healthcare services network and the establishment of multi-level diagnosis and treatment system, we will provide convenient and quality healthcare management services to patients and favorable conditions precedent for our further development into the upstream and downstream sectors along the industrial chain, such as medical insurance, rehabilitation, nursing and elderly healthcare services.

In 2015, the Group adhered to our development principles and developed according to the practical needs of our patients and development needs of medical institutes, and kept improving the standards of clinical healthcare services and the capabilities of hospital network management. As a leading enterprise in the public hospital reform under the PRC healthcare system reform, the commencement and completion of the key medical reform projects by the Group in the Beijing-Tianjin-Hebei region in 2015 reflected that our Group's profession in operation and management of hospitals is highly recognized by government authorities at different levels and residents across the region, which laid down a solid foundation for further exploration of the healthcare market in the Beijing- Tianjin-Hebei region for our Group.

# Management Discussion and Analysis

## Industry Outlook

Under the policies pronounced and initiated by different levels of governmental authorities in China on major reform of the national healthcare system and the utilization of market-oriented mechanism to improve on the healthcare resources allocation, it is expected the government authorities of the PRC, state-owned enterprises and the military will expand the reform to different levels of public hospitals and to attract private investment into the healthcare services industry, as well as working with private partners through the government procurement of services model, public and private partnership model and the reconstruction-operation-transfer model, in order to comprehensively reform public hospital system, develop fundamental healthcare network, improve on the existing medical institute management and to develop elderly care and rehabilitation healthcare system, to create a favourable environment for the growth and expansion of hospital management business with experience in healthcare reform and edge in its network and size.

In recent years, the demand for healthcare services was increasing significantly due to the growth of aging population in China, and the continuous deceleration of economic growth has led to imbalanced development among different regions. As a result, the difference between the supply and demand of healthcare services has significantly increased, leading to growing pressure on the payment of public medical insurance. It is expected that, as the healthcare services industry in China developed in the future, a multi-level integrated healthcare system will be built jointly by public and private sectors upon the integration of the core public hospital healthcare resources with commercial insurance and elderly and rehabilitation services, offering a platform for the continuous and stable growth of the innovative development of the healthcare services industry in China.

## Development Strategies

Innovative development and clinical services have been the core strategies of the Group, as well as the key to success during the course of operation and administration of hospitals over the years. In the coming years, the Group aims to "develop from a hospital group into a healthcare industrial group and transit from individual hospital operation to a healthcare system operation" and to capture core resources of the industry. The details of our plan are as follows:

— Expanding the hospital management network in the Beijing-Tianjin-Hebei region

Leveraging on the Group's advantage in hospital operations, we will capitalize on opportunities arising from reform on the healthcare system by building upon the foundation laid down by the existing quality healthcare resources and experience in healthcare reform. We will expand the hospital management network of the Group into the entire Beijing-Tianjin-Hebei region. The advantages offered by our capital platform allow the Group to further participate in various types of public hospital reforms through various new cooperation models, to enhance our investment in and control over the core resources in the industry and to build up an integrated large-scale healthcare group in the Beijing-Tianjin-Hebei region.

# Management Discussion and Analysis

— Developing a collaborative healthcare system to improve the diagnosis and treatment system

Based on our existing medical institute network, the Group will develop a healthcare system integrating the preliminary healthcare, diagnosis, emergency, treatment, rehabilitation and caring of acute diseases by coordinating internal and external healthcare resources, which create a RIDS (regional integrated delivery) system. The Group will continuously enhance the quality of clinical services provided by the Group's network of hospitals and clinics, and to expand the coverage of the Group's services by improving the diagnostic and treatment experience of the patients. Through the cooperation with external organizations, such as local government, UMP, insurance companies, healthcare organizations, the Group will make use of its integrated healthcare resources to develop innovative industrial models such as resident health management to establish a demonstrative national benchmark of multi-level diagnosis and treatment system.

— Exploration of innovative industrial model to continuously enhance the service quality of healthcare services

The Group will develop innovative models in, amongst others, healthcare services, operation and management in the existing medical institute network. We will focus on the exploration of two models, namely, the combination of treatment and caring, and the combination of treatment and insurance. The Group will gradually extend its services into the sectors of elderly services and healthcare insurance during the course of developing our regional integrated collaborative healthcare system, thereby creating an industrial chain to integrate its services. At the same time, we actively explore the possibility of a partnership between physicians and informatization of healthcare services, in order to enhance the overall standards of medical technology and the efficiency of our medical services.

## Operating Strategies

— Further enhancement of the centralization and standardization of key functions our hospital and clinic network, such as operation, administration, finance, procurement and planning so as to improve efficiency in the decision-making of the management and to reduce operating cost and achieve synergy at the same time.

— To train and retain talents by, amongst other, adopting a share-based incentive scheme and forming partnerships with physicians, to enhance our clinical technology standards and medical research capabilities and to facilitate exchange of medical knowledge and expertise among our network of hospitals and clinics.

— Improvement in project management in our network of hospitals and clinics to increase the efficiency of our hospital facilities, and to increase the efficiency and quality of the service and operation of our network.

— Further promote the JCI healthcare quality management standards and develop a patient-oriented hospital operation and management system to build an established and influential brand of healthcare services.

— To cooperate with leading industry players and to facilitate collaboration between key disciplines of different hospital to provide high-quality, advanced and safe integrated healthcare services.

# Management Discussion and Analysis

## Financial Review

### Segment Revenue

We derived revenue from our hospital and clinic network through the following three ways: (i) general hospital services provided at Jian Gong Hospital and Beijing Easylife, (ii) hospital management services where we manage and collect management fees from our IOT hospitals and clinics, and (iii) supply chain business in which we primarily supply pharmaceuticals, medical devices and medical consumables, and ancillary services mainly to our in-network hospitals and clinics.

#### General hospital services

Revenue from our general hospital services segment is derived from Jian Gong Hospital and from premium healthcare services offered under Phoenix VIP services at Beijing Easylife. General hospital services revenue consists of primarily fees generated from the provision of outpatient and inpatient services, including fees for healthcare services, pharmaceuticals and medical devices and medical consumables. The following table sets out the revenue, cost of sales and services and gross profit contributed by our general hospital services segment during the periods indicated:

| | Year ended December 31, | |
|---|---|---|
| | **2015 (RMB'000)** | 2014 (RMB'000) |
| Revenue | **575,634** | 540,192 |
| Cost of sales and services | **(485,049)** | (453,712) |
| Gross profit | **90,585** | 86,480 |

Revenue from our general hospital services segment reached RMB575.6 million, representing a year-on-year increase of 6.56% and accounted for 41.9% of our total revenue in FY2015 due to increase in total patient visits and average spending per patient visit. The number of total patient visits at Jian Gong Hospital reached approximately 788,400 (FY2014: approximately 758,700), comprising of approximately 776,700 outpatient visits (FY2014: approximately 747,100) and 11,700 inpatient visits (FY2014: approximately 11,600). The average spending per outpatient visit increased to approximately RMB451 (FY2014: approximately RMB449), while the average spending per inpatient visit increased to approximately RMB19,177 (FY2014: approximately RMB17,667).

The cost of sales and services of our general hospital services represents primarily costs of provision of healthcare services at Jian Gong Hospital, including costs of pharmaceuticals, medical devices and medical consumables, staff costs, and depreciation and amortization expenses.

During the period under review, Jian Gong Hospital's cost of sales and services grew to RMB485 million, representing a year-on-year increase of 6.9% which slightly surpassed the growth rate of revenue. This was mainly attributable to the higher costs of staff remuneration, medical devices and medical consumables. As a result, the gross profit margin slightly declined to 15.7% (FY2014: 16.0%).

# Management Discussion and Analysis

## Hospital management services

We managed and operated a total of 15 general hospitals, one traditional Chinese medicine hospital, one hospital for women and children and 42 community clinics under the IOT model in FY2015. In return, we were entitled to receive from each hospital or the hospital owners management fee, primarily calculated on the basis of percentage of revenue and/or net income before tax (收支結餘) generated by our IOT hospitals and clinics. Accordingly, the management fees we receive depend on the performance of such hospitals and clinics. For certain hospitals, our management fees are dependent on profitability and performance reviews.

Revenue from our hospital management services segment increased to RMB72.11 million, representing a year-on-year increase of 19.9% and accounted for 5.3% of our total revenue in FY2015. The following table sets out the revenue, cost of sales and services and gross profit of our hospital management services segment during the periods indicated:

| | Year ended December 31, | |
|---|---|---|
| | **2015 (RMB'000)** | 2014 (RMB'000) |
| Revenue | **72,112** | 60,138 |
| Cost of sales and services | **(17,389)** | (14,632) |
| Gross profit | **54,723** | 45,506 |

| | Year ended December 31, | |
|---|---|---|
| | **2015 (RMB'000)** | 2014 (RMB'000) |
| Yan Hua Hospital Group | **31,767** | 30,067 |
| Mentougou Hospital | **5,701** | 3,723 |
| Jing Mei Hospital Group | **26,400** | 20,880 |
| Mentougou Traditional Chinese Medicine Hospital | **8,244** | 5,468 |
| Mentougou Hospital for Women and Children | **—** | — |
| Total | **72,112** | 60,138 |

The management fee from Yan Hua Hospital Group was RMB31.8 million, representing an increase of 5.7% over FY2014. Total patient visits received by Yan Hua Hospital Group in 2015 remained basically stable as compared to FY2014, however, both of the average spending per outpatient visit and the average spending per inpatient visit increased, in addition to a relatively stable gross profit margin, the revenue was therefore slightly higher than FY2014. In addition, Yan Hua Hospital Group also successfully and effectively controlled its operating expenses and other costs, thereby leading to an increase in its net income before tax, which in turn increased the management fee for our Group.

The management fee from Mentougou Hospital was RMB5.7 million, representing an increase of 53.1% over FY2014. There was an increase in total patient visits received by Mentougou Hospital and the average spending per inpatient visit increased significantly due to the launch of more complicated operations with higher patient spending. As a result, the Group's management fee from Mentougou Hospital increased significantly as compared to FY2014.

# Management Discussion and Analysis

The management fee from Jing Mei Hospital Group was RMB26.4 million, representing an increase of 26.4% over FY2014. The renovation of the in-patient building of Jing Mei Hospital Group has basically been completed, and led to an increase in both patient visits and average spending per patient, leading to higher revenue and gross profit and hence resulting in higher management fee for our Group.

The management fee from Mentougou Traditional Chinese Medicine Hospital was RMB8.2 million, representing an increase of 50.8% over FY2014. Both the total number of outpatient visits and average spending per patient visit continued to maintain at a relatively high growth rate at Mentougou Traditional Chinese Medicine Hospital, which led to an increase in both revenue and gross profit margin. Furthermore, Mentougou Traditional Chinese Medicine Hospital managed to control effectively its operating expenses and other costs, thereby leading to an increase in its net income before tax and in turn leading to a higher management fee for our Group.

Since Mentougou Hospital for Women and Children were relocated in FY2015, both the total number of outpatient visits and average spending per patient visit decreased and no management fee has been generated from this hospital.

The cost of sales and services of the Group's hospital management services were the amortization of intangible assets represented by all or part of the investments the Group made pursuant to the IOT agreements.

Our hospital management services incurred cost of sales and services of RMB17.4 million, representing a year-on-year increase of 18.8% due to (i) the first full year amortization for the investments of RMB15 million in Mentougou Hospital for Women and Children in September 2014, and (ii) the new investment in the amount of RMB100 million in the Beijing Airport Hospital of Shunyi District and Shunyi District No. 2 Hospital in July 2015. Since the growth in revenue slightly outpaced the increase in cost of sales and services, the gross profit margin of the hospital management services segment of the Group slightly improved to 75.9% (FY2014: 75.7%).

## Supply chain business

Revenue from our supply chain business segment is primarily derived from sale of pharmaceuticals, medical devices and medical consumables, as well as ancillary services to the IOT hospitals and clinics. The following table sets out the revenue, cost of sales and services and gross profit of our supply chain business segment during the periods indicated:

| | Year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **(RMB'000)** | (RMB'000) |
| Revenue | **925,442** | 781,809 |
| Cost of sales and services | **(741,168)** | (616,092) |
| Gross profit | **184,274** | 165,717 |

# Management Discussion and Analysis

Revenue from the supply chain business segment of the Group increased to RMB925.4 million, representing an increase of 18.4% over FY2014. The segment revenue from sales to Jian Gong Hospital in the amount of RMB200.9 million was recorded as inter-segment revenue and eliminated against total revenue. After the inter-segment elimination, the revenue from our supply chain business segment accounted for 52.8% of our total revenue in FY2015. The total number of patient visits at the hospital and clinic network of the Group (excluding those patients received by the Beijing Airport Hospital of Shunyi District, Shunyi District No. 2 Hospital, the First Center Hospital of Baoding and the Third Center Hospital of Baoding, which only became IOT hospitals of the Group at in the second half of 2015) increased to approximately 4.16 million (FY2014: approximately 3.8 million excluding those patients received by Mentougou Hospital for Women and Children and approximately 3.93 million including Mentougou Hospital for Women and Children).

The cost of sales and services of the supply chain business segment of the Group represents the procurement costs of pharmaceuticals, medical devices and medical consumables. The cost of sales and services generated from the Group's supply chain business segment amounted to RMB741.2 million, representing a year-on-year increase of 20.3% over FY2014. The gross profit margin of the supply chain business segment of the Group decreased to 19.9% (FY2014: 21.2%). According to the supply agreement between the Group and Hong Hui, the Group gives to Hong Hui the consolidated pharmaceutical order of Jian Gong Hospital, Yan Hua Hospital Group and Jing Mei Hospital Group, except for certain Excluded Pharmaceuticals. Since the Group granted the priority to supply for the above-mentioned three hospitals with pharmaceuticals, Hong Hui agreed to grant the Group with a minimum economic benefit ("MEB"). In the event the gross profit falls below the MEB, Hong Hui will pay the Group any shortfall between such gross profit and the MEB.

In FY2015, Jian Gong Hospital, Yan Hua Hospital Group and Jing Mei Hospital Group purchased RMB986.3 million of pharmaceuticals in aggregate (except Excluded Pharmaceuticals). Pursuant to the supply agreement entered into by the Group and Hong Hui, the Group is entitled to RMB138.1 million of MEB, in which RMB48.6 million was accounted for as fee income. Where the Group (a) includes the pharmaceutical expenses of these three hospitals paid to Hong Hui and other suppliers procured by Hong Hui in our revenue from supply chain business; and (b) records the total fee income under the supply arrangement with Hong Hui in our gross profit of supply chain business, the adjusted gross profit margin of the Group's supply chain business would be 15.8% (FY2014: 15.7%).

## Gross Profit

In FY2015, the gross profit of the Group amounted to RMB329.6 million in aggregate, representing a year-on-year increase of 10.7%. As the profit and gross profit margin contributed by the Group's general hospital services segment, hospital management services segment and supply chain business segment remained stable, the aggregate gross profit margin slightly decreased to 24.0% (FY2014: 24.7%).

## Other Income

Other income amounted to RMB99.1 million, representing a year-on-year increase of 5.1%, mainly due to an increase in fee income from Hong Hui and the suppliers procured by Hong Hui, in conjunction to a decrease in interest and investment income on bank deposits.

## Other Gains and Losses

Other gains and losses amounted to RMB1.4 million, mainly due to gain on deemed disposal of an associate and exchange losses resulted from the depreciation of Hong Kong dollar to RMB.

# Management Discussion and Analysis

### Selling and Distribution Expenses

The Group's selling and distribution expenses amounted to RMB10.6 million, representing a year-on-year increase of 29.1%, mainly attributable to an increase in staff costs.

### Administrative Expenses

The administrative expenses incurred by the Group amounted to RMB139.30 million, representing a year-on-year increase of 80.1%, primarily due to (i) initial recognition of costs of share-based payment amounted to approximately RMB41.76 million; (ii)an increase in social security contributions resulting in an increase in staff costs and (iii) an increase in professional advisory fee.

### Finance Costs

The Group's finance costs amounted to approximately RMB27.4 million, as the Group, due to fluctuation in the exchange market, terminated the finance granted to the Company under the US dollar syndicated loan agreement dated February 4, 2015 on January 22, 2016 upon agreement with the finance agents led by the Deutsche Bank after amicable negotiation, the initial payment expenses of such finance amounted to approximately RMB27.4 million.

### Other Expenses

Other expenses amounted to approximately RMB3 million, which was mainly comprised of RMB2 million of expenses for the establishment of the Beijing Phoenix Healthcare Charity Fund and RMB30,000 of donation to the Tsinghua University Education Foundation.

### Income Tax Expense

In FY2015, the Group's profit before tax amounted to RMB248.0 million, notwithstanding a decrease of 21.7% compared to the corresponding period in 2014, as the finance cost of syndicated loan and cost of share-based payment is non-deductible for PRC enterprise income tax, the income tax expense amounted to approximately RMB75.55 million, representing only a decrease of 2.2% from FY2014.

### Net Profit

Profit attributable to shareholders amounted to RMB167 million, representing a decrease of 27.4% from FY2014, which was mainly attributable to the recognition of transaction cost of RMB27.4 million in relation to the terminated syndicated loan and RMB41.8 million of cost of share-based payment.

## Financial Position

### Inventories

As of December 31, 2015, the balance of inventories increased to RMB42.3 million (December 31, 2014: RMB33.8 million), primarily due to an increase in the inventories of pharmaceuticals.

### Trade Receivables

As at December 31, 2015, the balance of trade receivables increased to RMB137.6 million (December 31, 2014: RMB93.7 million), of which approximately 86.2% were within 60 days.

# Management Discussion and Analysis

### Trade and Other Payables

As at December 31, 2015, the balance of trade payables was RMB209.5 million (December 31, 2014: RMB171.9 million), for the procurement of pharmaceuticals, medical devices and medical consumables from the Group's suppliers.

As at December 31, 2015, the balance of the Group's other payables amounted to RMB59.6 million (December 31, 2014: RMB58.6 million), which mainly comprised staff cost payables, PRC tax payables and deposits from suppliers.

### Net Current Assets Position

As at December 31, 2015, the net current assets position of the Group was RMB904.1 million (December 31, 2014: RMB1,019.4 million). The decrease was mainly due to the declaration of special dividends in December 2015. Such dividends had been paid in January 2016.

## Liquidity And Capital Resources

Set forth below the information from our Group's consolidated statement of cash flows during the periods indicated:

| | Year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **(RMB'000)** | (RMB'000) |
| Net cash generated from operating activities | **231,702** | 274,213 |
| Net cash generated from (used in) investing activities | **29,766** | 360,894 |
| Net cash (used in) generated from financing activities | **(48,992)** | (421,694) |
| Net increase in cash and cash equivalents | **212,476** | 213,413 |

### Net Cash Generated from Operating Activities

During FY2015, the net cash generated from operating activities was RMB231.7 million, which was mainly attributable to the profit before tax of RMB248 million, adjusted for the following items: non-cash expenses (including depreciation of property, plant and equipment) of RMB23.9 million, finance costs of syndicated loan of RMB27.4 million, amortization of intangible assets of RMB17.4 million in relation to our investments for management rights of IOT hospitals and clinics, cost of share-based payment of RMB41.8 million, foreign exchange loss of RMB3.4 million, partially offset by the following items: income tax paid of RMB80.6 million, interest and investment income of RMB44.1 million.

### Net Cash Generated from Investing Activities

During FY2015, the net cash generated from investing activities was RMB29.8 million, which was mainly attributable to the proceeds from disposal of short-term investment of RMB4,722 million, proceeds from certificate of deposit of RMB2,656 million, investment income received from financial products of RMB33.8 million, repayment of investments of RMB9.8 million from IOT hospitals and clinics pursuant to the Group's IOT agreements, partly offset by purchase of financial products of RMB4,674.7 million, purchase of certificate of deposit of RMB2,388.7 million, investment of RMB100 million in Airport Hospital of Shunyi District and Shunyi District No. 2 Hospital, investment of RMB142 million in an associate, loan of RMB9.25 million to a joint venture and purchase of property, plant and equipment of RMB32.17 million.

# Management Discussion and Analysis

## Net Cash Used in Financing Activities

During FY2015, the net cash used in financing activities was RMB49 million, which was mainly attributable to payment of RMB23.9 million for the purchase of existing share of the Company pursuant to the Share Award Scheme, payment of dividends in the amount of RMB32.5 million and payment of syndicated loan fee of RMB27.4 million, partially offset by the proceeds from share subscription of RMB41.9 million for the implementation of the Share Award Scheme.

## Significant Investments, Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures and Future Plans for Material Investments of Capital Assets

As at December 31, 2015, the balance of short-term investments was approximately RMB75 million, mainly comprised of financial products operated by the banks and mutual funds from a financial institution that are redeemable at any time.

### Investment in Shunyi District Medical Institutes

On May 28, 2015, the Group entered into an agreement with the People's Government of Shunyi District, Beijing, pursuant to which the Group and Shunyi District Government will establish a healthcare service system comprising preliminary diagnosis, comprehensive medical care and rehabilitation in the Shunyi District through the ROT (Restructure-Operate-Transfer) model. Please refer to the Company's announcement dated May 28, 2015 for details.

As at December 31, 2015, the Group invested working capital of RMB100.0 million to two pilot medical institutions namely Airport Hospital of Shunyi District, Shunyi District No. 2 Hospital and their related primary healthcare institutions for reconstruction and expansion of facilities, recruiting professionals, building clinical laboratories, purchasing medical equipment and improving clinical environment. The Group will receive an annual fixed repayment and management fees from these hospitals for 20 years from 2016 to 2035.

### Investment in Baoding No.1 Central Hospital

On September 15, 2015, the Company and Baoding No.1 Central Hospital entered into a master agreement of 20 years of cooperation duration from 2015 to 2035, according to the master agreement, based on the development needs of No.1 Central Hospital, the Company will make an investment of RMB500 million by instalments to No.1 Central Hospital in relation to the cooperation. During the period of the Cooperation, No.1 Central Hospital will offer the Company a fixed return on investment principal per annum as investment return. In addition, the Company is entitled to a reasonable return in the form of management fees from No.1 Central Hospital based on the operation appraisal to be performed by the Baoding Government against No.1 Central Hospital. The management fees will comprise fixed management fees and floating management fees. Please refer to the Company's announcement dated September 15, 2015 for details.

As at December 31, 2015, the Company has not yet made investment to Baoding No.1 Central Hospital.

# Management Discussion and Analysis

## Investment in Baoding Third Center Hospital

On September 15, 2015, the Company and Baoding Third Center Hospital entered into a master agreement of 20 years of cooperation duration from 2015 to 2035, pursuant to the Master Agreement, based on the development needs of Third Center Hospital, the Company will make an initial investment of RMB32 million before January 31, 2016, and a second investment of RMB38 million before January 31, 2017, that is a total of RMB70 million, to Third Center Hospital in relation to the cooperation. During the period of the Cooperation, Third Center Hospital will offer the Company a fixed return on investment principal per annum as investment return. In addition, the Company is entitled to a reasonable return in the form of management fees from Third Center Hospital based on the operation appraisal to be performed by the Baoding Government against Third Center Hospital. The management fees will comprise fixed management fees and floating management fees. Please refer to the Company's announcement dated September 15, 2015 for details.

As at December 31, 2015, the Company has not yet made investment to Baoding Third Center Hospital.

## Investment in UMP Healthcare Holdings

On March 18, 2015, the Group entered into a non-binding framework agreement with UMP Healthcare Holdings, pursuant to which the parties will form a joint venture company for the establishment of a network of clinics of comprehensive family medicine and integrated specialist healthcare services in Beijing to provide preventive and health management schemes to both corporates and individuals. The joint venture company will be owned by the Group and UMP Healthcare Holdings on a 50:50 apportionment basis.

On July 13, 2015, the Company, True Point and Pinyu entered into a share purchase agreement pursuant to which Pinyu agreed to acquire, and True Point agreed to sell, 20% equity interest in UMP Healthcare Holdings at a consideration of HK$180.0 million, which was completed on July 16, 2015. True Point, the Company, Pinyu and UMP Healthcare Holdings also entered into a shareholders' agreement on July 13, 2015 in order to regulate the affairs relating to UMP Healthcare Holdings and its subsidiaries.

Concurrently with the execution of the aforesaid share purchase agreement and the UMP Shareholders' Agreement, True Point, UMP Healthcare Holdings, UMP China, the Company, Pinyu and UMP Phoenix Healthcare Limited (the "JV Company") entered into a shareholders' agreement (the "JV Shareholders' Agreement") on July 13, 2015 pursuant to which the JV Company, on July 16, 2015, issued such number of shares to Pinyu at nominal value so that the JV Company is held as to 50% by Pinyu and 50% by UMP China.

Pursuant to the JV Shareholders' Agreement, both of the Group and UMP China have undertaken to invest RMB50 million each in the JV Company to fund the establishment of outpatient clinics and to establish a contract medicine business and any other business as UMP Healthcare Holdings and the Company may agree in the Beijing-Tianjin-Hebei region in the PRC on an exclusive basis. Please refer to the Company's announcement dated July 13, 2015 for details.

As at December 31, 2015, the JV Company has established a management office in Beijing and the decoration of three medical centers in Beijing is now in progress. The Group and UMP Healthcare Holdings have advanced to the JV Company according to the agreed terms of the JV Shareholders' Agreement.

On November 27, 2015, upon listing of the shares of UMP Healthcare Holdings on the Main Board of the Stock Exchange, the shareholding of the Company in UMP Healthcare Holdings, through Pinyu, has decreased from 20% to 15 %.

# Management Discussion and Analysis

The investment in UMP Healthcare Holding is accounted for as an investment in an associate under the equity method. As at December 31, 2015, the balance of investment in UMP Healthcare Holdings by the Company was approximately RMB155.0 million. As at December 31, 2015, the balance of investment in the joint venture is nil, loan to the joint venture amounted to approximately RMB6.36 million, which mainly comprised (i) RMB9.25 million paid by the Group to the JV Company as shareholder's loan, (ii) the investment of the Group in the JV Company, which is accounted for by the equity method. As the loss on the joint venture attributable to the Group amounted to RMB2.89 million, the excess of such loss over the investment of the Group to the joint venture has been written down against the loan to the joint venture.

## Use of Proceeds from IPO

With reference to the use of proceeds disclosed in the Prospectus, the Board is closely monitoring the use of proceeds from IPO and confirms that there is no material change in the intended use as previously disclosed in the Prospectus. As of December 31, 2015, the Group had applied the net proceeds as set out below.

- Pursuant to an IOT agreement entered into on September 23, 2014 between Beijing Phoenix and Mentougou District government, the Group undertook to make an one-off investment of RMB15.0 million in Mentougou Hospital for Women and Children in return for the rights to manage and receive performance linked annual management fees from the latter until December 31, 2030;

- Fully repay the loan from our major shareholder, Speed Key Limited, the accrued interest of such loan amounted approximately HK$340.0 million on December 12, 2013;

- During the year ended December 31, 2014, the Group paid capital commitment to Yan Hua Hospital Group in the amount of approximately HK$80.0 million;

- Under the IOT agreement entered into on May 28, 2015 between Beijing Phoenix and the People's Government of Shunyi District, Beijing Municipality, the Group undertook to invest working capital of RMB 100 million to Airport Hospital of Shunyi District, Shunyi District No. 2 Hospital and its relevant primary community healthcare institutions for rebuilding and expansion of facilities, recruiting professionals, building clinical laboratories, acquiring medical equipment and improving the clinical environment of the pilot medical institution in exchange for the rights to manage and receive performance linked annual management fees from the related medical institutions until December 31, 2035.

- Under the Share Purchase Agreement entered into on 13 July, 2015 between the Group, True Point and Pinyu, the Group has paid HK$180 million through Pinyu to acquire equity interests. Concurrent with the execution of the Share Purchase Agreement, the Company established a joint venture with UMP China through Pinyu and paid RMB 9.25 million to the joint venture in the form of shareholder's loan.

- The amount of proceeds used as working capital and for other general corporate purposes during the period from November 29, 2013 to December 31, 2015 is well within the 10% estimate as disclosed in the Prospectus.

# Management Discussion and Analysis

## Capital Expenditures

The capital expenditures of the Group primarily consist of the expenditures in respect of acquisition of property, plant and equipment and investment amount by the Group to IOT hospitals and clinics as well as the investment amount by the Group to associates and joint ventures. The amount of capital expenditures of the Group were approximately RMB283.4 million during FY2015, representing an increase of 147.9% from FY2014, primarily due to an investment of RMB151 million in the associates and joint ventures and the investment of RMB100 million to the working capital of the Airport Hospital of Shunyi District and Shunyi District No. 2 Hospital and the related primary community healthcare institutions.

## Indebtedness

### Borrowings

The Group entered into the Syndicated Loan Agreement on February 4, 2015, of which the Syndicated Loan was denominated in US dollar.

Due to instability in the foreign exchange market, the Group terminated the facility granted to the Company under the USD based Syndicated Loan Agreement on January 22, 2016 upon agreement with the finance agents led by the Deutsche Bank after amicable negotiation, such finance (or any part thereof) had never been drawn down.

As at December 31, 2015, the Group did not has any borrowings.

### Contingent Liabilities

As at December 31, 2015, the Group did not have any contingent liabilities or guarantees that would have a material impact on the financial position or operations of the Group.

### Exposure to Fluctuation in Exchange Rates

The Group undertakes certain financing and operating transactions in foreign currencies, which exposes the Group to foreign currency risk, mainly pertaining to the risk of fluctuations in the Hong Kong dollar and U.S. dollar against RMB.

The Group has not used any derivative contracts to hedge against its exposure to currency risk. The management manages the currency risk by closely monitoring the movement of the foreign currency rates and considers hedging against significant foreign exchange exposure should such need arise.

### Interest Rate Risk

The Group is exposed to fair value interest rate risk in relation to receivables from IOT hospitals and clinics and cash flow interest risk in relation to variable-rate bank balances, which carry prevailing market interest rates and short-term investments.

The Group currently does not have specific policies in place to manage our interest rate risk and have not entered into interest rate swaps to avoid the interest rate risk, but will closely monitor the interest rate risk in the future.

# Management Discussion and Analysis

## Pledge of Assets

The Group entered into the Syndicated Loan Agreement on February 4, 2015, under which, the Syndicated Loan will be guaranteed by existing offshore subsidiaries and future offshore subsidiaries of the Company and secured by first priority perfected security interests over the following in favor of the security agent on behalf of the lenders:

i. charge over 100% of the shares of the existing offshore subsidiaries and future offshore subsidiaries of the Company;

ii. pledge over 100% of equity interests of Beijing Phoenix, and future onshore subsidiaries and onshore joint ventures of the Company;

iii. assignment of any intra-group shareholder loans from the loan proceeds under the Syndicated Loan Agreement;

iv. fixed and floating charge or mortgage over all assets of the existing offshore subsidiaries and future offshore subsidiaries of the Company; and

v. charge over the related debt service reserve account.

As the Syndicated Loan Agreement has been terminated on January 22, 2016, the completion of the procedures for discharging the above charges and pledges is in progress.

## Contractual Obligations

As at December 31, 2015, the Group did not have any significant contractual obligations that would have a material effect on the financial position or operations of the Group.

## Financial Instruments

The Group's major financial instruments include trade receivables, amounts due from a related party, other receivables, certificate of deposit, cash and cash equivalents, receivables from IOT hospitals and clinics, short-term investments, trade payables and other payables. The management manages and monitors these exposures to ensure appropriate measures can be adopted on a timely and effective manner.

## Gearing Ratio

As at December 31, 2015, on the basis of total interest-bearing liabilities divided by total assets, the Group's gearing ratio was nil (FY2014: nil).

# Directors and Senior Management

## Directors

### Executive Directors

**Mr. Liang Hongze**, aged 44, is the Chairman, an executive Director and our Chief Executive Officer. He is also a member of the Nomination Committee. Mr. Liang joined Phoenix Hospital Management (Beijing) Co., Ltd. (currently known as Beijing Wantong) in March 2004. Since March 2004, Mr. Liang has served in various positions in our Group, including investment director, Chief Financial Officer and general manager of the Group. He was appointed as the Chairman and the Chief Executive Officer in February 2013.

Before joining the Group, Mr. Liang worked in the finance and investment management field for over 10 years. Mr. Liang served as a investment director in Shanghai Chunda Investment Management Co., Ltd. (上海淳大投資管理有限公司), an investment and asset management company, from March 2002 to July 2004, a senior manager in the investment banking division of Industrial Securities Co., Ltd. (興業證券股份有限公司), a company engaged in securities brokerage and investment, from September 2000 to February 2002 and an accountant in China Financial Computerization Corp (中國金融電子化公司), a subsidiary of PBOC which engages in research, development and supply of software and information technology systems for financial institutions, from July 1993 to August 1997. Mr. Liang received a Master's degree in Finance from the Graduate School of PBOC (中國人民銀行總行金融研究所研究生部) in Beijing in October 2000 and a Bachelor's degree in Investment Management from Dongbei University of Finance and Economics (東北財經大學) in Dalian in July 1993.

**Ms. Xu Jie**, aged 52, is the founder and an executive Director. Ms. Xu was appointed as the chairman of the board of directors of Beijing Phoenix in 2007, and is primarily responsible for directing the strategic development and planning of our Group. Leveraging on her extensive experience in hospital management and the healthcare services industry, Ms. Xu founded an operating subsidiary of our Group, Beijing Phoenix, in November 2007.

Prior to the establishment of Beijing Phoenix, Ms. Xu participated in the hospital reform of both Jian Gong Hospital and Yan Hua Hospital, which had been successful completed with acquisition of significant equity interest in both hospitals. She served as the administrator of Jian Gong Hospital from 2000 to 2007. She was the legal representative and administrator of Dalian New Century Hospital (大連新世紀醫院), a private general hospital which was then owned by Ms. Xu, from 1998 to 2000, Shenzhen Phoenix Hospital (深圳鳳凰醫院) from 1995 to 1998 and the Traumatic Hospital of Jilin (吉林市創傷醫院), a not-for-profit Grade II general hospital, from 1988 to 1995. Ms. Xu obtained her professional title as an associate chief doctor from the Assessment and Evaluation Committee of Senior Professional and Technical Positions of Beijing (北京市高級專業技術職務評審委員會) in Beijing in July 1999. Ms. Xu attended Jilin Professional Medical University (吉林職工醫科大學) in Jilin to study traditional Chinese medicine from September 1985 to July 1988.

Ms. Xu is the daughter of Mr. Xu Baorui. Ms. Xu and the Xu family are substantial Shareholders.

# Directors and Senior Management

**Mr. Zhang Xiaodan**, aged 40, is an executive Director and the executive general manager of the Group. He is also a member of the Remuneration Committee. Mr. Zhang joined the Group in November 2010 and is primarily responsible for managing the Group's supply chain business and project investments. Prior to taking up his current position, Mr. Zhang served as the vice executive general manager of the Group. Since June 2008 and prior to joining the Group, Mr. Zhang worked as a senior manager at CITIC Trust Co. Ltd. (中信信託有限責任公司), during which he served briefly as the vice director of the Steering Group on Medical Devices Industry Development of the Ningbo High-tech Industrial Development Zone (寧波國家高新技術產業開發區醫療器械業發展領導小組) for a year, in which he gained extensive experience in the pharmaceutical industry investment and financial investment management. From April 2006 to May 2008, Mr. Zhang worked at the Pharmaceutical Certification Management Center of the State Food and Drug Administration (國家食品藥品監督管理局藥品認證管理中心), during which he was responsible for certification and inspection of pharmaceutical products. From July 1998 to June 2000, Mr. Zhang worked at Xiyuan Hospital of China Academy of Chinese Medical Sciences (中國中醫科學院西苑醫院), a Grade III general traditional Chinese medicine hospital, as an associate researcher. Mr. Zhang received a Bachelor's degree in Microbiology from Shandong University (山東大學) in Jinan in July 1998 and completed a training program on health care in Harvard Medical School in the United States of America in June 2001.

**Mr. Xu Zechang**, aged 53, is an executive Director and a deputy general manager of the Group. Mr. Xu joined Phoenix Hospital Management (Beijing) Co., Ltd. (currently known as Beijing Wantong) in 2004 and is responsible for overall hospital operation and development of clinical services of our hospital and clinic network. Mr. Xu has acted as the executive administrator of Wuxi New District Hospital (無錫新區醫院) from May 2004 to May 2005, vice administrator of Jian Gong Hospital from May 2005 to May 2007, executive administrator of Yan Hua Hospital from May 2007 to December 2010, and the executive administrator of Mentougou Hospital from October 2011 to present. Mr. Xu has served as an attending doctor, vice director doctor, vice director and an acting director in the Cardiology Department of the PLA. The Military General Hospital of Beijing (中國人民解放軍北京軍區總醫院), a Grade III general hospital, from 1991 to 2003. From 1984 to 1991, Mr. Xu was a resident physician in the General Hospital of the People's Liberation Army of China (中國人民解放軍總醫院), the largest Grade III general hospital under the People's Liberation Army of China.

Mr. Xu attended the Postgraduate Military Medical School of the People's Liberation Army of China (中國人民解放軍軍醫進修學院) in Beijing in July 2006 and July 1991 respectively to study Medicine. He obtained his bachelor degree in military surgeon from Southern Medical University (南方醫科大學) (formerly known as First Military Medical University of People's Liberation Army of China (中國人民解放軍第一軍醫大學) in Guangzhou in July 1984.

**Mr. Jiang Tianfan**, aged 35, is an executive Director and the chief financial officer of our Group. Mr. Jiang joined the Group in 2008. He has been an executive director since August 2009, and was appointed as the Chief Financial Officer of the Company in November 2011. Mr. Jiang is primarily responsible for overall financial management, capital investment and ancillary services business of our Group. He also served as the general manager of Jian Gong Hospital from December 2010 to October 2011 and the general manager of Yan Hua Hospital from July 2010 to October 2010. Prior to joining the Group, Mr. Jiang has held several positions in the Beijing New Oriental Education & Technology (Group) Co., Ltd. (北京新東方教育科技(集團)有限公司), an education group focuses on provision of foreign language training for Chinese students to study abroad, from June 2002 to 2007, including the director of the Domestic and International Exams Department of the Nanjing New Oriental School (南京新東方學校國內外考試部) from June 2002 to May 2005 and the general manager of the Beijing New Oriental School Elite English Center (北京新東方Elite精英英語中心) from June 2005 to July 2007. Mr. Jiang is an executive director of UMP Healthcare Holdings Limited, a leading corporate healthcare solutions provider in Hong Kong of which its shares were listed on the Main Board of the Stock Exchange since November 27, 2015 (Stock Code: 722). Mr. Jiang received a MBA degree from Olin Business School in Washington University in St. Louis in the United States in May 2009 and a Bachelor of Laws from Shanghai International Studies University (上海外國語大學) in Shanghai in July 2003.

# Directors and Senior Management

**Mr. Shan Baojie**, aged 44, is an executive Director and a deputy general manager of our Group. Mr. Shan joined our Group in October 2011, and is primarily responsible for managing investments in connection with our IOT hospitals. Prior to joining us, he had served in a variety of roles at the State Food and Drug Administration of the PRC from 1998 to 2011. Mr. Shan also completed a training program at the World Health Organization in 2007, where he gained experience in the U.S. pharmaceutical supervision and management system. From July 1992 to July 1998, Mr. Shan worked in the general manager's office of the Northeast Pharmaceutical Group Co., Ltd. (東北製藥集團公司), a Chinese listed pharmaceutical manufacturer. Mr. Shan received a Master's degree in Accounting from Renmin University (中國人民大學) in Beijing in June 2002 and a Bachelor's degree in Chemistry from Wuhan University (武漢大學) in Wuhan in July 1992.

**Mr. Cheng Libing**, aged 51, is an executive Director and the vice chairman of our Group. Mr. Cheng joined our Group in September 2010 and is primarily responsible for daily operations of our Group. Mr. Cheng served as the deputy general manager at Beijing Huaren Intech Hospital Management Consulting Co., Ltd. (北京華仁英智醫院管理諮詢有限公司), an investment and hospital management company, from 2006 to 2008 and the deputy general manager for all of Beijing Huaren Intech Hospital Management Consulting Co., Ltd., Beijing Intech Eye Hospital Co., Ltd. (北京英智眼科醫院有限公司) and Intech Medical Chain (英智醫療連鎖機構) from 2008 to 2010. From 1999 to 2002, he has served various positions at Beijing Kangchen Pharmaceutical Co., Ltd. (北京康辰醫藥發展有限公司), including general manager assistant. Mr. Cheng also worked as a resident doctor at Dongzhimen Hospital Affiliated to Beijing University of Traditional Chinese Medicine (北京中醫藥大學附屬東直門醫院), a general traditional Chinese medicine hospital, from 1988 to 1998. Mr. Cheng received a Bachelor's degree in Traditional Chinese Medicine from Beijing University of Traditional Chinese Medicine (北京中醫藥大學) in Beijing in July 1988.

## Independent Non-Executive Directors

**Mr. Kwong Kwok Kong**, aged 68, is an independent non-executive Director and also the chairman of the Audit Committee. He currently serves as the Chief Executive Officer of Pok Oi Hospital, a well-known non-profit making hospital in Hong Kong. Pok Oi Hospital, founded in 1919, has a total of about 74 service units providing western hospital services, dental and traditional Chinese medicine treatments, secondary and primary schools, kindergartens, elderly homes and day care elderly centres, children and family centres services. As the chief executive officer, Mr. Kwong has been providing corporate governance and management support to the board of directors for development, management and supervision of these units for the past 10 years. He initially joined Pok Oi Hospital as an Internal Audit Manager in 2003.

Before joining Pok Oi Hospital, Mr. Kwong served as the Principal Auditor of the Audit Commission of the government of the Hong Kong Special Administrative Region. Mr. Kwong served in the Audit Commission since 1980. Mr. Kwong has been a member of the Hong Kong Institute of Certified Public Accountants since 1982.

# Directors and Senior Management

**Ms. Cheng Hong**, aged 46, is an independent non-executive Director and also the chairman of the Nomination Committee and a member of the Audit Committee. Ms. Cheng has been the marketing director and the general manager of market management department of CITIC Trust Co., Ltd. (中信信託有限責任公司), a Chinese national non-bank financial institution primarily engaged in the trust business, since May 2010. Prior to joining CITIC Trust Co., Ltd., she had held various positions, including chairman of the board of supervisors and general manager of Orient Fund Management Co., Ltd. (東方基金管理有限責任公司), a company primarily engaged in equity fundraising and sales and asset management, from June 2004 to May 2010. From October 2000 to June 2004, Ms. Cheng worked in Northeast Securities Co., Ltd. (東北證券有限責任公司), a securities broker and investment bank, as the general manager of its Beijing branch and as an assistant to the chief executive officer, where she was responsible for the daily operation of its Beijing branch and the preparatory work in connection with establishing Orient Fund Management Co., Ltd. Between December 1999 and October 2000, Ms. Cheng was the deputy general manager of Changchun Jiefang Road Branch of Northeast Securities Co., Ltd. (東北證券有限責任公司長春解放大路證券營業部) (the former Changchun Jiefang Road Branch of Jilin Province Trust Co., Ltd. (吉林省信託投資公司長春解放大路證券營業部)) where she was responsible for the daily operation of the sales department. Ms. Cheng served as a credit staff at the real estate credit department of Jilin Branch of China Construction Bank (建設銀行吉林省分行), between July 1999 and December 1999, and a credit staff at the real estate credit department of Hebei Branch of China Construction Bank (建設銀行河北省分行) from July 1992 to July 1999.

Ms. Cheng had been a visiting scholar at the Wharton School of the University of Pennsylvania in the United States from March 2009 to June 2009. Ms. Cheng received an MBA degree from Cheung Kong Graduate School of Business in Beijing in March 2006, a Master's degree in Accounting from Research Institute for Fiscal Science of the Ministry of Finance in Beijing in October 2003, and a Bachelor's degree in Engineering from Agricultural University of Hebei (河北農業大學) in Baoding in July 1992.

**Mr. Sun Jianhua**, aged 40, is an independent non-executive Director and also a member of the Audit Committee and the chairman of the Remuneration Committee of the Company. Mr. Sun has joined Guosen Securities Co., Ltd. (國信證券股份有限公司) since August 2005 and is currently a managing director of the investment banking division of Guosen Securities Co., Ltd.. Prior to joining Guosen Securities Co., Ltd., Mr. Sun had served in various investment banks and securities companies, including Daton Securities Co., Ltd. (大通證券股份有限公司) from April 2003 to July 2005, Industrial Securities Co., Ltd. (興業證券股份有限公司) from January 2001 to March 2003, and CITIC Securities Co., Ltd. (中信證券股份有限公司) from March 1999 to December 2000. Mr. Sun received a Master's degree in International Finance from the Graduate School of PBOC in Beijing in April 1999 and a Bachelor's degree in Transportation Economics from Beijing Jiaotong University (北京交通大學) (the former Northern Jiaotong University (北方交通大學)) in Beijing in July 1996.

**Mr. Lee Kar Chung Felix,** aged 33, is an independent non-executive Director and also a members of each of the Remuneration Committee and the Nomination Committee.

Mr. Lee was a senior vice president at Chow Tai Fook Enterprises Limited with responsibility in making investments in the healthcare sector in Asia and globally. Mr. Lee is also an executive director of UMP Healthcare Holdings Limited, a leading corporate healthcare solutions provider in Hong Kong of which its shares were listed on the Main Board of the Stock Exchange since November 27, 2015 (Stock Code: 722), where he is responsible for corporate development, international operations and merger and acquisitions for UMP Healthcare Holdings Limited. The Company, through Pinyu, owns 15% of UMP Healthcare Holdings Limited as at the date of this annual report. Mr. Lee has over ten years of experience in law and finance. He was an associate with the law firm Freshfields Bruckhaus Deringer before he left in February 2008 to join UBS AG, Hong Kong branch as an analyst in the investment banking department until December 2008. He then joined the investment banking department of Deutsche Bank AG, Hong Kong branch and last held the position of Director in the Corporate Advisory Group, where he worked from January 2009 to August 2014.

Mr. Lee obtained his Bachelor of Laws from the London School of Economics and Political Sciences and his Postgraduate Certificate in Laws from The University of Hong Kong in July 2003 and June 2004, respectively. He is a solicitor of the High Court of Hong Kong since September 2007 and a solicitor (non-practising) in the Senior Courts of England and Wales since February 2013.

# DIRECTORS' REPORT

# Directors' Report

The Directors are pleased to present this report and the audited consolidated financial statements of the Group for the year ended December 31, 2015.

## Principal Activities

The Company is an investment holding company. The Group is mainly engaged in general hospital services, hospital management services, and supply chain businesses in Beijing, the PRC. Details of the businesses of its principal subsidiaries are set out in note 41 to the consolidated financial statements.

## Business Review

A fair review of the business of the Company and a description of the principal risks and uncertainties facing the Company, as well as the outlook of the Company's business (including an indication of likely future development in the Company's business) are provided in the paragraph headed "Business Overview and Outlook" under the section headed "Management Discussion and Analysis" on pages 8 to 12 of this annual report.

A discussion and analysis of the Group's performance during the year ended December 31, 2015 and the material factors underlying its results and financial position are provided in the paragraph headed "Financial Review" under the section headed "Management Discussion and Analysis" on pages 13 to 23 of this annual report.

Particulars of important events affecting the Company that have occurred since the end of the reporting period and up to the date of this annual report, if any, can be found in the paragraph headed "Event Subsequent to December 31, 2015" on page 47 of this annual report.

### Environmental Policies and Performance

As a responsible corporate citizen, the group recognizes the importance of good environmental stewardship. In this connection, the Group strictly adopted and implemented policies and procedures to ensure environmental protection on a standard which is not less stringent than the prevailing environmental laws and regulations of the PRC. We are of the view that we were in compliance with all relevant PRC laws and regulations regarding environmental protection in all material respects during the year ended December 31, 2015 and as at the date of this annual report. And no environmental claims, lawsuits, penalties or administrative sanctions were reported to our management.

### Compliance with the Relevant Laws and Regulations

To the best of the Directors' knowledge, information and belief on the date of this annual report, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

### Relationship with Stakeholders

The group is committed to operating in a sustainable manner while balancing the interests of our various stakeholders including our Substantial Shareholders employees, patients, suppliers, business partners and the community.

# Directors' Report

An account of the Company's relationship with its substantial shareholders is included in the "Interests of Substantial Shareholders and Other Persons in Shares and Underlying Shares" set out on page 42 of this annual report.

The group considers its employees the key to sustainable business growth. We are committed to providing all employees a safe and harassment free working environment with equal opportunities in relation to employment, reward management, training and career development. This commitment is incorporated in our Corporate Responsibility Policy and Employment Policy. Workplace safety is a priority of the Company that, with due awareness of all employees throughout the year, the Company was able to maintain a high standard of health and safety measures in all company activities. We have in place a fair and effective performance appraisal system and incentive bonus schemes designed to motivate and reward employees at all levels to deliver their best performance and achieve business performance targets. For talent acquisition and continuous development, the Company offers education programs as well as leadership and talent development programs for talent of different academic backgrounds. The group believes direct and effective communication is essential to building up a good partnership between management and employees. The Company holds regular meetings and forums to brief employees on company developments and obtain their feedback and suggestions.

As a patient oriented healthcare service provider, we consider patients as one of the most important stakeholders. We are committed to serving our patients to the best of our ability and continually elevating the level of service excellence. The Group has embraced new media platforms as an effective communication channel with our patients to collect feedbacks and help us identify areas for further improvement.

The Group is committed to upholding the highest ethical and professional standards when dealing with suppliers and contractors. To integrate CSR principles throughout our supply chain, the Company has in place the Group Purchasing Policy and Principles, and a Supplier Code of Conduct to facilitate a common means whereby we can better communicate with our business partners regarding their compliance with local regulations governing labor, health and safety, and the environment. In order to have a better and close monitoring of supplier performance, our buying units conduct supplier performance review yearly targeting our major suppliers and contractors, and will communicate with the suppliers with unsatisfactory rating for rectification or improvements.

## Results and Dividends

The results of the Group for the year ended December 31, 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 63 of this annual report.

The Board recommends to pay a final dividend of HK$11.9 cents per Share for FY 2015 (FY2014: HK$5 cents per Share). The recommended final dividend will be payable to Shareholders whose names appear on the register of members of the Company on Monday, June 20, 2016. Based on the number of Shares as of December 31, 2015, the total dividends is approximately HK$99.2 million. Subject to the approval by Shareholders at the annual general meeting to be held on June 8, 2016, it is expected that the final dividend will be distributed on or before June 30, 2016.

The Company is not aware of any arrangement under which a Shareholder has waived or agreed to waive any dividends.

# Directors' Report

## Share Capital

Details of the movements in the share capital of the Company for the year ended December 31, 2015 are set out in note 34 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, 2015 are set out in the consolidated statement of changes in equity on page 66 of this annual report.

## Distributable Reserves

As at December 31, 2015, the Company has no distributable reserve that was available for distribution to the Shareholders.

Under the Companies Law of the Cayman Islands, and subject to the provisions of the Articles of Association, the share premium account is distributable to the Shareholders, provided that immediately following the proposed date of dividend distribution, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

## Property, Plant and Equipment

Details of the movements in the Group's property, plant and equipment during the year ended December 31, 2015 are set out in note 17 to the consolidated financial statements in this annual report.

## Financial Highlights

Summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years are set out on page 135 of this annual report.

## Charitable Donations

Please refer to the paragraph headed "Other Expenses" under the section headed "Management Discussion and Analysis" on page 17 of this annual report.

## Borrowings

As at December 31, 2015, the Group had no borrowings.

# Directors' Report

## Pledge of Assets

The Group entered into the Syndicated Loan Agreement on February 4, 2015, under which, the Syndicated Loan will be guaranteed by existing offshore subsidiaries and future offshore subsidiaries of the Company and secured by first priority perfected security interests over the following in favor of the security agent on behalf of the lenders:

i. charge over 100% of the shares of the existing offshore subsidiaries and future offshore subsidiaries of the Company;

ii. pledge over 100% of equity interests of Beijing Phoenix, and future onshore subsidiaries and onshore joint ventures of the Company;

iii. assignment of any intra-group shareholder loans from the loan proceeds under the Syndicated Loan Agreement;

iv. fixed and floating charge or mortgage over all assets of the existing offshore subsidiaries and future offshore subsidiaries of the Company; and

v. charge over the related debt service reserve account.

As the Syndicated Loan Agreement has been terminated on January 22, 2016, the completion of the procedures for discharging the above security and charges is in progress.

## Major Customers and Suppliers

During the year ended December 31, 2015, sales to the Group's four largest customers in aggregate accounted for approximately 56.9% (2014: 54.8%) of the total sales for the year and sales to the largest customer accounted for approximately 21.7% (2014: 21.6%) of total sales.

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 60.1% (2014: 61.0%) of the total purchases for the year and purchases from the largest supplier accounted for approximately 46.2% (2014: 46.7%) of total purchases.

To the best knowledge of the Directors, neither the Directors nor any of their close associates (as defined in the Listing Rules) or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's issued shares capital), had any direct or indirect interest in the major customers or the five largest suppliers of the Group during the year ended December 31, 2015.

## Permitted Indemnity

Pursuant to the Articles of Association, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in the execution of his office or otherwise in relation thereto. The Company has taken out insurance policies against the liability and costs associated with defending any proceeding.

# Directors' Report

## Directors

The Directors during the year ended December 31, 2015 and up to the date of this Directors' report are as follows:

### Executive Directors

Mr. Liang Hongze *(Chairman of the Board and Chief Executive Officer)*
Ms. Xu Jie
Mr. Zhang Xiaodan *(Executive General Manager)*
Mr. Xu Zechang *(Deputy General Manager)*
Mr. Jiang Tianfan *(Chief Financial Officer)*
Mr. Shan Baojie *(Deputy General Manager) (appointed on February 1, 2016)*
Mr. Cheng Libing *(Vice Chairman of the Board) (appointed on February 1, 2016)*

### Non-executive Directors

Mr. Yang Huisheng *(resigned on February 1, 2016)*
Mr. Rui Wei *(resigned on February 1, 2016)*

### Independent Non-executive Directors

Mr. Kwong Kwok Kong
Ms. Cheng Hong
Mr. Wang Bing *(resigned on August 21, 2015)*
Mr. Sun Jianhua
Mr. Lee Kar Chung Felix *(appointed on August 21, 2015)*

In accordance with articles 87(1) and 87(2) of the Articles of Association, Mr. Sun Jianhua, Ms. Cheng Hong and Mr. Xu Zechang will retire by rotation at the forthcoming annual general meeting of the Company. Mr. Lee Kar Chung Felix (appointed as an independent non-executive Director on August 21, 2015), Mr. Cheng Libing (appointed as an executive Director on February 1, 2016 ) and Mr. Shan Baojie (appointed as an executive Director on February 1, 2016) shall retire from office at the forthcoming annual general meeting pursuant to article 86(3) of the Articles of Association. All the retiring Directors, being eligible, will offer themselves for re-election thereat.

None of the Directors has any financial, business, family or other material/relevant relationships with one another.

## Biographical Details 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 "Directors and Senior Management" on pages 24 to 27 of this annual report.

## Disclosure of Information of Director Pursuant to Rule 13.51B(1) of the Listing Rules

The Board has resolved that Mr. Shan Baojie is entitled to a remuneration of RMB746,800 per annum for serving as an executive Director. And Mr. Cheng Libing is entitled to a remuneration of RMB812,300 per annum for serving as an executive Director. Saved as disclosed above, there are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

# Directors' Report

## Services Contracts and Letters of Appointment of the Directors

Each of our executive Directors has entered into a 3-year service contract with the Company on September 1, 2013, September 18, 2014 and February 1, 2016, subject to termination before expiry by either party giving not less than three months' notice in writing to the other.

Each of our independent non-executive Directors has entered into a letter of appointment with our Company either on September 1, 2013 or August 21, 2015. Each letter of appointment shall commence either from September 1, 2013 or August 21, 2015 for an initial term of three years and shall be terminable by giving the other party not less than three months' prior notice in writing. Under these letters of appointment, each of Ms. Cheng Hong, Mr. Sun Jianhua, Mr. Kwong Kwok Kong and Mr. Lee Kar Chung Felix will receive an annual directors' fee of HK$300,000, HK$300,000, HK$500,000 and HK$300,000 respectively.

Save as disclosed above, none of our Directors proposed for re-election at the forthcoming annual general meeting has entered into or intends to enter into a service contract with any member of our Group which is not determinable by the employer within one year without payment of compensation (other than the statutory compensation).

## Remuneration of the Directors and Five Highest Paid Individuals

Details of the Directors' remuneration, the five highest paid individuals in the Group and remuneration payable to members of senior management by board are set out in note 14 to the consolidated financial statements in this annual report.

The remuneration of the Directors is subject to review of the Remuneration Committee and approval by the Board, such remuneration is determined taking into account the relevant Director's experience, responsibilities, workload and time commitment to the Group and the operating results of the Company and comparable market statistics.

## Employees and Remuneration Policies

As at December 31, 2015, the Group had a total of 895 full time employees (December 31, 2014: 888 employees). For FY2015, the staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB209.8 million (FY2014: RMB136.7 million).

The Group ensures that the remuneration packages of its employees remain competitive and the remuneration level of its employees is determined on the basis of performance with reference to the profitability of the Group, prevailing remuneration standards in the industry and market conditions within the general framework of the Group's remuneration system.

The Group has also adopted the Share Option Scheme and the Share Award Scheme to provide incentives or rewards to eligible participants for their contribution or potential contribution to the Company and/or any of its subsidiaries.

# Directors' Report

## 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-Voting and Non-Competition Undertakings

As disclosed in the Prospectus, Yan Hua Phoenix, as the owner (舉辦人) of Yan Hua Hospital Group, is entitled to nominate members to the executive committee of the Yan Hua Hospital Group. Our then Controlling Shareholders, Beijing Wantong and Yan Hua Phoenix have provided a non-voting undertaking in favor of the Group in the event there is any conflict or competition or potential conflict or potential competition between Yan Hua Hospital Group and the Group, our then Controlling Shareholders, Beijing Wantong and Yan Hua Phoenix shall procure the members of the executive committee nominated by Yan Hua Phoenix to abstain from voting.

In addition, each of the then Controlling Shareholders has undertaken to the Company in the deed of non-competition that, amongst other things, it or she is not or will not engaged in, or interested in any business which, directly or indirectly, competes or may compete with our business. Each of the then Controlling Shareholders has confirmed in writing to the Company of their compliance with the deed of non-competition as disclosed in this annual report during the year ended December 31, 2015. And no new business opportunity has been notified by the then Controlling Shareholders as at December 31, 2015.

The independent non-executive Directors have reviewed the implementation of the deed of non-competition and are of the view that the non-competition undertakings have been complied with by the then Controlling Shareholders for the year ended December 31, 2015.

In accordance with the terms of the deed of non-competition, the non-competition undertakings was terminated on October 22, 2015, i.e. the date on which the then Controlling Shareholders ceased to be the controlling shareholders of the Company.

## Director's Interests in Competing Businesses

Saved as disclosed in this annual report, as of December 31, 2015, none of the Directors or their close 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 Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at December 31, 2015, the interests/short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 are deemed or taken to have under such provisions of the SFO); or (b) to be entered into the register kept by the Company pursuant to Section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

### Long positions in shares of the Company

| Name of Director | Capacity/Nature of interest | Number of shares held | Approximate percentage of shareholding % |
|---|---|---|---|
| Liang Hongze | Interest in Controlled Corporation and beneficial owner | 25,415,912[1] | 3.05 |
| Xu Jie | Beneficial owner | 13,868,000 | 1.66 |
| Zhang Xiaodan | Beneficial owner | 1,613,100[2] | 0.19 |
| Xu Zechang | Beneficial owner | 3,009,964[3] | 0.36 |
| Jiang Tianfan | Interest in Controlled Corporation and beneficial owner | 10,761,648[4] | 1.29 |

Notes:

1. These interests represented:

   (a) 25,205,912 Shares held by Xin Yue Development Limited, which is wholly owned by Liang Hongze; and

   (b) 210,000 Award Shares granted to Liang Hongze which were subject to certain vesting criteria and conditions pursuant to the Share Award Scheme, details of which are set out in the section below headed "Share Award Scheme".

2. These interests represented:

   (a) 1,403,100 Shares held by Zhang Xiaodan; and

   (b) 210,000 Award Shares granted to Zhang Xiaodan which were subject to certain vesting criteria and conditions pursuant to the Share Award Scheme, details of which are set out in the section below headed "Share Award Scheme".

# Directors' Report

3. These interests represented:

   (a) 2,799,964 Shares held by Xu Zechang; and

   (b) 210,000 Award Shares granted to Xu Zechang which were subject to certain vesting criteria and conditions pursuant to the Share Award Scheme, details of which are set out in the section below headed "Share Award Scheme".

4. These interests represented:

   (a) 10,401,648 Shares held by True Glory Global Limited, which is wholly owned by Jiang Tianfan; and

   (b) 150,000 shares held by Jiang Tianfan; and

   (c) 210,000 Award Shares granted to Jiang Tianfan which were subject to certain vesting criteria and conditions pursuant to the Share Award Scheme, details of which are set out in the section below headed "Share Award Scheme".

Save as disclosed above, as at December 31, 2015, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) 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 deemed or taken to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## Share Option Scheme

The Company has conditionally adopted the Share Option Scheme on September 30, 2013.

### 1. Purpose

The purpose of the Share Option Scheme is to incentivize or reward the Eligible Participants (defined below) for their contribution or potential contribution to the Company and/or any of its Subsidiaries.

### 2. Eligible Participants

Subject to and in accordance with the provisions of the Share Option Scheme and the Listing Rules, the Board may grant options to any full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any of its Subsidiaries at its sole discretion and any suppliers, customers, consultants, agents and advisers who, in the absolute discretion of the Board, has contributed or will contribute to our Group (collectively "Eligible Participants").

### 3. Period of the Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of 10 years from September 30, 2013, after which time no further option will be granted but the provisions of the Share Option Scheme shall remain in full force, and effective in all other respects to the extent necessary to give effect to the exercise of any options granted prior thereto or other rights as may be required in accordance with the provisions of the Share Option Scheme and options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Share Option Scheme.

### 4. Maximum number of Shares

The maximum number of shares in respect of which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not, in aggregate, exceed 80,362,700, being 10% of the issued share capital of the Company as at the Listing Date (assuming that the over-allotment option is not exercised).

As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme is 83,376,300 Shares, representing 10% of the issued Shares as at the date of this annual report.

### 5. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of options granted to any grantee (including exercised, cancelled and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant, shall not exceed 1% of the total number of shares in issue.

### 6. Offer period and amount payable for options

An offer of a grant shall remain open for acceptance by the Eligible Participant for a period of 14 days from the date of offer, provided that no such offer shall be open for acceptance after the expiry of the effective period of the Share Option Scheme. An option shall be deemed as has been granted to (subject to certain restrictions in the Share Option Scheme), and accepted by, the Eligible Participant (the "Grantee") and taken effect upon the issuance of an exercise notice, if the Company receives a copy of the offer document (including the document for the acceptance of share option) duly signed by the grantee ("offer document"), together with a remittance in favor of our Company in the amount of HK$1.00 in consideration for the granting of the option on or before the last date for acceptance. The remittance is not refundable under any circumstances and shall be deemed as payment of part of the exercise price. Once accepted, the option is taken as granted from the date of offer to the relevant Grantee.

### 7. Minimum period for which an option must be held before it can be exercised

There is no general requirement that an option must be held for any minimum period before it can be exercised. The period during which an option may be exercised in accordance with the terms of the Share Option Scheme ("Option Period") shall be the period of time to be notified by our Board to each Grantee as determined by the Board in its absolute discretion, save that such period shall not exceed ten years from the commencement date of the vesting period as stated in the respective Grantee's Offer Document.

### 8. Basis of determining the subscription price

The price per share for subscription by a Grantee pursuant to the exercise of share options (the "Exercise Price") shall be determined by the Board, but in any event shall not be lower than the highest of:

(i) the official closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date an option is offered (the "Offer Date");

(ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and

(iii) the nominal value of the Shares.

During the year ended December 31, 2015, no share option had been granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

# Directors' Report

## Share Award Scheme

The Company has adopted the Share Award Scheme as a means to recognise the contribution of and provide incentives for the key management personnel including Directors and senior management, employed experts and core employees of the Group. The Share Award Scheme shall be valid and effective for a period of 10 years commencing from July 7, 2014 on which the Board adopted the Share Award Scheme (the "Adoption Date") and is administrated by the Board and the trustee of the Share Award Scheme.

In order to provide more flexibility in the administration and operation of the Share Award Scheme, the Board resolved on May 25, 2015 to make amendments to the terms of the Share Award Scheme and the Scheme Rules, having retrospective effect from the Adoption Date, to the effect that the Board may, from time to time, in its absolute discretion, determine if the Award Shares shall be granted to a Selected Participant with or without payment of a price per Award Share payable by the Selected Participant (the ("Grant Price") which shall be notified by the Board to each Selected Participant. In determining whether the Selected Participant shall pay a Grant Price for the Award Shares and the amount of the Grant Price, as the case may be, the Board shall take into consideration matters, including, but without limitation, the Selected Participant's position, experience, years of service, performance and contribution to the Company, its subsidiaries and/or associated entities.

The Board will implement the Share Award Scheme in accordance with Scheme Rules including but not limited to providing necessary funds to the trustee for purchase of no more than 5% of the total number of issued Shares of the Company as at the Adoption Date with each selected participant receiving not more than 1% of the total number of issued Shares as at the Adoption Date. The Company shall comply with the relevant Listing Rules when granting the Award Shares. If the Award Shares are granted to the Directors, such award shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules.

As of December 31, 2015, an aggregate of 11,075,200 Award Shares were granted pursuant to the Share Award Scheme subject to certain vesting criteria and conditions, including awards of 840,000 Award Shares (with 210,000 Award Shares each) made to four Directors, namely Liang Hongze, Zhang Xiaodan, Xu Zechang and Jiang Tianfan. As of December 31, 2015, 4,307,000 Award Shares which were granted pursuant to the Share Award Scheme remained unvested.

# Directors' Report

The following table discloses the movement of Award Shares granted to the Selected Participants for the year ended December 31, 2015 and outstanding as at December 31, 2015:

| Category or name of participants | Outstanding as at 2015.1.1 | Granted during the year | Vested during the year | Cancelled/ lapsed during the year | Outstanding as at 2015.12.31 | Share price at grant date HK$ | Grant price HK$ | Grant date |
|---|---|---|---|---|---|---|---|---|
| | Number of Award Shares | | | | | | | |
| **Directors:** | | | | | | | | |
| Liang Hongze | — | 110,000 | (110,000) | — | — | 14.92 | — | 25/05/2015 |
| Zhang Xiaodan | — | 110,000 | (110,000) | — | — | 14.92 | — | 25/05/2015 |
| Xu Zechang | — | 110,000 | (110,000) | — | — | 14.92 | — | 25/05/2015 |
| Jiang Tianfan | — | 110,000 | (110,000) | — | — | 14.92 | — | 25/05/2015 |
| Liang Hongze | — | 100,000 | (100,000) | — | — | 8.98 | — | 22/12/2015 |
| Zhang Xiaodan | — | 100,000 | (100,000) | — | — | 8.98 | — | 22/12/2015 |
| Xu Zechang | — | 100,000 | (100,000) | — | — | 8.98 | — | 22/12/2015 |
| Jiang Tianfan | — | 100,000 | (100,000) | — | — | 8.98 | — | 22/12/2015 |
| Sub-total | | 840,000 | (840,000) | | | | | |
| Employees | — | 880,200 | (880,200) | — | — | 14.92 | — | 25/05/2015 |
| Employees | — | 3,611,000 | (3,611,000) | — | — | 14.92 | 12.68 | 25/05/2015 |
| Employees | — | 3,759,000 | — | — | 3,759,000 | 14.92 | — | 25/05/2015 |
| Employees | — | 725,000 | (725,000) | — | — | 8.98 | — | 22/12/2015 |
| Employees | — | 712,000 | (712,000) | — | — | 8.98 | 9.21 | 22/12/2015 |
| Employees | — | 548,000 | — | — | 548,000 | 8.98 | — | 22/12/2015 |
| Sub-total | — | 10,235,200 | (5,928,200) | — | 4,307,000 | | | |
| Total | — | 11,075,200 | (6,768,200) | — | 4,307,000 | | | |

# Directors' Report

## Interests of Substantial Shareholders and Other Persons in Shares and Underlying Shares

As at December 31, 2015, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and entered into the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company.

| Name of Shareholder | Capacity/Nature of interest | Number of shares held | Approximate percentage of shareholding % |
|---|---|---|---|
| Speed Key Limited | Beneficial owner | 181,401,360 (L)[1] | 21.76 |
| Xu Baorui | Interest in Controlled Corporation | 181,401,360 (L)[1] | 21.76 |
| JPMorgan Chase & Co. | Interest in Controlled Corporation | 57,705,606 (L)[2] | 6.92 |
| | | 673,000 (S) | 0.08 |
| | | 2,849,000 (P) | 0.34 |

L: Long position
S: Short position
P: Lending Pool

Notes:

1. These share were held by Speed Key Limited which was wholly owned by Mr. Xu Baorui, the father of Ms. Xu Jie, an executive Director.

2. 49% of the issued share capital of China International Fund Management Co Ltd is owned by JPMorgan Asset Management (UK) Limited, which is in turn wholly owned by JPMorgan Asset Management Holdings (UK) Limited. The entire issued share capital of JPMorgan Asset Management Holdings (UK) Limited is held by JPMorgan Asset Management International Limited, which is in turn wholly owned by JPMorgan Asset Management Holdings Inc.

   The entire issued share capital of each of JPMorgan Asset Management (Taiwan) Limited, JF Asset Management Limited and JF International Management Inc. is held by JPMorgan Asset Management (Asia) Inc., which is in turn wholly owned by JPMorgan Asset Management Holdings Inc.

   The entire issued share capital of JPMorgan Asset Management Holdings Inc is held by JPMorgan Chase & Co.

   The entire issued share capital of J.P. Morgan Clearing Corp is held by J.P. Morgan Securities LLC, which is in turn wholly owned by J.P. Morgan Broker-Dealer Holdings Inc. The entire issued share capital of J.P. Morgan Broker-Dealer Holdings Inc is held by JPMorgan Chase & Co. 0.69% of the issued share capital of J.P. Morgan Securities plc is owned by J.P. Morgan Capital Financing Limited, which is in turn wholly owned by JPMorgan Chase & Co. 99.31% of the issued share capital of J.P. Morgan Securities plc is owned by J.P. Morgan Chase International Holdings, which is in turn wholly owned by J.P. Morgan Chase (UK) Holdings Limited. The entire issued share capital of J.P. Morgan Chase (UK) Holdings Limited is held by J.P. Morgan Capital Holdings Limited, which is in turn wholly owned by J.P. Morgan International Finance Limited.

   The entire issued share capital of J.P. Morgan Whitefriars Inc. is held by J.P. Morgan Overseas Capital Corporation, which is in turn wholly owned by J.P. Morgan International Finance Limited.

   The entire issued share capital of J.P. Morgan International Finance Limited is held by Bank One International Holdings Corporation, which is in turn wholly owned by J.P. Morgan International Inc. The entire issued share capital of J.P. Morgan International Inc. is held by JPMorgan Chase Bank, N.A., which is in turn wholly owned by JPMorgan Chase & Co.

   The entire issued share capital of each of JPMorgan Asset Management Holdings Inc, J.P. Morgan Broker-Dealer Holdings Inc, J.P. Morgan Capital Financing Limited and JPMorgan Chase Bank, N.A. is held by JPMorgan Chase & Co.

# Directors' Report

Other than as disclosed above, as at December 31, 2015, the Directors were not aware of any person (other than the Directors or chief executives of the Company) who had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## Directors' Right to Acquire Securities

Save as the details as disclosed under the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations", "Share Option Scheme" and "Share Award Scheme", at no time during the year ended December 31, 2015 any right to acquire benefits through acquisition of shares or debentures of the Company under the Share Option Scheme and the Share Award Scheme as disclosed above has been granted to Directors or their respective spouse or children under the age of 18, and none of any such right has been exercised by them; and none of the Company and any of its subsidiaries has been a party to any arrangement to enable the Directors, or their respective spouse or children under the age of 18, to acquire such rights in any other body corporate.

## Non-Exempt Continuing Connected Transactions

Save as (i) the hospital management right and investment framework agreement signed on February 1, 2008, and a hospital investment management agreement signed on February 4, 2008, as supplemented by supplemental agreements signed in April 2008, December 2010, June 2011, June 2013, July 2013, September 2013 and October 2013 respectively, between Beijing Phoenix, a wholly-owned subsidiary of our Group, Yan Hua Hospital Group and Yan Hua Phoenix (collectively referred to as the "Yan Hua IOT Agreement") and (ii) the sales agreement whereby Beijing Wanrong and Beijing Jiayi, wholly-owned indirect subsidiaries of our Group, supply pharmaceuticals, medical devices and medical consumables to Yan Hua Hospital Group on a periodic basis, none of the Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended December 31, 2015.

Given that Xu Jie, our executive Director together with Xu Xiaojie, her daughter, collectively own the entire equity interest in Beijing Wantong and Beijing Wantong indirectly owns the entire equity interest in Yan Hua Phoenix, which in turn is the owner of Yan Hua Hospital Group. As such, Yan Hua Phoenix and Yan Hua Hospital Group are "connected persons" under Chapter 14A of the Listing Rules. Accordingly the transactions under the Yan Hua IOT Agreement and the Sales and Supply Agreement constituted connected transactions of the Company.

For the Yan Hua IOT Agreement and the Sales and Supply Agreement mentioned above, the Company has been granted a waiver from strict compliance with the announcement requirements as required under Chapter 14A of the Listing Rules by the Stock Exchange, such waiver has been disclosed in the Prospectus.

### Yan Hua IOT Agreement

Pursuant to the Yan Hua IOT Agreement, the Group will provide management services to Yan Hua Hospital Group in 2013, 2014 and 2015, subject to annual caps of RMB17.8 million (of which RMB1.8 million is investment repayment), RMB28.5 million (of which RMB2.0 million is investment repayment) and RMB37.4 million (of which RMB3.6 million is investment repayment), respectively.

# Directors' Report

In December 2014, the Board has decided to revise the annual cap for the year ended 2014 to RMB38.0 million based on the unaudited management accounts of Yan Hua Hospital Group for the 11 months ended November 30, 2014. Both patient visits, in particular inpatient visits, and average spending per patient visit have increased, resulting in higher revenue and better gross profit margin as compared to the corresponding period last year. The Board confirmed that the continuing connected transactions under the Yan Hua IOT Agreement were entered into during ordinary and usual course of business of the Group based on normal or more favorable commercial terms. The Board also confirmed that revising the annual cap was in the interests of the Shareholders as a whole. For further details of the revision of annual cap for the continuing connected transactions under the Yan Hua IOT Agreement, please refer to the announcement of the Company dated December 15, 2014.

For the year ended December 31, 2015, the management service fee and investment repayment from Yan Hua Hospital Group amounted to RMB35.4 million (of which RMB3.6 million is investment repayment), which has not exceeded the relevant annual cap of RMB37.4 million (of which RMB3.6 million is investment repayment).

## Sales and Supply Agreement

Pursuant to the Sales and Supply Agreement, the Group will provide pharmaceuticals, medical devices and medical consumables to Yan Hua Hospital Group in 2013, 2014 and 2015, subject to annual caps of RMB200.0 million, RMB260.0 million and RMB330.0 million, respectively.

For the year ended December 31, 2015, the actual transaction amount with Yan Hua Hospital Group was RMB248.6 million, which was within the relevant annual cap of RMB330.0 million.

Save as disclosed above, none of the related-party transactions or continuing related-party transactions set out in note 38 to the consolidated financial statements in this annual report fall within the scope of discloseable connected transaction or continuing connected transaction under the Listing Rules. The connected and continuing connected transactions of the Company are in compliance with the disclosure requirements of Chapter 14A of the Listing Rules.

## Annual review of continuing connected transactions

The Company's auditor, Deloitte Touche Tohmatsu, has been engaged to report on the Group's continuing connected transactions, in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, to review the Group's continuing connected transactions as required by Rule 14A.56 of the Listing Rule. A copy of the relevant confirmation letter has been provided to the Board and the Stock Exchange as required under Rule 14A.57 of the Listing Rules.

The independent non-executive Directors have reviewed the above-mentioned continuing connected transactions and confirmed that for the year of 2015:

(i) these transactions were entered into in the ordinary and usual course of business of the Group;

(ii) these transactions were entered into either on normal commercial terms, or on terms no less favourable to the Company than terms available to or from independent third parties;

(iii) these transactions were entered into on terms that were fair and reasonable and in the interests of the Shareholders as a whole; and

# Directors' Report

(iv) with respect to the aggregate amount of each of the continuing connected transaction set out above, the continuing connected transactions are within the annual cap as set out in the Prospectus.

## Contracts of Significance

Save as the Yan Hua IOT Agreement and the Sales and Supply Agreement as disclosed above, no contracts of significance to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries, was a party and in which a director of the Company had a direct or indirect material interest, subsisted at the end of the year or at any time during the year.

## Management Contracts

Other than the service contracts or letters of appointment of the Directors, the Company has not entered into any contract with any individuals, firms or corporate entities to manage or regulate the whole or any substantial part of any business of the Company during the year ended December 31, 2015.

## Directors' Interests in Transactions, Arrangements or Contracts

Save as disclosed in this annual report, no Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a controlling shareholder of the Company, the Company or any of the Company's subsidiaries or fellow subsidiaries was a party at any time during the year ended December 31, 2015.

## Board Committees

### Audit Committee

The Company established the Audit Committee in accordance with Rule 3.21 of the Listing Rules and the CG Code on November 4, 2013. The Audit Committee is mainly responsible for assisting the Board to give independent advice in respect of the financial reporting process, risk management and internal control systems of the Group, supervising the audit process and performing other duties and responsibilities assigned by the Board.

As at December 31, 2015, the Audit Committee comprised 3 independent non-executive Directors, namely Mr. Kwong Kwok Kong (committee chairman), Ms. Cheng Hong and Mr. Sun Jianhua. The Audit Committee, together with the management of the Company, have reviewed the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning risk management and internal control, auditing and financial reporting matters and reviewed the consolidated financial statements of the Group for the year ended December 31, 2015.

### Remuneration Committee

The Company established the Remuneration Committee in compliance with Rule 3.25 of the Listing Rules and the CG Code on November 4, 2013.

# Directors' Report

As at December 31, 2015, the Remuneration Committee consisted of one executive Director, Mr. Zhang Xiaodan, and two independent non-executive Directors, namely, Mr. Sun Jianhua (committee chairman) and Mr. Lee Kar Chung Felix.

### Nomination Committee

The Company established the Nomination Committee on November 4, 2013, mainly responsible for giving advice to the Board in respect of the appointment and removal of Directors. As at December 31, 2015, the Nomination Committee consisted of one executive Director, Mr. Liang Hongze, and two independent non-executive Directors, namely, Ms. Cheng Hong (committee chairman) and Mr. Lee Kar Chung Felix.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the Companies Law which obliged the Company to offer new shares on a pro-rata basis to existing Shareholders.

## Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as rules governing dealings by Directors in the listed securities of the Company.

Having made specific enquiry, the Company confirmed that all members of the Board complied with the Model Code during the year ended December 31, 2015. As senior managers, executives and officers who, because of their offices in the Company, may possess inside information, they shall comply with the provision of the Model Code. To the best knowledge of the Company, no incident of non-compliance to the Model Code has been committed by such employees during the year ended December 31, 2015.

## Closure of Register of Members

For determining the entitlement to attend and vote at the annual general meeting to be held on Wednesday, June 8, 2016, the register of members of the Company will be closed from Monday, June 6, 2016 to Wednesday, June 8, 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify as members entitled to attend and vote at the meeting, investors should lodge all transfers of shares accompanied by the relevant share certificates and transfer forms with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, June 3, 2016.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, June 16, 2016 to Monday, June 20, 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, June 15, 2016.

# Directors' Report

## Code of Corporate Governance Practices

The text of the Corporate Governance Report is set out on pages 48 to 60 of this annual report.

## Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended December 31, 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities other than the purchase of the Shares by the trustee under the Share Award Scheme. Pursuant to the Share Award Scheme, the company has purchased, through the trustee of the Share Award Scheme, a total of 2,144,000 shares of the Company at cash consideration of approximately HK$30.2 million on the Stock Exchange during the year ended December 31, 2015.

## Sufficiency of the Public Float

Based on the information publicly available and to the best of the Directors' knowledge, information and belief, the Company has always maintained sufficient public float as at the date of this annual report.

## Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding the Company's securities.

## Events Subsequent to December 31, 2015

As at the date of this annual report, the Group did not have any significant events after December 31, 2015.

## Auditor

The Company has appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended December 31, 2015. A resolution will be proposed for approval by Shareholders at the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board
**Liang Hongze**
*Chairman*
Hong Kong, March 30, 2016

# Corporate Governance Report

## Corporate Governance Practices

The Board is dedicated to establishing a sound corporate governance system for ensuring the formality and transparency of the procedures while safeguarding the interests of the Shareholders.

The Company has applied the principles as set out in the CG Code as its own code of corporate governance and confirms that it has complied with all material code provisions and most of the recommended best practices under the CG Code during the year ended December 31, 2015, save for certain deviations which are explained in the relevant paragraphs in this corporate governance report.

The Company will review and commit in making necessary arrangement to comply with all the code provisions under the CG Code and the rising expectations of Shareholders and investors.

## Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors on terms no less exacting than the required standard set out in the Model Code.

Having made specific enquiry, the Company confirmed that all members of the Board complied with the Model Code during the year ended December 31, 2015. As senior managers, executives and officers who, because of their offices in the Company, may possess inside information, they shall comply with the provision of the Model Code. To the best knowledge of the Company, no incident of non-compliance to the Model Code has been committed by such employees during the year ended December 31, 2015.

## Board of Directors

The Directors are accountable to all Shareholders for their leadership and supervision over the Group's operation, and are committed to achieving the goal of increasing Shareholders' value.

# Corporate Governance Report

As at the date of this annual report, the Board comprised eleven Directors, including seven executive Directors and four independent non-executive Directors, and changes to the Board members during the year ended December 31, 2015 and up to the date of this annual report are as follows:

**Executive Directors:**
Mr. Liang Hongze *(Chairman of the Board and Chief Executive Officer)*
Ms. Xu Jie
Mr. Zhang Xiaodan *(Executive General Manager)*
Mr. Xu Zechang *(Deputy General Manager)*
Mr. Jiang Tianfan *(Chief Financial Officer)*
Mr. Shan Baojie *(Deputy General Manager)(appointed on February 1, 2016)*
Mr. Cheng Libing *(Vice Chairman of the Board)(appointed on February 1, 2016)*

**Non-executive Directors:**
Mr. Yang Huisheng *(resigned on February 1, 2016)*
Mr. Rui Wei *(resigned on February 1, 2016)*

**Independent Non-executive Directors:**
Mr. Kwong Kwok Kong
Ms. Cheng Hong
Mr. Wang Bing *(resigned on August 21, 2015)*
Mr. Sun Jianhua
Mr. Lee Kar Chung Felix *(appointed on August 21, 2015)*

Biographical details of the Directors are set out on page 24 to 27 of this annual report. The list of the Directors (by category) is also disclosed in all of the corporate communications issued by the Company from time to time in accordance with the Listing Rules.

During the year ended December 31, 2015, the Board complied at all times with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise.

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

During the year ended December 31, 2015, the non-executive Directors (including independent non-executive Directors) brought a wide range of business and financial expertise, experience and judgment to the Board. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all the non-executive Directors have made various contributions to the effective development of the Company.

The Company has arranged for appropriate insurance cover to protect Directors from possible legal action against them.

# Corporate Governance Report

## Corporate Governance Functions

The Board is responsible for the performance of the functions of corporate governance. For the year ended December 31, 2015, the Board has performed the functions set out in code provision D.3.1 of the CG Code.

## 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.

The Chairman is Mr. Liang Hongze and the duties of the Chief Executive Officer are also discharged by Mr. Liang Hongze. Although the dual roles of Chairman and Chief Executive Officer is a deviation from the code provision A.2.1 of the CG Code, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in an experienced and qualified person such as Mr. Liang Hongze provides the Company with strong and consistent leadership while allowing for effective and efficient planning and implementation of business decisions and strategies.

Under the leadership of Mr. Liang Hongze, the Board is responsible for the approval and supervision of the Group's general development strategy, the sanction of the annual budget and business plans, the consent of material investment projects related to the Group's business development, the evaluation of the Group's performance and the supervision of the work of the management, and ensures that the Board acts in the best interests of the Group, operates effectively and performs the necessary duties, as well as discuss all the significant and appropriate issues of the Company's business in a timely manner. All the Directors are entitled to propose the inclusion of any item in the agenda of the board meetings for appropriate discussion. Mr. Liang Hongze, as the Chairman, has appointed the secretary of the meetings to draft the Board meetings' agendas. Under the assistance of the executive Directors and the joint company secretaries or company secretary, the Chairman will ensure that all the Directors are provided with sufficient and reliable information in a timely manner required for necessary analysis based on their expertise.

As the Chief Executive Officer, Mr. Liang Hongze has delegated sufficient authority for the operation and management of the Group's business to the executive Directors and other senior management members, who are in-charge of the daily management of the Group in every aspect, including the consistent implementation of the Board's resolutions, and be accountable to the Chief Executive Officer for the operations of various aspects of the Group's business, while the Chief Executive Officer shall be accountable to the Board for the Group's operations as a whole.

## Board Meetings

According to code provision A.1.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals. There were only two regular Board meetings held during the year ended December 31, 2015 as the Company is not required under the Listing Rules to announce its quarterly results.

Apart from the two regular Board meetings, two other Board meetings were held during the year ended December 31, 2015.

# Corporate Governance Report

Throughout the year ended December 31, 2015, the Board has convened and held four Board meetings. Attendance records of the Directors at the Board meetings are set out as follows:

| Name of the Directors | Number of meetings attended/convened |
|---|---|
| **Executive Directors:** | |
| Mr. Liang Hongze | 4/4 |
| Ms. Xu Jie | 0/4 |
| Mr. Zhang Xiaodan | 4/4 |
| Mr. Xu Zechang | 4/4 |
| Mr. Jiang Tianfan | 4/4 |
| **Non-executive Directors:** | |
| Mr. Yang Huisheng | 2/4 |
| Mr. Rui Wei | 4/4 |
| **Independent Non-executive Directors:** | |
| Mr. Kwong Kwok Kong | 2/4 |
| Ms. Cheng Hong | 2/4 |
| Mr. Wang Bing *(resigned on August 21, 2015)* | 1/2 |
| Mr. Sun Jianhua | 2/4 |
| Mr. Lee Kar Chung Felix *(appointed on August 21, 2015)* | 1/2 |

## Practices and Conduct of Meetings

Notice of regular Board meetings had been served to all Directors at least 14 days before the meetings to give all Directors an opportunity to attend.

For regular Board and committee meetings, all agendas, board papers, together with all applicable, complete and reliable information will be sent to all the Directors or committees at least three days before a meeting is held. All Directors may propose any business to be included in the agenda of the Board or committee meetings and contact the joint company secretaries or the company secretary to ensure full compliance with all of the Board's procedures and applicable regulations.

# Corporate Governance Report

In general, the senior management members shall attend all the regular Board meetings and, if necessary, other Board and committee meetings to advise on the Company's business development, financial and accounting matters, statutory and regulatory compliance, corporate governance as well as other significant issues. The Board may, if appropriate, authorize the Directors to seek independent and professional advice at the expense of the Company. Matters discussed and resolved at Board meetings will be recorded in detail by the meetings' secretary who shall prepare and file the minutes or resolutions. Generally, draft minutes of Board meeting shall be issued to the Directors within reasonable time for their comments after such meeting is held, and the final version will be open for inspections by the Directors.

The Articles of Association contains provision requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or their associates have a material interest and this provision has always been complied with.

## Appointment and Re-Election of Directors

According to the Articles of Association, one-third of the Directors (or if their number is not a multiple of three, the number nearest to but no less than one-third) are subject to retirement by rotation at least once every three years and any new Director appointed to fill casual vacancy shall hold office until the next following general meeting of the Company and for any Director appointed as an addition to the Board shall hold office until the next following annual general meeting of the Company. The retiring Directors shall be eligible for re-election.

Any other appointment, resignation, removal or re-designation of Directors will be timely disclosed to the Shareholders by announcement and shall include in such announcement, the reasons given by the Director for his resignation.

Each of the non-executive Directors was engaged on a service contract for a term of three years and shall be subject to retirement by rotation once every three years.

## Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended December 31, 2015 are set out in note 14 to the consolidated financial statements of this annual report.

## Continuous Professional Development for Directors

On appointment to the Board, each Director receives a comprehensive induction package to ensure that he/she has a proper understanding of the business and operations of the Company and is fully aware of the responsibilities and obligations as being a Director as well as the compliance practice under the Listing Rules and other relevant regulatory requirements.

# Corporate Governance Report

All Directors are encouraged to participate on continuous professional development to develop and refresh their knowledge and skills. Directors are kept updated on the statutory and regulatory development and changes in the business and the market so as to facilitate the discharge of their responsibilities. Directors participated in courses relating to roles, functions and duties of a listed company director or further enhancement of their professional development by the way of attending training courses or reading relevant materials.

A summary of the training received by the Directors for the year ended December 31, 2015 according to the records provided by the Directors is as follows:

| | Type of Continuous Professional Development | |
|---|---|---|
| **Name of the Directors** | **Reading on corporate governance, regulatory updates development and other relevant topics** | **Attending relevant training session** |
| **Executive Directors:** | | |
| Mr. Liang Hongze | X | ✓ |
| Ms. Xu Jie | X | X |
| Mr. Zhang Xiaodan | X | ✓ |
| Mr. Xu Zechang | X | ✓ |
| Mr. Jiang Tianfan | X | ✓ |
| **Non-executive Directors:** | | |
| Mr. Yang Huisheng | X | X |
| Mr. Rui Wei | X | X |
| **Independent Non-executive Directors:** | | |
| Mr. Kwong Kwok Kong | X | ✓ |
| Ms. Cheng Hong | X | ✓ |
| Mr. Wang Bing *(resigned on August 21, 2015)* | X | X |
| Mr. Sun Jianhua | X | X |
| Mr. Lee Kar Chung Felix *(appointed on August 21, 2015)* | ✓ | ✓ |

## Nomination Committee

The Board has established the Nomination Committee on November 4, 2013 which currently comprises thee Directors, with Ms. Cheng Hong (independent non-executive Director) as the chairperson, and Mr. Liang Hongze (executive Director) and Mr. Lee Kar Chung Felix (independent non-executive Director) being its committee members. Majority of the members are independent non-executive Directors.

# Corporate Governance Report

The role and function of the Nomination Committee are set out in its terms of reference. Its primary responsibilities include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of, individuals nominated for directorships, assessing the independence of the independent non-executive Directors, making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executives.

To comply with the provisions in the CG Code on board diversity which became effective on September 1, 2013, the Board has adopted a policy concerning diversity of Board members (the "Board Diversity Policy") setting out a number of factors which the Nomination Committee would consider in reviewing and assessing the Board composition.

According to the Board Diversity Policy, the Nomination Committee reviews and assesses the Board composition and makes recommendations of changes to the composition of the Board. The Nomination Committee would consider the benefits of all aspects of diversity set out in the Board Diversity Policy, including but not limited to gender, age, race, cultural and educational background, communication styles, interpersonal skills, functional expertise, problem solving skills, professional qualifications, knowledge and industry and regional experience and other qualities in reviewing and assessing the composition of the Board and all appointments to the Board will be based on merits and will take into account of factors based on the Company's own business model and specific needs from time to time.

The Nomination Committee will review the Board Diversity Policy on a regular basis (which will include a review of the effectiveness of the policy), discuss any required changes with the Board and make recommendation of revision to the Board Diversity Policy to the Board for consideration and approval.

During the year ended December 31, 2015, the Nomination Committee has convened one meeting to review the structure, size and composition of the Board and the committees and the independence of the independent non-executive Directors and considered the qualifications of the retiring Directors standing for re-election at the annual general meeting. The particulars of the attendance of the Nomination Committee are set forth as follows:

| **Name of the members of the Nomination Committee** | **Number of meetings attended/convened** |
|---|---|
| **Chairperson:** | |
| Ms. Cheng Hong | 1/1 |
| **Members:** | |
| Mr. Liang Hongze | 1/1 |
| Mr. Wang Bing *(resigned on August 21, 2015)* | 1/1 |
| Mr. Lee Kar Chung Felix *(appointed on August 21, 2015)* | N/A |

# Corporate Governance Report

## Remuneration Committee

The Board has established the Remuneration Committee on November 4, 2013 which currently comprises three Directors, with Mr. Sun Jianhua (independent non-executive Director) as the chairman, and Mr. Lee Kar Chung Felix (independent non-executive Director) and Mr. Zhang Xiaodan (executive Director) being its committee members. Majority of the members are independent non-executive Directors.

The roles and functions of the Remuneration Committee are set out in its terms of reference. Its primary responsibilities include reviewing and formulating policies in respect of remuneration structure for all Directors and senior management and making recommendations to the Board for its consideration.

During the year ended December 31, 2015, the Remuneration Committee has convened one meeting to review the remuneration policy for all Directors and senior management. The particulars of the attendance of the Remuneration Committee are set forth as follows:

| Name of the members of the Remuneration Committee | Number of meetings attended/convened |
|---|---|
| **Chairman:** | |
| Mr. Wang Bing *(resigned on August 21, 2015)* | 1/1 |
| Mr. Sun Jianhua *(appointed on August 21, 2015)* | 1/1 |
| **Members:** | |
| Mr. Zhang Xiaodan | 1/1 |
| Mr. Lee Kar Chung Felix *(appointed on August 21, 2015)* | N/A |

## Audit Committee

The Board has established the Audit Committee on November 4, 2013 which currently comprises three Directors, with Mr. Kwong Kwok Kong as the chairman, and Ms. Cheng Hong and Mr. Sun Jianhua being its committee members. All of the members are independent non-executive Directors. The Board considered that the members of the Audit Committee possess sufficient professional knowledge and experience of accounting and financial management for the performance of their responsibilities.

The roles and functions of the Audit Committee are set out in its terms of reference. In view of the recent amendments to the CG Code effective for the accounting period beginning on January 1, 2016, the Company has adopted a revised terms of reference of the Audit Committee on January 18, 2016 in order to comply with certain changes relating to the risk management and internal control section of the CG Code. Its primary responsibilities include serving as a focal point for communication between other Directors, the external auditor and the internal auditor (where an internal audit function exists) as regards their duties relating to financial and other reporting, risk management and internal controls, external and internal audits and such other financial and accounting matters as the Board determines from time to time, assisting the Board in providing an independent review of the effectiveness of the financial reporting system, risk management and internal control systems of the Group and overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

# Corporate Governance Report

During the year ended December 31, 2015, the Audit Committee met twice to discharge its responsibilities and review the Group's annual and interim results, continuing connected transactions, reporting and compliance procedures, report from the management on the Company's risk management and internal control systems and processes and also the re-appointment of the external auditor. The particulars of the attendance of the Audit Committee are set forth as follows:

| Name of the members of the Audit Committee | Number of meetings attended/convened |
|---|---|
| **Chairman:** | |
| Mr. Kwong Kwok Kong | 2/2 |
| **Members:** | |
| Ms. Cheng Hong | 2/2 |
| Mr. Sun Jianhua | 1/2 |

## Remuneration of External Auditor

During the year ended December 31, 2015, the total fee paid/payable to the external auditor of the Company in respect of audit and non-audit services is set out below:

| Items of auditor's services | Amount (RMB) |
|---|---|
| **Annual audit service:** | 2,500,000 |
| **Others:** | |
| The first quarter review service and subsidiary audit service | 400,000 |
| Total | 2,900,000 |

The Audit Committee is responsible for making recommendations to the Board as to the appointment, re-appointment and removal of the external auditor. Such appointment, re-appointment and removal are subject to the approval by the Board and the general meetings of the Company by the Shareholders.

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements of the Company and the Group is set out in the independent auditor's report on page 61 to 62 of this annual report.

# Corporate Governance Report

## Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2015 which give a true and fair view of the state of affairs of the Group as well as the results and cash flow during that period.

The Directors consider that in preparing the financial statements, the Group ensures statutory requirements are met and applies appropriate accounting policies that are consistently adopted and makes judgments and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

The Directors are responsible for ensuring that proper accounting records are kept so that the Group could prepare financial statements in accordance with statutory requirements and the Group's accounting policies. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities within the Group.

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.

## Risk Management and Internal Control

The risk management and internal control systems have been designed to safeguard the assets of the Group, to assure the proper maintenance of accounting records, and to ensure the compliance with the relevant laws and regulations.

The Board has overall responsibility for maintaining a sound and effective risk management and internal control systems throughout the Group which includes a defined management structure with limits of authority, and is designed to ensure the proper application of accounting standard and the provision of reliable financial information for internal use and for publication, and to secure compliance with the relevant laws and regulations. The system is developed to provide reasonable, but not absolute, assurance against material misstatement or losses and to manage, but not fully eliminate, the risks of operational systems failure and the risks of the Group's failure in meeting the standards. The Board will review the risk management and internal control systems on an on-going basis.

During the year ended December 31, 2015, the Board has performed a review on the efficiency of the Group's risk management and internal control systems on different aspects of the Group such as financial, operation, compliance and risk management, and has also assessed the accounting and financial reporting functions of the Group, estimated the resources and budgets for training programmes and appraised the staff members' qualifications and experience.

The Board considers that the existing risk management and internal control systems cover the current operations of the Group, and is effective and adequate. The risk management and internal control systems of the Group will be constantly optimized to match the continuous development of the business within the Group.

# Corporate Governance Report

## Company Secretary

Ms. Ngai Kit Fong of Tricor Services Limited, external service provider, has been engaged by the Company as the company secretary with effect from March 1, 2016.

Her primary contact person at the Company is Mr. Jiang Tianfan, an executive Director and the Chief Financial Officer of the Company.

During the year ended December 31, 2015, Mr. Or Wing Kee served as the joint company secretaries of the Company until February 2, 2015. Upon the resignation of Mr. Or Wing Kee as a joint company secretary on February 2, 2015, Mr. Wong Kwok Hung Kendrick was then re-designated as the company secretary of the Company with effect from the same day and he resigned with effect from March 1, 2016. Mr. Wong Kwok Hung Kendrick has complied with the requirements of Rule 3.29 of the Listing Rules of receiving relevant professional training for not less than 15 hours during the year ended December 31, 2015.

## Constitutional Documents

For the year ended December 31, 2015, the Company has not made any changes to its Memorandum Articles of Association.

## Shareholders' Rights

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. Except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules. Poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

## Putting Forward Proposals at General Meeting

The annual general meeting and other general meetings of the Company are primary forum for communication between the Company and its Shareholders. The Company shall provide Shareholders with relevant information on the resolution(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable Shareholders to make an informed decision on the proposed resolution(s).

There are no provisions in the Articles of Association or the Companies Law of the Cayman Islands for Shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the below paragraph.

# Corporate Governance Report

## Convening an Extraordinary General Meeting by Shareholders

Pursuant to article 58 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 company 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.

## Investor Relations

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

The Company has disclosed all necessary information to the Shareholders in compliance with the Listing Rules. Updated and key information of the Group is also available on the Company's website at www.phg.com.cn. The Company also replied the enquiries from Shareholders timely. The general meetings of the Company provide an important channel for communications between the Board and the Shareholders. The Chairman, as well as the chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committee and where appropriate, the independent Board Committee, will be available to answer questions at the general meetings.

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company.

Note: 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: E-825, No. 6 Taiping Street, Xicheng District, Beijing 100050, PRC

Email: ir@phg.com.cn

# Corporate Governance Report

## General Meeting

During the year ended December 31, 2015, the Company has convened and held one annual general meeting. Attendance records of the Directors at the annual general meeting are set out as follows:

| Name of the Directors | Number of meetings attended/convened |
|---|---|
| **Executive Directors:** | |
| Mr. Liang Hongze | 1/1 |
| Ms. Xu Jie | 0/1 |
| Mr. Zhang Xiaodan | 1/1 |
| Mr. Xu Zechang | 1/1 |
| Mr. Jiang Tianfan | 1/1 |
| **Non-executive Directors:** | |
| Mr. Yang Huisheng | 1/1 |
| Mr. Rui Wei | 0/1 |
| **Independent Non-executive Directors:** | |
| Mr. Kwong Kwok Kong | 0/1 |
| Ms. Cheng Hong | 1/1 |
| Mr. Wang Bing *(resigned on August 21, 2015)* | 1/1 |
| Mr. Sun Jianhua | 0/1 |
| Mr. Lee Kar Chung Felix *(appointed on August 21, 2015)* | N/A |

The 2016 annual general meeting of the Company will be held on Wednesday, June 8, 2016. The notice of the annual general meeting will be sent to the Shareholders at least 20 clear business days before the annual general meeting.

# Independent Auditor's Report

Deloitte.
德勤

**TO THE MEMBERS OF PHOENIX HEALTHCARE GROUP CO. LTD**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Phoenix Healthcare Group Co. Ltd (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 63 to 134, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

# Independent Auditor's Report

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with IFRSs and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong

March 30, 2016

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **1,372,267** | 1,206,265 |
| Cost of sales and services | | **(1,042,686)** | (908,562) |
| Gross profit | | **329,581** | 297,703 |
| Other income | 8 | **99,090** | 94,255 |
| Other gains and losses | 9 | **1,394** | 12,037 |
| Selling and distribution expenses | | **(10,605)** | (8,214) |
| Administrative expenses | | **(139,316)** | (77,371) |
| Finance costs | 10 | **(27,375)** | (944) |
| Other expenses | 11 | **(3,000)** | (707) |
| Share of profit of an associate | | **1,008** | — |
| Share of loss of a joint venture | | **(2,809)** | — |
| Profit before tax | | **247,968** | 316,759 |
| Income tax expense | 12 | **(75,554)** | (77,230) |
| Profit for the year | 13 | **172,414** | 239,529 |
| Other comprehensive income for the year | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Share of exchange differences of an associate | | **6,759** | — |
| Total comprehensive income for the year | | **179,173** | 239,529 |
| Profit for the year attributable to: | | | |
| Equity holders of the Company | | **167,045** | 230,051 |
| Non-controlling interests | | **5,369** | 9,478 |
| | | **172,414** | 239,529 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | **173,804** | 230,051 |
| Non-controlling interests | | **5,369** | 9,478 |
| | | **179,173** | 239,529 |
| Earnings per share | | | |
| — basic (RMB yuan per share) | 15 | **0.20** | 0.28 |
| — diluted (RMB yuan per share) | 15 | **0.20** | N/A |

# Consolidated Statement of Financial Position

At December 31, 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 17 | **145,223** | 138,292 |
| Intangible assets | 18 | **404,569** | 360,030 |
| Receivables from invest-operate-transfer ("IOT") hospitals | 19 | **103,059** | 68,994 |
| Lease prepayments for land use right | 20 | **147,095** | 150,448 |
| Interest in an associate | 21 | **154,995** | — |
| Interest in a joint venture | 22 | **—** | — |
| Loan to a joint venture | 22 | **6,361** | — |
| Deferred tax assets | 23 | **300** | 1,346 |
| | | **961,602** | 719,110 |
| Current assets | | | |
| Inventories | 24 | **42,322** | 33,832 |
| Trade receivables | 25 | **137,620** | 93,735 |
| Prepayments and other receivables | 26 | **42,887** | 24,528 |
| Amounts due from a related party | 38 | **57,500** | 67,838 |
| Short-term investments | 27 | **74,990** | 77,300 |
| Certificate of deposit | 28 | **116,684** | 384,027 |
| Cash and cash equivalents | 28 | **821,864** | 611,536 |
| | | **1,293,867** | 1,292,796 |
| Current liabilities | | | |
| Trade payables | 29 | **209,543** | 171,874 |
| Other payables | 30 | **59,567** | 58,606 |
| Tax payables | | **36,880** | 42,955 |
| Dividends payable | | **83,823** | — |
| | | **389,813** | 273,435 |
| Net current assets | | **904,054** | 1,019,361 |
| Total assets less current liabilities | | **1,865,656** | 1,738,471 |
| Non-current liabilities | | | |
| Retirement benefit obligations | 31 | **2,924** | 3,227 |
| Net assets | | **1,862,732** | 1,735,244 |

# Consolidated Statement of Financial Position

At December 31, 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Capital | 34 | **166** | 166 |
| Share premium | | **1,382,736** | 1,497,815 |
| Reserves | | **364,976** | 129,131 |
| Equity attributable to equity holders of the Company | | **1,747,878** | 1,627,112 |
| Non-controlling interests | | **114,854** | 108,132 |
| Total equity | | **1,862,732** | 1,735,244 |

The consolidated financial statements on pages 63 to 134 were approved and authorised for issue by the Board of Directors of the Company on March 30, 2016 and is signed on their behalf by:

| | |
|---|---|
| **Liang Hongze** | **Jiang Tianfan** |
| *Director* | *Director* |

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2015

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 (Note ii) | Treasury share reserve RMB'000 | Share-based payment reserve RMB'000 | Exchange reserve RMB'000 | Retained earnings RMB'000 | Subtotal RMB'000 | Attributable to non-controlling interests RMB'000 | Total RMB'000 |
| Balance at January 1, 2014 | 166 | 1,542,270 | (335,027) | 13,045 | — | — | — | 396,746 | 1,617,200 | 98,654 | 1,715,854 |
| Profit and total comprehensive income for the year | — | — | — | — | — | — | — | 230,051 | 230,051 | 9,478 | 239,529 |
| Purchase of shares under Share Award Scheme (Note i) | — | — | — | — | (175,684) | — | — | — | (175,684) | — | (175,684) |
| Dividends recognised as distribution (Note 16) | — | (44,455) | — | — | — | — | — | — | (44,455) | — | (44,455) |
| Appropriations | — | — | — | 13,519 | — | — | — | (13,519) | — | — | — |
| Balance at December 31, 2014 | 166 | 1,497,815 | (335,027) | 26,564 | (175,684) | — | — | 613,278 | 1,627,112 | 108,132 | 1,735,244 |
| Profit and total comprehensive income for the year | — | — | — | — | — | — | 6,759 | 167,045 | 173,804 | 5,369 | 179,173 |
| Purchase of shares under Share Award Scheme (Note i) | — | — | — | — | (23,892) | — | — | — | (23,892) | — | (23,892) |
| Recognition of equity-settled share based payments (Note 32) | — | — | — | — | — | 38,400 | — | — | 38,400 | 1,353 | 39,753 |
| Shares vested under the Share Award Scheme | — | — | (2,877) | — | 58,848 | (8,438) | — | — | 47,533 | — | 47,533 |
| Dividends recognised as distribution (Note 16) | — | (115,079) | — | — | — | — | — | — | (115,079) | — | (115,079) |
| Appropriations | — | — | — | 15,618 | — | — | — | (15,618) | — | — | — |
| Balance at December 31, 2015 | 166 | 1,382,736 | (337,904) | 42,182 | (140,728) | 29,962 | 6,759 | 764,705 | 1,747,878 | 114,854 | 1,862,732 |

Notes:

(i) From September to December in 2014, the Company paid an amount of HK$221,856,000 (equivalent to approximately RMB175,684,000) to Computershare Hong Kong Trustees Limited (the "Trustee") to purchase the Company's existing shares of 16,044,500 on the market pursuant to the Share Award Scheme (the "Scheme") made on July 7, 2014 by the board of directors of the Company (the "Board").

In January 2015, the Company paid an amount of HK$30,218,000 (equivalent to approximately RMB23,892,000) to the Trustee to purchase the Company's existing shares of 2,144,000 on the market pursuant to the Scheme. Further details are disclosed in Note 32.

(ii) According to the People's Republic of China (the "PRC") Company Law and the Articles of Association of the Company and its subsidiaries, these companies are required to transfer 10% of their respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital.

# Consolidated Statement of Cash Flows

For the year ended December 31, 2015

| | Note | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Profit before tax | | **247,968** | 316,759 |
| Adjustments for: | | | |
| Share of profit of an associate | | **(1,008)** | — |
| Gain on deemed disposal of an associate | | **(5,163)** | — |
| Share of loss of a joint venture | | **2,809** | — |
| Depreciation of property, plant and equipment | | **23,873** | 21,162 |
| Amortisation of lease prepayments for land use right | | **3,375** | 3,397 |
| Amortisation of intangible assets | | **17,389** | 14,633 |
| Interest and investment income | | **(44,134)** | (35,718) |
| Finance costs | | **27,375** | 944 |
| Expense recognised on equity-settled share based payments | | **41,762** | — |
| Loss (gain) on disposal of property, plant and equipment, net | | **216** | (1) |
| Gain on disposal of lease prepayments for land use right, net | | **—** | (15,683) |
| Fair value changes of mutual funds | | **156** | — |
| Foreign exchange loss | | **3,397** | 3,647 |
| Operating cash flows before movements in working capital | | **318,015** | 309,140 |
| Movements in working capital | | | |
| Increase in inventories | | **(8,490)** | (2,782) |
| Increase in trade receivables | | **(43,885)** | (9,917) |
| Increase in prepayments and other receivables | | **(10,248)** | (2,869) |
| Decrease (increase) in amount due from a related party | | **10,338** | (10,967) |
| Increase in trade payables | | **37,669** | 47,988 |
| Increase in other payables | | **8,886** | 3,056 |
| Cash generated from operations | | **312,285** | 333,649 |
| Income taxes paid | | **(80,583)** | (59,436) |
| Net cash generated from operating activities | | **231,702** | 274,213 |
| Cash flows from investing activities | | | |
| Investment income received from financial products | | **33,828** | 28,935 |
| Purchase of financial products | | **(4,674,667)** | (3,540,510) |
| Proceeds from disposal of financial products | | **4,721,977** | 3,639,210 |
| Purchase of certificate of deposit | | **(2,388,691)** | (969,324) |
| Proceeds from certificate of deposit | | **2,656,034** | 1,289,747 |
| Purchases of property, plant and equipment | | **(32,169)** | (36,257) |
| Payments to IOT Hospitals under IOT agreements | | **(100,000)** | (78,000) |
| Repayment from IOT Hospitals | | **9,808** | 7,296 |
| Proceeds from disposal of property, plant and equipment | | **37** | 38 |
| Proceeds from disposal of lease prepayments for land use right | | **—** | 19,759 |
| Payment to Yan Hua Hospital | 38.3 | **(10,000)** | — |
| Repayment from Yan Hua Hospital | 38.3 | **10,000** | — |
| Purchase of mutual funds | | **(95,000)** | — |
| Proceeds from mutual funds | | **49,844** | — |
| Acquisition of investment in an associate | 21 | **(141,985)** | — |
| Loan to a joint venture | 22 | **(9,250)** | — |
| Net cash generated from investing activities | | **29,766** | 360,894 |

# Consolidated Statement of Cash Flows

For the year ended December 31, 2015

| | Note | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|---|
| Cash flows from financing activities | | | |
| Interest paid | | **—** | (1,555) |
| Transaction cost paid for syndicated loan | 10 | **(27,375)** | — |
| Repayment of the borrowings | | **—** | (200,000) |
| Payment for repurchase of ordinary shares | | **(23,892)** | (175,684) |
| Dividends paid to owners of the Company | 16 | **(32,506)** | (44,455) |
| Proceeds from grant of Award Shares under Share Award Scheme | | **41,896** | — |
| Payment for acquisition of the non-controlling interests | | **(7,115)** | — |
| Net cash used in financing activities | | **(48,992)** | (421,694) |
| Net increase in cash and cash equivalents | | **212,476** | 213,413 |
| Cash and cash equivalents at the beginning of the year | | **611,536** | 401,770 |
| Effect of foreign exchange rate changes | | **(2,148)** | (3,647) |
| Cash and cash equivalents at the end of the year | 28 | **821,864** | 611,536 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Bank balances and cash | 28 | **821,864** | 611,536 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 1. General Information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on February 28, 2013. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from November 29, 2013. The registered office of the Company is 4th Floor, Harbour Place, 103 South Church Street, Grand Cayman KY1-1002, Cayman Islands, and its principal place of business is located at Beijing, the PRC. The Company is an investment holding company.

The Company and its subsidiaries (the "Group") are mainly engaged in provision of general hospital services, provision of hospital management services, and supply chain business in Beijing, the PRC.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

## 2. Application of New and Revised International Financial Reporting Standards ("IFRSs")

### Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied for the first time in the current year the following amendments to standards.

| | |
|---|---|
| Amendments to IAS 19 | Defined Benefit Plans: Employee Contributions |
| Amendments to IFRSs | Annual Improvements to IFRSs 2010–2012 Cycle |
| Amendments to IFRSs | Annual Improvements to IFRSs 2011–2013 Cycle |

The amendments to IFRS 8 Operating Segments require entities to disclose judgements made by management in applying the aggregation criteria set out in paragraph 12 of IFRS 8. The Group has aggregated several operating segments into a single operating segment and made the required disclosures in Note 6 to the Group's consolidated financial statements.

The application of the other amendments to standards in the current year has had no material impact on Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 2. Application of New and Revised International Financial Reporting Standards ("IFRSs") (Continued)

### New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised standards that have been issued but are not yet effective.

| | |
|---|---|
| IFRS 9 | Financial Instruments[1] |
| IFRS 15 | Revenue from Contracts with Customers[1] |
| IFRS 16 | Leases[2] |
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[3] |
| Amendments to IAS 1 | Disclosure Initiative[3] |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[3] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012–2014 Cycle[3] |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants[3] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception[3] |
| Amendments to IAS 7 | Disclosure Initiative[5] |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[5] |

1 Effective for annual periods beginning on or after January 1, 2018
2 Effective for annual periods beginning on or after January 1, 2019
3 Effective for annual periods beginning on or after January 1, 2016
4 Effective for annual periods beginning on or after a date to be determined
5 Effective for annual periods beginning on or after January 1, 2017

Except as described below, the directors of the Company (the "Directors") do not anticipate that the application of the above mentioned new and revised standards issued but not yet effective will have a material effect on the Group's consolidated financial statements.

#### IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 2. Application of New and Revised International Financial Reporting Standards ("IFRSs") (Continued)

### New and revised IFRSs in issue but not yet effective (Continued)

#### IFRS 9 Financial Instruments (Continued)

Key requirements of IFRS 9 are described as follows:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Except for the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs, the Directors anticipate that the adoption of IFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at December 31, 2015.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 2. Application of New and Revised International Financial Reporting Standards ("IFRSs") (Continued)

### New and revised IFRSs in issue but not yet effective (Continued)

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Directors anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

#### IFRS 16 Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 2. Application of New and Revised International Financial Reporting Standards ("IFRSs") (Continued)

### New and revised IFRSs in issue but not yet effective (Continued)

#### IFRS 16 Leases (Continued)

As disclosed in Note 35, total operating lease commitments for the Group as at December 31, 2015 amounted to RMB3,466,000, the Directors do not expect the applicable of IFRS 16 would result in significant impact on the Group's results but it is expected that these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

## 3. Significant Accounting Policies

### Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provision of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and director's reports and audits became effective for the Company for the financial year ended December 31, 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended December 31, 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended December 31, 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 impairment of Assets.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 3. Significant Accounting Policies (Continued)

### Basis of preparation (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

(i) has power over the investee;

(ii) is exposed, or has rights, to variable returns from its involvement with the investee; and

(iii) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 3. Significant Accounting Policies (Continued)

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

(i) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

(ii) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(iii) the amount of revenue can be measured reliably;

(iv) it is probable that the economic benefits associated with the transaction will flow to the Group; and

(v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income including management service income and general hospital service income is recognised when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to the Group and such benefit could be reliably measured.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### Property, plant and equipment

Property, plant and equipment other than construction in progress as described below are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Construction in progress is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 3. Significant Accounting Policies (Continued)

### Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Intangible assets

Intangible assets representing operating rights under IOT agreements with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

### Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 3. Significant Accounting Policies (Continued)

### Investments in associates and joint ventures (Continued)

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

#### Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "lease prepayments for land use right" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 3. Significant Accounting Policies (Continued)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contribution.

### Share-based payment arrangements

#### Equity-settled share-based payment transactions

*Share award scheme*

For award shares granted that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of award shares granted at the date of grant, net of any initial grant price received, without taking into account any service and non-market performance vesting conditions. The fair value of services is expensed on a straight-line basis over the vesting period, based on the Group's estimate of award shares that will eventually vest with a corresponding increase in equity (share-based payment reserve). For award shares that vest immediately at the date of grant, the fair value of the award shares granted is expensed immediately to profit or loss, unless qualified for recognition as assets.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 3. Significant Accounting Policies (Continued)

### Share-based payment arrangements (Continued)

### Equity-settled share-based payment transactions (Continued)

*Share award scheme (Continued)*

At the end of the reporting period, the Group revises its estimate of the number of award shares that are expected to vest. The impact of the revision of the estimates is recognised in profit or loss, such that the cumulative expenses reflects the revised estimate with a corresponding adjustment to share-based payment reserve.

When the award shares are vested, the amount previously recognised in share-based payment reserve will be transferred to treasury share reserve. The difference between the amount previously recognised in share-based payment reserve and the cost for repurchasing the award shares will be transferred from treasury share reserve to capital reserve.

### Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 3. Significant Accounting Policies (Continued)

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting periods and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting periods, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 3. Significant Accounting Policies (Continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted-average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL of which interest income is included in other income.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

### Financial assets (Continued)

*Financial assets at FVTPL*

Financial assets at FVTPL represent financial assets held for trading and financial assets designated as at FVTPL.

A financial asset is classified as held for trading if:

(i) it has been acquired principally for the purpose of selling in the near term; or

(ii) on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset (including short-term investments) other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gain or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item. The dividend or interest earned on the financial assets is included in the "other income" line item.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, receivables from IOT Hospitals, amounts due from a related party, certificate of deposit and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

### Financial assets (Continued)

*Impairment of financial assets*

Financial assets other than those at FVTPL are assessed for indicators of impairment at the end of each of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 3. Significant Accounting Policies (Continued)

### Financial instruments (Continued)

#### Financial liabilities and equity instruments

*Classification as debt or equity*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

*Financial liabilities*

Financial liabilities including trade payables and other payables are subsequently measured at amortised cost using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

#### Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 3. Significant Accounting Policies (Continued)

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the management of the Group are required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affects both current and future periods.

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimation, that the management of the Group have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### Control over the hospitals under IOT agreements

The Group entered into a series of IOT agreements with the not-for-profit hospitals and their contributors which the Group agrees to make investments to the hospitals or/and the contributors to improve the medical facilities of the hospitals in exchange for the right to manage and operate the hospital and receive performance-based management fees for periods ranging from 16 to 48 years. The operating rights are expected to be transferred back to the hospitals or their contributors after these periods.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

### Critical judgements in applying accounting policies (Continued)

#### Control over the hospitals under IOT agreements (Continued)

The management assessed whether or not the Group has control over these not-for-profit hospitals through the IOT agreements (the "IOT Hospitals") based on whether the Group has the practical ability to direct the IOT Hospitals' relevant activities unilaterally. In making their judgement, the management considered the composition of the internal governance bodies and also certain committees which oversee the operations of the hospitals. After assessment, the management concluded that the Group does not obtain the decision making power under these bodies and committees to direct the relevant activities of the hospitals, so the Group does not control and thus does not consolidate those hospitals. Instead, these IOT agreements are considered as management contracts to generate management service income. Details of the IOT agreements are set out in Note 7.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year from the end of each reporting period.

#### Estimated useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate of expected useful lives is based on the management's experience of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write off or write down obsolete assets that have been abandoned. When the expected useful lives of property, plant and equipment differ from the original estimates, adjustment will be made and recognised in the period in which such event takes place. As at December 31, 2015, the carrying amount of property, plant and equipment is RMB145,223,000 (2014: RMB138,292,000). Details of the useful lives of property, plant and equipment are disclosed in Note 17.

#### Impairment of receivables from IOT Hospitals, trade receivables and other receivables

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the financial strength of the IOT Hospitals, the credit history of the customers and the current market condition. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Management reassesses the adequacy of impairment on a regular basis. Where the actual cash flows are less than expected, a material impairment loss may arise. The carrying amount of receivables from IOT Hospitals, trade receivables and other receivables are disclosed in Notes 19, 25 and 26, respectively.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

### Key sources of estimation uncertainty (Continued)

#### Provision for medical dispute claims

The Group may be subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical dispute claims brought by the former patients. Provisions for medical dispute claims is assessed based on the status of potential and active claims outstanding at the end of each reporting period, and take into consideration the assessment and analysis of external lawyer and the total claim exposure. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Based on the assessment, the management believes that no material claim exposure or outstanding litigation on the medical dispute claim existed at the end of each reporting period and accordingly no provision was made. The situation is closely monitored by the management and provision will be made as appropriate. Where the actual and potential claims are greater than expected, a material dispute claims expense may arise, which would be recognised in profit and loss for the period in which such a claim takes place.

## 5. Revenue

Revenue represents income from general hospital services, hospital management services, and sale of pharmaceuticals, medical devices and medical consumables under the supply chain business.

An analysis of the Group's revenue for the year is as follows:

| | For the year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| General hospital services | **575,634** | 540,192 |
| Hospital management services | **72,112** | 60,138 |
| Supply chain business | **724,521** | 605,935 |
| | **1,372,267** | 1,206,265 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 6. Segment Information

The Board of Directors of the Company is identified as the chief operating decision maker (the "CODM") of the Group for the purposes of resources allocation and performance assessment. The CODM reviews operating results and financial information for each operating company separately. Accordingly, each operating company is identified as an operating segment. Certain operating companies are aggregated into hospital management services segment and supply chain business segment respectively for segment reporting purpose after taking into account that those operating companies are operating in similar business model with similar target group of customers, similar methods used to distribute their products and under the same regulatory environment.

### (i) General hospital services

Revenue from this segment is mainly derived from hospital services provided at Beijing Jian Gong Hospital Co., Ltd (北京市健宮醫院有限公司) ("Jian Gong Hospital").

### (ii) Hospital management services

The Group provides comprehensive management services to hospitals under IOT agreements and receives from each IOT Hospital an annual fee.

### (iii) Supply chain business

The Group derives revenue from sales of pharmaceuticals, medical devices and medical consumables to Jian Gong Hospital, the IOT Hospitals and external customers.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 6. Segment Information (Continued)

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

### Segment revenue, results, assets and liabilities

| | General hospital services RMB'000 | Hospital management services RMB'000 | Supply chain business RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **For year ended December 31, 2015** | | | | |
| External revenues | 575,634 | 72,112 | 724,521 | 1,372,267 |
| Inter-segment revenue | — | — | 200,921 | 200,921 |
| Segment revenue | 575,634 | 72,112 | 925,442 | 1,573,188 |
| Eliminations | | | | (200,921) |
| Consolidated revenue | | | | 1,372,267 |
| Segment results | 38,687 | 37,002 | 212,221 | 287,910 |
| Share of profit of an associate | | | | 1,008 |
| Gain on deemed disposal of an associate | | | | 5,163 |
| Share of loss of a joint venture | | | | (2,809) |
| Unallocated interest income | | | | 3,838 |
| Unallocated finance cost | | | | (27,375) |
| Unallocated foreign exchange loss | | | | (3,397) |
| Other unallocated expense | | | | (16,370) |
| Profit before tax | | | | 247,968 |
| **As at December 31, 2015** | | | | |
| Segment assets | 693,158 | 1,027,078 | 418,397 | 2,138,633 |
| Unallocated bank balances and certificate of deposit | | | | 213,367 |
| Other unallocated assets | | | | 166,379 |
| Elimination of inter-segment receivables | | | | (262,910) |
| Consolidated assets | | | | 2,255,469 |
| Segment liabilities | 116,015 | 225,751 | 229,234 | 571,000 |
| Other unallocated liabilities | | | | 84,647 |
| Elimination of inter-segment payables | | | | (262,910) |
| Consolidated liabilities | | | | 392,737 |
| Other segment information | | | | |
| *Amounts included in the measure of segment results or segment assets:* | | | | |
| Addition to non-current assets (Note) | 26,909 | 64,945 | 1,131 | 92,985 |
| Depreciation and amortisation | 25,076 | 18,977 | 584 | 44,637 |
| Loss on disposal of property, plant and equipment, net | 200 | 16 | — | 216 |
| Interest and investment income | (5,243) | (35,450) | (4,032) | (44,725) |
| *Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:* | | | | |
| Interest in an associate | N/A | N/A | N/A | 154,995 |
| Interest in a joint venture | N/A | N/A | N/A | — |
| Loan to a joint venture | N/A | N/A | N/A | 6,361 |
| Share of profit of an associate | N/A | N/A | N/A | (1,008) |
| Share of loss of a joint venture | N/A | N/A | N/A | 2,809 |
| Unallocated finance cost | N/A | N/A | N/A | 27,375 |
| Foreign exchange loss | N/A | N/A | N/A | 3,397 |
| Income tax expense | 11,362 | 10,929 | 53,263 | 75,554 |

Note: Non-current assets consist of property, plant and equipment, and intangible assets.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 6. Segment Information (Continued)

### Segment revenue, results, assets and liabilities (Continued)

| | General hospital services RMB'000 | Hospital management services RMB'000 | Supply chain business RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **For year ended December 31, 2014** | | | | |
| External revenues | 540,192 | 60,138 | 605,935 | 1,206,265 |
| Inter-segment revenue | — | — | 175,874 | 175,874 |
| Segment revenue | 540,192 | 60,138 | 781,809 | 1,382,139 |
| Eliminations | | | | (175,874) |
| Consolidated revenue | | | | 1,206,265 |
| Segment results | 64,046 | 61,562 | 194,627 | 320,235 |
| Unallocated interest income | | | | 13,927 |
| Unallocated finance cost | | | | (944) |
| Unallocated foreign exchange loss | | | | (3,647) |
| Other unallocated expense | | | | (12,812) |
| Profit before tax | | | | 316,759 |
| **As at December 31, 2014** | | | | |
| Segment assets | 654,112 | 1,084,079 | 366,809 | 2,105,000 |
| Unallocated bank balances and certificate of deposit | | | | 161,282 |
| Other unallocated assets | | | | 1,486 |
| Elimination of inter-segment receivables | | | | (255,862) |
| Consolidated assets | | | | 2,011,906 |
| Segment liabilities | 110,047 | 231,452 | 191,025 | 532,524 |
| Elimination of inter-segment payables | | | | (255,862) |
| Consolidated liabilities | | | | 276,662 |
| Other segment information | | | | |
| *Amounts included in the measure of segment results or segment assets:* | | | | |
| Addition to non-current assets (Note) | 31,689 | 58,980 | 2,987 | 93,656 |
| Depreciation and amortisation | 23,395 | 15,317 | 480 | 39,192 |
| Gain on disposal of property, plant and equipment, net | (1) | — | — | (1) |
| Gain on disposal of lease prepayment for land use right, net | (15,683) | — | — | (15,683) |
| Interest and investment income | (4,810) | (27,247) | (4,100) | (36,157) |
| *Amounts regularly provided to the CODM but not included in the measure of segment results:* | | | | |
| Unallocated finance cost | N/A | N/A | N/A | 944 |
| Foreign exchange loss | N/A | N/A | N/A | 3,647 |
| Income tax expense | 15,653 | 13,090 | 48,487 | 77,230 |

Note: Non-current assets consist of property, plant and equipment, and intangible assets.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 6. Segment Information (Continued)

### Segment revenue, results, assets and liabilities (Continued)

Segment revenue reported above represents revenue generated from both external and inter-segment customers. The inter-segment transactions are charged at regulated price for the sales of pharmaceutical, medical devices and consumables.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit before tax earned by each segment, without allocation of share of profit of an associate, gain on deemed disposal of an associate, share of loss of a joint venture, certain interest income, finance cost, foreign exchange loss and corporate expenses not directly related to the respective segment, which represents 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.

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to operating segments other than unallocated bank balance, certificate of deposit of the Company and overseas subsidiaries, interest in an associate, interest in a joint venture and loan to a joint venture and all liabilities are allocated to operating segments other than liabilities of the Company and overseas subsidiaries.

Income tax expenses have been allocated among the segments as additional information regularly provided to the management but not included in the measure of segment result while the relevant tax payables have been allocated into the segment liabilities.

### Geographical information

No geographical information is presented as all of the Group's revenue is derived from activities in the PRC. The Group's operations and non-current assets are located in the PRC, except for interest in an associate with carrying amount of RMB 154,995,000 which principal place of business is in Hong Kong.

### Information about major customers

Revenue from the customers, including revenue from hospital management services and supply chain business (details of the major customers' revenue by segment are disclosed in Note 7), contributing over 10% of the total revenue of the Group during both years is as follows:

| | For the year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Beijing Jing Mei Hospital Group (北京京煤集團總醫院) ("Jing Mei Hospital") | **300,908** | 235,970 |
| Beijing Yan Hua Hospital (北京燕化醫院) ("Yan Hua Hospital") | **280,368** | 260,270 |
| Beijing Mentougou Hospital (北京市門頭溝區醫院) ("Mentougou Hospital ") | **139,791** | 117,786 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 7. IOT Arrangements

The Group entered into IOT agreements with the contributors of IOT Hospitals, including Yan Hua Hospital, Jing Mei Hospital, Beijing Mentougou Hospital (北京市門頭溝區醫院)("Mentougou Hospital"), Beijing Mentougou Traditional Chinese Medicine Hospital (北京市門頭溝區中醫醫院) ("Mentougou TCM Hospital"), Beijing Mentougou Hospital for Women and Children (北京市門頭溝區婦幼保健院) ("Mentougou Hospital for Women and Children"), Airport Hospital of Shunyi District (北京市順義區空港醫院) ("Airport Hospital") and Shunyi District No. 2 Hospital (北京市順義區第二醫院) (the "No.2 Hospital") (collectively referred to as the "Shunyi Hospital"). Pursuant to the IOT agreements, the Group is committed to provide (i) investment amounts to the IOT Hospitals that will be repaid back to the Group (the "Repayable Investment Amounts") or (ii) investment amounts to the contributors of the IOT Hospitals that will not be returned to the Group in return for the operating rights of the IOT Hospitals over periods ranging from 16 to 48 years, subject to other conditions set out in the IOT agreements. Under the IOT agreements, the Group operates and provides management services to the IOT Hospitals and derive management fee based on pre-set formulas set out in the IOT agreements.

(i) The amount of management fee received/receivable by the Group and revenue derived from supply chain business to the IOT Hospitals during both years are as follows:

**For the year ended December 31, 2015**

| | Hospital management services RMB'000 | Supply chain business RMB'000 | Total RMB'000 |
|---|---|---|---|
| Yan Hua Hospital | **31,767** | **248,601** | **280,368** |
| Jing Mei Hospital | **26,400** | **274,508** | **300,908** |
| Mentougou TCM Hospital | **8,244** | **60,490** | **68,734** |
| Mentougou Hospital | **5,701** | **134,090** | **139,791** |
| Mentougou Hospital for Women and Children | **—** | **1,872** | **1,872** |
| | **72,112** | **719,561** | **791,673** |

**For the year ended December 31, 2014**

| | Hospital management services RMB'000 | Supply chain business RMB'000 | Total RMB'000 |
|---|---|---|---|
| Yan Hua Hospital | 30,067 | 230,203 | 260,270 |
| Jing Mei Hospital | 20,880 | 215,090 | 235,970 |
| Mentougou TCM Hospital | 5,468 | 41,442 | 46,910 |
| Mentougou Hospital | 3,723 | 114,063 | 117,786 |
| | 60,138 | 600,798 | 660,936 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 7. IOT Arrangements (Continued)

(ii) The amount of trade receivables with the IOT Hospitals and receivables from IOT Hospitals at the end of each reporting period are as follows:

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Trade receivables: | | |
| Jing Mei Hospital | **67,225** | 52,962 |
| Yan Hua Hospital (Note 38.2) | **57,500** | 67,838 |
| Mentougou Hospital | **33,280** | 21,790 |
| Mentougou TCM Hospital | **20,721** | 11,332 |
| Mentougou Hospital for Women and Children | **1,070** | — |
| | **179,796** | 153,922 |

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Receivables from the IOT Hospitals: | | |
| Shunyi Hospital | **39,817** | — |
| Yan Hua Hospital | **32,353** | 32,409 |
| Mentougou Hospital | **27,284** | 28,003 |
| Mentougou TCM Hospital | **10,205** | 10,500 |
| Mentougou Hospital for Women and Children | **6,741** | 6,918 |
| | **116,400** | 77,830 |
| Less: current portion included in prepayments and other receivables (Note 26) | **(13,341)** | (8,836) |
| Non-current portion (Note 19) | **103,059** | 68,994 |

(iii) The carrying amount of operating rights, classified as intangible assets (Note 18) at the end of each reporting period are as follows:

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Yan Hua Hospital | **170,614** | 174,930 |
| Jing Mei Hospital | **118,440** | 126,330 |
| Shunyi Hospital | **60,418** | — |
| Mentougou Hospital | **35,645** | 38,022 |
| Mentougou TCM Hospital | **11,860** | 12,650 |
| Mentougou Hospital for Women and Children | **7,592** | 8,098 |
| | **404,569** | 360,030 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 7. IOT Arrangements (Continued)

### (iv) Details of the IOT agreements

#### Yan Hua Hospital

On February 1, 2008, the Group entered into an IOT arrangement with Yan Hua Phoenix Healthcare Asset Management Co., Ltd (北京燕化鳳凰醫療資產管理有限公司) ("Yan Hua Phoenix") through a series of agreements and supplementary agreements ("Yan Hua IOT Agreements") and obtained the operating right of Yan Hua Hospital with a period of 48 years from 2008 to 2055. Pursuant to the Yan Hua IOT Agreements, the Company made (i) investment amounts to the contributor amounting to RMB72 million in 2008, and (ii) Repayable Investment Amounts to Yan Hua Hospital amounting to RMB57 million, RMB20 million, RMB10 million and RMB63 million in 2011, 2012, 2013 and 2014, respectively, under the total commitment of the Repayable Investment Amounts of RMB150 million, which will be repaid to the Group in equal annual instalments during the tenure of the IOT arrangement.

On October 31, 2013, the supplemental agreement to Yan Hua IOT Agreements ("Yan Hua Supplemental Agreement") is entered into among Beijing Phoenix United Hospital Management Joint Stock Co., Ltd. (北京鳳凰聯合醫院管理股份有限公司) ("Beijing Phoenix"), Yan Hua Phoenix and Yan Hua Hospital. Pursuant to the Yan Hua Supplemental Agreement, the term of the Yan Hua IOT Agreements is subject to approval by the Company's independent shareholders every three years.

On November 6, 2013, Beijing Phoenix and Yan Hua Phoenix also entered into a reimbursement agreement. Pursuant to the reimbursement agreement, Yan Hua Phoenix has undertaken to reimburse the Beijing Phoenix part of the initial investment paid to Yan Hua Phoenix under the Yan Hua IOT Agreements which represents the unamortised balance as if the initial investment is amortised equally over the term of operating right period of 48 years under the Yan Hua IOT Agreements, upon termination or discontinuation of the Yan Hua IOT Agreements. Ms. Xu Xiaojie (徐小捷) and Ms. Xu Jie (徐捷), who are close family members of the ultimate beneficial shareholder with significant influence over the Company, have jointly and severally guaranteed the performance of the above undertaking.

#### Mentougou Hospital

On July 30, 2010, the Group entered into an IOT agreement with Mentougou District government of Beijing (北京市門頭溝區政府), which is the contributor of Mentougou Hospital and obtained the operating right of Mentougou Hospital with a period of 20 years from 2011 to 2030. Under the IOT agreement, the Group made Repayable Investment Amounts to Mentougou Hospital amounting to RMB65 million and RMB10 million in 2010 and 2011, respectively, which will be repaid to the Group in equal annual instalments during the tenure of the IOT arrangement.

#### Jing Mei Hospital

In May 2011 and September 2012, the Group entered into an IOT agreement and supplementary agreements with Beijing Jing Mei Group Co., Ltd (北京京煤集團有限責任公司) ("Beijing Jing Mei") which is the contributor of Jing Mei Hospital, and obtained the operating right of Jing Mei Hospital with a period of 19 years from 2012 to 2030, Under the IOT agreement, the Group made an investment amount of RMB150 million to the contributor in 2011.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 7. Iot Arrangements (Continued)

### (iv) Details of the IOT agreements (Continued)

#### Jing Mei Hospital (Continued)

On December 30, 2014, the Company and Beijing Jing Mei entered into a non-binding cooperation framework agreement ("Framework Agreement"), pursuant to which the parties agreed to establish a profitable joint venture company, Beijing Jing Mei General Hospital Co. Ltd (北京京煤集團總醫院有限責任公司) ("JV Company") for the overall restructuring of Jing Mei Hospital ("Proposed Restructuring"). Upon the establishment of the JV Company, the JV Company will be owned as to 70% by the Company and as to 30% by Beijing Jing Mei.

The agreement in relation to the investment and management of Jing Mei Hospital dated May 5, 2011 and the relevant supplemental agreements entered into between the Group and Beijing Jing Mei will cease to be effective upon the completion of the Proposed Restructuring.

Up to the date of approval for issuance of the consolidated financial statements, there was no further development regarding the Framework Agreement.

#### Mentougou TCM Hospital

On June 6, 2012, the Group entered into an IOT agreement with Mentougou District Government of Beijing (北京市門頭溝區政府), which is the contributor of Mentougou TCM Hospital, and obtained the operating right of Mentougou TCM Hospital with a period of 19 years from 2012 to 2030. Under the IOT agreement, the Group made Repayable Investment Amounts of RMB25 million to Mentougou TCM Hospital in 2012, which will be repaid to the Group in equal annual instalments during the tenure of the IOT arrangement.

#### Mentougou Hospital for Women and Children

On September 23, 2014, the Group entered into an IOT agreement with Mentougou District Government of Beijing (北京市門頭溝區政府), which is the contributor of Mentougou Hospital for Women and Children, and obtained the operating right of Mentougou Hospital for Women and Children with a period of 16 years. Under the IOT agreement, the Group made Repayable Investment Amounts of RMB15 million to Mentougou Hospital for Women and Children in 2014, which will be repaid to the Group in equal annual instalments during the tenure of the IOT arrangement.

#### Shunyi Hospital

On May 28, 2015, the Group entered into an IOT agreement with Shunyi District Government of Beijing (北京市順義區政府), which is the contributor of Airport Hospital & the No.2 Hospital, and obtained the operating right of Airport Hospital and the No.2 Hospital with a period of 20 years from 2016 to 2035. Under the IOT agreement, the Group made Repayable Investment Amounts of RMB100 million to Airport Hospital and the No.2 Hospital in 2015, which will be repaid to the Group in equal annual instalments during the tenure of the IOT arrangement.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 7. Iot Arrangements (Continued)

### (iv) Details of the IOT agreements (Continued)

#### First Center Hospital and Third Center Hospital

On September 15, 2015, the Group entered into IOT agreements with the People's Government of Baoding, Hebei Province (河北保定市人民政府) ("Baoding Government"), which is the contributor of First Center Hospital of Baoding City ("First Center Hospital") and Third Center Hospital of Baoding City ("Third Center Hospital"), and obtained the operating right of First Center Hospital and Third Center Hospital both with a period of 20 years from 2016 to 2035. Under the IOT agreements, the Group commits to make Repayable Investment Amounts of RMB500 million and RMB70 million separately to First Center Hospital and Third Center Hospital in 2016, which will be repaid to the Group in equal annual instalments during the tenure of the IOT arrangement. In the meantime, the Group intends to establish a special purpose charity fund of RMB20 million subject to the investment progress of Third Centre Hospital in order to support the commencement of provision of Huimin (beneficial to the people) healthcare services by Third Center Hospital. The fund has not been contributed up to the end of the reporting period.

## 8. Other Income

| | For the year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Fee income from suppliers (Note) | **48,640** | 42,066 |
| Interest and investment income on: | | |
| financial products | **33,828** | 28,935 |
| receivables from IOT Hospitals | **10,306** | 6,783 |
| bank deposits | **4,429** | 14,366 |
| Government grant | **4** | 877 |
| Others | **1,883** | 1,228 |
| | **99,090** | 94,255 |

Note: On January 10, 2012, the Group entered into a one-year supply agreement with its supplier, Hong Hui Pharmaceutical Co., Ltd. (紅惠醫藥有限公司) ("Hong Hui"), for the supply of pharmaceuticals to Jian Gong Hospital, Yan Hua Hospital and Jing Mei Hospital. The agreement was renewed annually from then on. Under the supply agreement, Hong Hui arranged itself or other suppliers to supply pharmaceuticals to Jian Gong Hospital, Yan Hua Hospital and Jing Mei Hospital through the supply chain subsidiaries of the Group or directly to these three hospitals. In consideration of granting to Hong Hui the priority to supply pharmaceuticals to these three hospitals, Hong Hui agrees to pay the Group an amount calculated based on a percentage of the total pharmaceutical purchases made by Jian Gong Hospital, Yan Hua Hospital and Jing Mei Hospital (the "Minimum Economic Benefit"). The fee income represents the difference between the amount of the Minimum Economic Benefit and the gross profit generated by the Group from the sale of pharmaceuticals to the three hospitals. The fee income was received/receivable from Hong Hui or from other suppliers as arranged by Hong Hui.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 9. Other Gains and Losses

| | For the year ended December 31, 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Gain on deemed disposal of an associate (Note 21) | **5,163** | — |
| Foreign exchange loss | **(3,397)** | (3,647) |
| (Loss)/gain on disposal of property, plant and equipment | **(216)** | 1 |
| Fair value changes of mutual funds | **(156)** | — |
| Gain on disposal of lease prepayments for land use right (Note 20(ii)) | **—** | 15,683 |
| | **1,394** | 12,037 |

## 10. Finance Costs

| | For the year ended December 31, 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Transaction cost of the syndicated loan (Note) | **27,375** | — |
| Interests on borrowings wholly repayable within five years | **—** | 944 |
| | **27,375** | 944 |

Note: On February 4, 2015, the Company as borrower entered into the syndicated loan agreement under which the Company was granted a facility in the aggregate sum of US$150 million, with a repayment term of 3 years (which is extendable for another 2 years after the initial 3-year term), the interest rate of which is determined with reference to the three-month LIBOR plus 3.15% per annum ("Syndicated Loan Agreement"). The syndicate under the Syndicated Loan Agreement is led by Deutsche Bank AG, with participation from a consortium of other banks (the "Lenders"). The facility will be guaranteed by existing offshore subsidiaries and future offshore subsidiaries of the Company and secured by first priority perfected security interests over 100% of the shares of the subsidiaries and etc. in favour of the security agent on behalf of the Lenders. Due to the instability of the foreign exchange market in 2015, the Directors decided to terminate the Syndicated Loan Agreement with the Lenders by a friendly negotiation in advance. The loan has never been drawn down. Transaction cost in relation to the syndicated loan amounting to RMB27, 375,000 has been recognised in the profit or loss for the year ended December 31, 2015(2014: Nil). As the Syndicated Loan Agreement has been terminated, the completion of the procedures for discharging the above charges and pledges is in progress.

## 11. Other Expenses

| | For the year ended December 31, 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Medical disputes expenditure | **933** | 603 |
| Donation | **2,030** | — |
| Others | **37** | 104 |
| | **3,000** | 707 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 12. Income Tax Expense

Income tax expense recognised in profit or loss:

| | For the year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Current tax: | | |
| PRC enterprise income tax ("EIT") | **74,508** | 77,496 |
| Deferred tax (Note 23) | **1,046** | (266) |
| Total income tax recognised in profit or loss | **75,554** | 77,230 |

The PRC subsidiaries of the Group are subject to EIT at 25% during both years.

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during both years.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | For the year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Profit before tax | **247,968** | 316,759 |
| Tax calculated at statutory tax rates of 25% | **61,992** | 79,190 |
| Tax effect of share of profit of an associate | **(252)** | — |
| Tax effect of share of loss of a joint venture | **702** | — |
| Tax effect of different tax rates on intra-group interest income/ interest expense | **(2,745)** | (2,280) |
| Tax effect of income not taxable for tax purpose | **(1,291)** | — |
| Tax effect of expenses not deductible for tax purposes | **10,933** | 2,118 |
| Effect of different tax rates of overseas companies | **6,215** | (1,798) |
| Income tax expense | **75,554** | 77,230 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 13. Profit for the Year

The Group's profit for the year has been arrived at after charging:

| | For the year ended December 31, 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Depreciation of property, plant and equipment | **23,873** | 21,162 |
| Amortisation of lease prepayments for land use right | **3,375** | 3,397 |
| Amortisation of intangible assets (Included in cost of sales and services) | **17,389** | 14,633 |
| Total depreciation and amortisation | **44,637** | 39,192 |
| Cost of inventories recognised as expense | **884,112** | 771,435 |
| Operating lease rentals in respect of rented premises | **4,911** | 3,440 |
| Directors' emoluments (Note 14) | **15,676** | 7,068 |
| Other staff cost | | |
| Salaries and other allowances | **149,541** | 121,528 |
| Retirement benefit contributions | **10,986** | 8,074 |
| Equity-settled share-based payment expense | **33,582** | — |
| Total staff costs | **209,785** | 136,670 |
| Auditor's remuneration | **2,500** | 2,500 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 14. Emoluments of Directors, Chief Executive and Five Highest Paid Individuals

### 14.1 Executive directors, chief executive and non-executive directors

The emoluments paid or payable to each of the twelve (2014: twelve) directors and the chief executive were as follows:

| | For the year ended December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Directors' fee RMB'000 | Salaries and allowances RMB'000 | Retirement benefit scheme contributions RMB'000 | Equity-settled share-based payment RMB'000 | Total RMB'000 |
| Executive directors: | | | | | |
| Mr. Liang Hongze (梁洪澤先生) (Note i) | — | 1,830 | 26 | 2,045 | 3,901 |
| Ms. Xu Jie (徐捷女士) | — | 1,990 | 13 | — | 2,003 |
| Mr. Xu Zechang (徐澤昌先生) | — | 809 | 26 | 2,045 | 2,880 |
| Mr. Jiang Tianfan (江天帆先生) | — | 630 | 26 | 2,045 | 2,701 |
| Mr. Zhang Xiaodan (張曉丹先生) | — | 1,000 | 26 | 2,045 | 3,071 |
| Non-executive directors: | | | | | |
| Mr. Yang Huisheng (楊輝生先生) | — | — | — | — | — |
| Mr. Rui Wei (芮偉先生) | — | — | — | — | — |
| Independent non-executive directors: | | | | | |
| Mr. Kwok Kong Kwong (鄺國光先生) | 400 | — | — | — | 400 |
| Ms. Cheng Hong (程紅女士) | 240 | — | — | — | 240 |
| Mr. Wang Bing (王冰先生) (Note ii) | 154 | — | — | — | 154 |
| Mr. Lee Kar Chung (李家聰先生) (Note ii) | 86 | — | — | — | 86 |
| Mr. Sun Jianhua (孫建華先生) | 240 | — | — | — | 240 |
| | 1,120 | 6,259 | 117 | 8,180 | 15,676 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 14. Emoluments of Directors, Chief Executive and Five Highest Paid Individuals (Continued)

### 14.1 Executive directors, chief executive and non-executive directors (Continued)

| | For the year ended December 31, 2014 | | | |
|---|---|---|---|---|
| | Directors' fee RMB'000 | Salaries and allowances RMB'000 | Retirement benefit scheme contributions RMB'000 | Total RMB'000 |
| Executive directors: | | | | |
| Mr. Liang Hongze (梁洪澤先生) | — | 1,463 | 20 | 1,483 |
| Ms. Xu Jie (徐捷女士) | — | 1,811 | 20 | 1,831 |
| Mr. Zhang Liang (張亮先生) (Note iv) | — | 775 | 12 | 787 |
| Mr. Xu Zechang (徐澤昌先生) | — | 541 | 20 | 561 |
| Mr. Jiang Tianfan (江天帆先生) | — | 623 | 20 | 643 |
| Mr. Zhang Xiaodan (張曉丹先生) (Note iv) | — | 623 | 20 | 643 |
| Non-executive directors: | | | | |
| Mr. Yang Huisheng (楊輝生先生) | — | — | — | — |
| Mr. Zhu Zhongyuan (朱忠遠先生) (Note iii) | — | — | — | — |
| Mr. Rui Wei (芮偉先生) (Note iii) | — | — | — | — |
| Independent non-executive directors: | | | | |
| Mr. Kwok Kong Kwong (鄺國光先生) | 400 | — | — | 400 |
| Ms. Cheng Hong (程紅女士) | 240 | — | — | 240 |
| Mr. Wang Bing (王冰先生) | 240 | — | — | 240 |
| Mr. Sun Jianhua (孫建華先生) | 240 | — | — | 240 |
| | 1,120 | 5,836 | 112 | 7,068 |

Notes:

(i) Mr. Liang Hongze is also the chief executive of the Group and his emoluments disclosed above include those for services rendered by him as the chief executive.

(ii) On August 21, 2015, Mr. Wang Bing resigned as an independent non-executive director of the company and Mr. Lee Kar Chung was appointed as an independent non-executive director of the Company.

(iii) On July 3, 2014, Mr. Zhu Zhongyuan resigned as a non-executive director of the Company and Mr. Rui Wei was appointed as a non-executive director of the Company.

(iv) On September 18, 2014, Mr. Zhang Liang resigned as the director of the Company and Mr. Zhang Xiaodan was appointed as the director of the Company. The emoluments disclosed above include the emoluments paid/payable to respective individual by the Group prior to their appointment.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 14. Emoluments of Directors, Chief Executive and Five Highest Paid Individuals (Continued)

### 14.1 Executive directors, chief executive and non-executive directors (Continued)

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

During both years, no directors waived or agreed to waive any emoluments, and no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

**14.2** Of the five individuals with the highest emoluments in the Group, five (2014: three) were directors of the Company for the year ended December 31, 2015 whose emoluments are included in the disclosures above. The emoluments of the remaining two individuals for the year ended December 31, 2014 were as follows:

| | For the year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Salaries and allowance | — | 2,323 |
| Contributions to retirement benefits schemes | — | 33 |
| | — | 2,356 |

Their emoluments were within the following bands:

| | For the year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **No. of employees** | No. of employees |
| HK$nil to HK$1,000,000 | — | 1 |
| HK$2,000,001 to HK$2,500,000 | — | 1 |
| | — | 2 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 15. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Group is based on the following data:

| | For the year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| **Earnings** | | |
| Profit for the purpose of basic and diluted earnings per share for the year attributable to equity holders of the Company | **167,045** | 230,051 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands) | **818,737** | 830,870 |
| Effect of dilutive potential ordinary shares: | | |
| Non-vested shares under Share Award Scheme (in thousands) | **609** | N/A |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands) | **819,346** | N/A |

The weighted average number of shares used for the purpose of calculating the basic earnings per share for the year ended December 31, 2015 and 2014 has been arrived at after adjusting the effect of shares repurchased and held by the Company's Share Award Scheme.

No diluted earnings per share is presented for the year ended December 31, 2014 as the Company does not have any potential ordinary shares outstanding during that year.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 16. Dividends

| | For the year ended December 31, 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Dividends recognised as distributions during the year: | | |
| 2014 Final — HK$5 cents per share (2013: HK$6.7 cents per share) (Note i) | 32,506 | 44,455 |
| 2015 special dividend (Note ii) | 82,573 | — |
| | 115,079 | 44,455 |

Notes:

(i) On May 13, 2015, the Board resolved that the proposed final dividend for the year ended December 31, 2014 was revised to HK$0.05 per ordinary share of the Company with total dividends of approximately RMB32,904,000, instead of HK$0.17 per ordinary share to the shareholders whose names appear on the register of members of the Company on June 12, 2015. This proposed resolution was duly passed by the shareholders of the Company by way of poll at the annual general meeting of the Company held on June 4, 2015. The Trustee hold the dividends of the treasury share of approximately RMB398,000.

(ii) On December 17, 2015, the Company declared the Special Dividend of HK$0.12 per share with total dividends of approximately HK$100,051,560 (equivalent to approximately RMB82,573,000) to shareholders whose names appear on the register of members of the Company at the close of business on January 8, 2016. The special dividend was paid on January 8, 2016.

(iii) Subsequent to the end of the reporting period, final dividend of HK$0.119 per share in respect of the year ended December 31, 2015 was proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 17. Property, Plant and Equipment

| | Buildings RMB'000 | Leasehold improvement RMB'000 | Medical equipment RMB'000 | Motor vehicles RMB'000 | Office equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| At January 1, 2014 | 70,319 | 38,401 | 84,912 | 2,567 | 8,330 | 563 | 205,092 |
| Additions | — | 1,513 | 20,253 | 527 | 3,141 | 10,808 | 36,242 |
| Transfer | — | 356 | — | — | — | (356) | — |
| Disposals/write-off | (487) | — | (17,074) | (1) | (267) | — | (17,829) |
| At December 31, 2014 | 69,832 | 40,270 | 88,091 | 3,093 | 11,204 | 11,015 | 223,505 |
| Additions | — | 987 | 19,690 | 587 | 3,233 | 6,560 | 31,057 |
| Transfer | — | 31 | 1,303 | — | — | (1,334) | — |
| Disposals/write-off | — | — | (461) | — | (247) | — | (708) |
| At December 31, 2015 | 69,832 | 41,288 | 108,623 | 3,680 | 14,190 | 16,241 | 253,854 |
| **ACCUMULATED DEPRECIATION** | | | | | | | |
| At January 1, 2014 | 36,017 | 11,439 | 29,257 | 1,072 | 4,058 | — | 81,843 |
| Charge for the year | 3,822 | 4,211 | 11,048 | 425 | 1,656 | — | 21,162 |
| Eliminated on disposals/write-off | (462) | — | (17,071) | (1) | (258) | — | (17,792) |
| At December 31, 2014 | 39,377 | 15,650 | 23,234 | 1,496 | 5,456 | — | 85,213 |
| Charge for the year | 3,756 | 4,963 | 12,628 | 413 | 2,113 | — | 23,873 |
| Eliminated on disposals/write-off | — | — | (226) | — | (229) | — | (455) |
| At December 31, 2015 | 43,133 | 20,613 | 35,636 | 1,909 | 7,340 | — | 108,631 |
| **CARRYING AMOUNT** | | | | | | | |
| At December 31, 2014 | 30,455 | 24,620 | 64,857 | 1,597 | 5,748 | 11,015 | 138,292 |
| At December 31, 2015 | 26,699 | 20,675 | 72,987 | 1,771 | 6,850 | 16,241 | 145,223 |

The above items of property, plant and equipment other than construction in progress are depreciated over their useful lives, after taking into account the estimated residual value, on a straight-line basis:

| | |
|---|---|
| Buildings | 20 years |
| Leasehold improvement | 5–10 years |
| Medical equipment | 5–8 years |
| Motor vehicles | 5 years |
| Office equipment | 3–5 years |

As at December 31, 2015, the carrying amounts of buildings without ownership certificates were approximately RMB9,545,000 (2014: RMB10,926,000).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 18. Intangible Assets

The intangible assets of the Group represent operating rights under IOT agreements. The intangible assets have finite useful lives, and are amortised on a straight-line basis over the operating period set out in the IOT agreements which ranged from 16 to 48 years. Details of the operating rights are disclosed in Note 7.

| | For the year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Cost: | | |
| At beginning of the year | **408,702** | 351,288 |
| Additions: | | |
| Fair value adjustments (Note) | **61,928** | 57,414 |
| At the end of the year | **470,630** | 408,702 |
| Accumulated amortisation: | | |
| At beginning of the year | **(48,672)** | (34,039) |
| Charge for the year | **(17,389)** | (14,633) |
| At the end of the year | **(66,061)** | (48,672) |
| Carrying amount at the end of the year | **404,569** | 360,030 |

Note: Since the commitments to provide Repayable Investment Amounts are part of the respective IOT arrangements which the Group have been granted the operating rights of the IOT Hospitals in return, the fair value adjustments are accounted for as part of the IOT operating rights to the extent the additional investments relate to upgrading the relevant IOT Hospitals, rather than restoring to a specified level of serviceability and subject to amortisation charges (included in cost of sales and services in the consolidated statement of profit or loss and other comprehensive income) over the operating period of the respective IOT arrangements.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 19. Receivables from IOT Hospitals

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Receivables from the IOT Hospitals: | | |
| At beginning of the year | **77,830** | 57,757 |
| Payments to IOT Hospitals under IOT agreements | **38,072** | 20,586 |
| Repayment from IOT Hospitals | **(9,808)** | (7,296) |
| Interest and investment income | **10,306** | 6,783 |
| At the end of the year | **116,400** | 77,830 |
| Less: current portion included in prepayments and other receivables (Note 26) | **(13,341)** | (8,836) |
| At the end of the year | **103,059** | 68,994 |

Pursuant to the IOT agreements and arrangements as disclosed in Note 7, the Group made the Repayable Investment Amounts to the IOT Hospitals in return for the operating rights of the IOT Hospitals over a tenure ranging from 16 to 48 years. These Repayable Investment Amounts are interest free and will be repaid to the Group in equal annual instalments during the tenure of the IOT arrangements. The carrying amount of these interest free Repayable Investment Amounts made by the Group to IOT Hospitals that will be repaid back to the Group is recorded as Receivables from IOT Hospitals and was measured at fair value upon initial recognition and subsequently carried at amortised cost using the effective interest method at an average effective interest rate of approximately 11% per annum over the tenure of the respective IOT arrangements.

Details of Repayable Investment Amounts made to each of the IOT Hospitals are set out in Note 7.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 20. Lease Prepayments for Land Use Right

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Cost: | | |
| At beginning of the year | **166,219** | 170,552 |
| Disposals (Note ii) | **—** | (4,333) |
| At the end of the year | **166,219** | 166,219 |
| Accumulated amortisation: | | |
| At beginning of the year | **(12,374)** | (9,234) |
| Charge for the year | **(3,375)** | (3,397) |
| Disposals | **—** | 257 |
| At the end of the year | **(15,749)** | (12,374) |
| Carrying amount at the end of the year | **150,470** | 153,845 |

Analyse for reporting purpose as:

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Current portion included in prepayments and other receivables (Note 26) | **3,375** | 3,397 |
| Non-current portion | **147,095** | 150,448 |
| | **150,470** | 153,845 |

Notes:

(i) In May 2011, the land use right was contributed by a non-controlling shareholder of Jian Gong Hospital, Beijing Construction Engineering Group, as a non-cash capital injection and was amortised over the remaining lease term of 49.3 years. The amount of the land use right of RMB170,552,000 is determined as the appraised value by a Chinese Certified Public Valuer, Beijing Tengqi Certified Public Valuators Co., Ltd (北京騰騏資產評估有限公司), located at 81 Zizhuyuan Road, Haidian District, Beijing, PRC, with the valuation report "Jing Teng Ping Bao Zi (京騰評報字) (2010) No. 020".

(ii) On March 10, 2014, Jian Gong Hospital, a non-wholly owned subsidiary of the Company, entered into the Compensation Agreement (the "Agreement") with Xicheng District government of Beijing (北京市西城區政府). Pursuant to the Agreement, Jian Gong Hospital has received an aggregate amount of RMB19,759,000 from Xicheng District government as compensation for the leasehold land adjacent to the hospital. The disposal has resulted in the recognition of a gain amount to RMB15,683,000 in profit and loss.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 21. Interest in an Associate

| | As at December 31, 2015 RMB'000 |
|---|---|
| Cost of investment in an associate | 141,985 |
| Share of post-acquisition profit and other comprehensive income | 1,008 |
| Gain on deemed disposal of an associate | 5,163 |
| Exchange adjustment | 6,839 |
| | 154,995 |
| Fair value of the listed investment | 149,850 |

Interest in an associate as at December 31, 2015 includes goodwill of RMB 88,258,000.

Details of the Group's associate at the end of the reporting period are as follow:

| Name of entity | Country of incorporation | Principal place of business | Proportion of ownership interest held by the Group | | Proportion of voting rights held by the Group | | Principal activity |
|---|---|---|---|---|---|---|---|
| | | | 2015 | 2014 | 2015 | 2014 | |
| UMP Healthcare Holdings Limited ("UMP") | Cayman Islands | Hong Kong | 15% | N/A | 15% | N/A | Provide healthcare solutions and service |

On July 13, 2015, Pinyu Limited ("Pinyu"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with True Point Holdings Limited (the "True Point") to acquire shares representing 20% of the then total issued shares of UMP for a total consideration of HK$180,000,000. The consideration for the share purchase was determined based on arm's length negotiations with regard to the UMP's financial conditions and results of operations.

On November 27, 2015, UMP completed its global offering and was listed on the Main Board of the Stock Exchange by issuing 184,000,000 ordinary shares of HK$0.001 each. After completion the global offering, the equity interest in UMP of Pinyu decreased to 15%.

The Directors consider the Group has been able to participate in the financial and operating policy decisions of UMP through the Group's voting power and a board representative nominated by the Group.

The financial year end date for UMP is June 30. For the purpose of applying the equity method of accounting, the Group used the interim financial statements of UMP for the six months ended December 31, 2015.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 21. Interest in an Associate (Continued)

### Summarised financial information of associate

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

**UMP**

| | As at December 31, 2015 RMB'000 |
|---|---|
| Current assets | 381,046 |
| Non-current assets | 173,270 |
| Current liabilities | (90,100) |
| Non-current liabilities | (10,465) |

| | Period from July 16, 2015 (date of acquisition) to December 31, 2015 RMB'000 |
|---|---|
| Revenue | 176,598 |
| Profit for the period | 5,158 |
| Other comprehensive income for the period | (281) |
| Profit and total comprehensive income for the period | 4,877 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 21. Interest in an Associate (Continued)

### Summarised financial information of associate (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in UMP recognised in the consolidated financial statements:

| | As at December 31, 2015 RMB'000 |
|---|---|
| Net assets of UMP | 453,751 |
| Proportion of the Group's ownership interest in UMP | 15% |
| Goodwill | 88,258 |
| Unrecognised share of other changes in equity outside of comprehensive income | (1,326) |
| Carrying amount of the Group's interest in UMP | 154,995 |

## 22. Interest in a Joint Venture/Loan to a Joint Venture

Details of the Group's investment in a joint venture/loan to a joint venture are as follows:

| | As at December 31, 2015 RMB'000 |
|---|---|
| Cost of investment in a joint venture | — |
| Loan to a joint venture | 9,250 |
| Less: | |
| Share of post-acquisition loss that is in excess of the cost of the investment | (2,889) |
| | 6,361 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 22. Interest in a Joint Venture/Loan to a Joint Venture (Continued)

Details of the Group's joint venture at the end of the reporting period are as follow:

| Name of entity | Country of incorporation/ registration | Proportion of ownership interest held by the Group | | Proportion of voting rights held by the Group | | Principal activity |
|---|---|---|---|---|---|---|
| | | **2015** | 2014 | **2015** | 2014 | |
| UMP Phoenix Healthcare Limited ("UMP Phoenix") | BVI | **50%** | N/A | **50%** | N/A | Provide healthcare solutions and service |

Pursuant to the joint venture shareholders' agreement (the "JV Shareholders' Agreement") on July 16, 2015, UMP Phoenix issued 1,000 number of shares to Pinyu and UMP Healthcare China Limited (the "UMP China") at nominal value USD 0.01 each, respectively. Upon completion of the issuance of shares, Pinyu held its 50% ownership interest in UMP Phoenix. According to the JV Shareholders' Agreement, UMP Phoenix's total capital commitment is of RMB100 million, with Pinyu and UMP China contributing RMB50 million each, in the form of interest-free shareholders loan. In addition, each of Pinyu and UMP China has the right to appoint up to three directors to the board of UMP Phoenix.

On October 14, 2015, Pinyu injected RMB9, 250,000 into UMP Phoenix as the first instalment of the shareholders loan.

### Summarised financial information of joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

**UMP Phoenix**

| | As at December 31, 2015 RMB'000 |
|---|---|
| Current assets | **20,611** |
| Non-current assets | **148** |
| Current liabilities | **(26,537)** |
| The above amounts of assets and liabilities include the following: | |
| Cash and cash equivalents | **11,750** |
| Current financial liabilities(excluding trade and other payables and provisions) | **(26,518)** |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 22. Interest in a Joint Venture/Loan to a Joint Venture (Continued)

### Summarised financial information of joint venture (Continued)

| | Period from July 16, 2015 (date of establishment) to December 31, 2015 RMB'000 |
|---|---|
| Revenue | — |
| Loss for the period | (5,618) |
| Other comprehensive expense for the period | (160) |
| Loss and total comprehensive expense for the period | (5,778) |
| The above loss for the period includes the following: | |
| Depreciation and amortization | 4 |
| Interest income | 3 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in UMP Phoenix recognised in the consolidated financial statements:

| | As at December 31, 2015 RMB'000 |
|---|---|
| Net assets of UMP Phoenix | (5,778) |
| Proportion of the Group's ownership interest in UMP Phoenix | 50% |
| Share of post-acquisition loss of UMP Phoenix that is in excess of the cost of the investment | (2,889) |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 23. Deferred Tax Assets

The movement of the Group's deferred tax assets during the year is as follows:

| | **Accrued expenses** RMB'000 |
|---|---|
| At January 1, 2014 | 1,080 |
| Credit to profit or loss | 266 |
| At December 31, 2014 | 1,346 |
| Charge to profit or loss | (1,046) |
| At December 31, 2015 | 300 |

Under the PRC EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profit of the PRC subsidiaries amounting to RMB648,952,000 as at December 31, 2015 (2014: RMB481,972,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 24. Inventories

| | **As at December 31,** | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Pharmaceuticals | **32,962** | 27,001 |
| Medical devices and medical consumables | **9,360** | 6,831 |
| | **42,322** | 33,832 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 25. Trade Receivables

The following is an aged analysis of trade receivables presented based on the revenue recognition date:

| | As at December 31, 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| 0 to 60 days | **118,555** | 85,715 |
| 61 to 180 days | **6,396** | 4,026 |
| 181 to 365 days | **12,669** | 3,994 |
| | **137,620** | 93,735 |

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of each reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

### Ageing of trade receivables that are past due but not impaired

| | As at December 31, 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Overdue by: | | |
| 61 to 90 days | **—** | 3,994 |
| 91 to 180 days | **12,669** | — |
| Total | **12,669** | 3,994 |

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date that credit were initially granted up to the end of each reporting period. The Group's exposure to the concentration of credit risk is disclosed in Note 40.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 26. Prepayments and Other Receivables

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Current portion of receivables from IOT Hospitals | **13,341** | 8,836 |
| Prepaid value-added tax | **11,231** | 7,485 |
| Prepayment to suppliers | **5,077** | — |
| Prepayment of share-based payment (Note) | **3,628** | — |
| Current portion of lease prepayment for land use right | **3,375** | 3,397 |
| Prepaid rental | **953** | 897 |
| Fee income receivables | **2,316** | — |
| Others | **2,966** | 3,913 |
| | **42,887** | 24,528 |

Note: The prepayment of share-based payment represents the excess between the fair value of the award shares at the grant date and the grant price paid by the Selected Participants (defined in Note 32). The shares are vested immediately as the relevant employees bear the risks and rewards of the shares upon acceptance of the grant and payment of the grant price, and are obliged to refund in cash if the relevant employees terminate the services before the end of the stipulated service periods. This amount is expensed on a straight-line basis over the periods in which services are expected to be rendered by the relevant employees.

## 27. SHORT-TERM INVESTMENTS

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Mutual funds (Note i) | **45,000** | — |
| Financial products (Note ii) | **29,990** | 77,300 |
| | **74,990** | 77,300 |

Notes:

(i) The mutual funds were operated by a financial institution as an investment portfolio of identified financial instruments. The mutual funds were non-principal protected with variable returns, which have been classified as financial assets at FVTPL, and can be redeemed by the Group any time at its discretion. The fair values of the mutual funds were determined based on the executable redemption prices provided by the issuing financial institution.

(ii) The financial products were operated by banks, with expected annual return ranging from 3.35% to 4.41% per annum which have been designated at FVTPL. The maturity of the financial products is in January 2016.

There were no significant changes in the counterparties' credit risk and therefore there were no significant gains or losses attributed to changes in credit risk for these financial assets at FVTPL during both years.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 28. Certificate of Deposit and Cash and Cash Equivalents

| | As at December 31, 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Bank balance and cash (classified as cash and cash equivalents) | **821,864** | 611,536 |
| Certificate of deposit | **116,684** | 384,027 |
| | **938,548** | 995,563 |

| | As at December 31, 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Cash and cash equivalents and certificate of deposit denominated in: | | |
| — RMB | **847,643** | 968,445 |
| — USD | **3,396** | 962 |
| — HKD | **87,509** | 26,156 |
| | **938,548** | 995,563 |

Bank balances carried interest at market rates which range from 0.01% to 1.30% per annum over both years. As at the December 31, 2015, the Group had the certificate of deposit of RMB116,684,000 (2014: RMB384,027,000) with interest rate ranging from 3.55% to 4.9% (2014: from 1.35% to 4.5%) per annum, which will mature on February 4, 2016.

## 29. Trade Payables

Trade payables are non-interest bearing and are normally granted on a credit term of 0 to 90 days. An aged analysis of the Group's trade payables, as at the end of the year, based on the date of delivering of goods, is as follows:

| | As at December 31, 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Within 60 days | **189,768** | 149,916 |
| 61–180 days | **18,221** | 21,039 |
| >180 days | **1,554** | 919 |
| | **209,543** | 171,874 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 30. Other Payables

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Staff cost payables | **23,152** | 17,063 |
| Other PRC tax payable | **13,769** | 11,313 |
| Deposits from suppliers | **11,860** | 9,650 |
| Payable for acquisition of the non-controlling interests (Note) | **—** | 7,115 |
| Deposits from patients | **4,135** | 5,053 |
| Retirement benefit obligations (Note 31.2) | **1,706** | 2,622 |
| Payable for purchase of property, plant and equipment | **597** | 1,709 |
| Others | **4,348** | 4,081 |
| | **59,567** | 58,606 |

Note: The amount represents the payable due to the non-controlling shareholder for the acquisition of the non-controlling interests on June 27, 2012. The amount was paid on May 19, 2015.

## 31. Retirement Benefit Obligations

### 31.1 Defined contribution plans

The PRC employees of the Group are members of a state-managed retirement benefit plan operated by the government of the PRC. The PRC subsidiaries of the Company are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the employee benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The retirement benefit cost charged to profit or loss for the year ended December 31, 2015 amounts to RMB11,103,000 (2014: RMB8,186,000).

### 31.2 Defined benefit plans

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Total estimated benefit payable to retired staffs | **4,630** | 5,849 |
| Less: Amounts due within 12 months included in other payable (Note 30) | **(1,706)** | (2,622) |
| Amounts due after 12 months | **2,924** | 3,227 |

Pursuant to the agreement with Beijing Construction Engineering Group upon the reform of Jian Gong Hospital in 2003, the Group operated a defined benefit plan for 35 retirees. Under the plan, the retirees are entitled to a certain medical insurance and funeral compensation until death.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 31. Retirement Benefit Obligations (Continued)

### 31.2 Defined benefit plans (Continued)

The plan exposes the Group to longevity risk. The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability.

The principal assumption used for the purposes of valuation was as follows:

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Discount rate | **3.85%** | 3.85% |
| Expected rate of the average per capital disposable income growth | **4.50%** | 4.50% |
| Average longevity at retirement age for current pensioners | **89** | 88 |

Movement in the present value of the defined benefit obligation during the both years were as follows:

| | For the year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| At beginning of the year | **5,849** | 7,886 |
| Benefit paid | **(1,219)** | (2,037) |
| At the end of the year | **4,630** | 5,849 |

Significant assumptions for the determination of the defined benefit obligation are discount rate, expected average per capital disposable income and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of each reporting period, while holding all other assumptions constant.

If the discount rate is higher (lower) by 1%, the defined benefit obligation would decrease (increase) by RMB304,000 (RMB324,000) for the ended December 31, 2015 (2014: RMB556,000 (RMB602,000)).

If the expected average per capital disposable income growth increase (decrease) by 1%, the defined benefit obligation would increase (decrease) by RMB314,000 (RMB300,000) for the year ended December 31, 2015 (2014: RMB290,000 (RMB276,000)).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 31. Retirement Benefit Obligations (Continued)

### 31.2 Defined benefit plans (Continued)

If the average longevity at retirement age for current pensioners increases (decreases) by one year for retirees, the defined benefit obligation would increase (decrease) by RMB659,000 (RMB1,336,000) for the years ended December 31, 2015 (2014: RMB1,543,000 (RMB1,486,000)).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

As at December 31, 2015, the Group expected to make payment of RMB1,706,000 under the defined benefit plan in the next twelve months from the end of each reporting period (2014: RMB2,622,000).

## 32. Share-Based Payment Transactions

### Share award scheme

On July 7, 2014, the Company adopted a share award incentive scheme (the "Scheme") as a means to recognise the contribution of and provide incentives for the key management personnel including directors, senior management, employed experts and core employees of the Group (the "Selected Participants"). The Scheme shall be valid and effective for a period of 10 years commencing on the adoption date. The shares to be awarded under the Scheme will be acquired by the Company through the trustee from the open market out of cash contributed by the Group (the "Award Shares") and be held in trustee for the Selected Participants until such shares are vested in accordance with the provisions of the Scheme.

From September to December in 2014, the Company paid incurred an amount of HK$221,856,000 (equivalent to approximately RMB175,684,000) to repurchase the Company's existing shares of 16,044,500 from the market pursuant to the Scheme. As at December 31, 2014, all the shares were held by the trustee and the potential participants have not yet been selected by the Board of Directors.

In January 2015, 2,144,000 existing shares of the Company was repurchased from the market at a total consideration of HK$30,218,000 (equivalent to approximately RMB23,892,000).

On May 25, 2015, the Board of Directors granted an aggregate of 8,690,200 Award Shares to 63 Selected Participants who are managerial personnel under the Scheme, of which (i) 440,000 Award Shares were granted to 4 directors without initial grant price; (ii) 4,639,200 Award Shares were granted to 59 Selected Participants, who are the senior management, employed experts and core employees of the Group without initial grant price; and (iii) 3,611,000 Award Shares were granted to 44 Selected Participants (all of whom overlap with those Selected Participants mentioned in (ii)) with the initial grant price of HK$12.68 per share. According to the Scheme, included in the Award Shares granted, 1,320,200 shares without initial grant price were vested immediately, 3,611,000 shares with initial grant price were vested immediately subject to the employee to remain in service during the next 3 years (Note 26), 3,759,000 shares shall be vested in three tranches on the dates when certain performance conditions are met and the Selected Participants remain in service during the next 3 years.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 32. Share-Based Payment Transactions (Continued)

### Share award scheme (Continued)

On December 22, 2015, the Board of Directors granted an aggregate of 2,385,000 Award Shares to 65 Selected Participants who are managerial personnel under the Scheme, of which (i) 400,000 Award Shares were granted to 4 directors without initial grant price; (ii) 1,273,000 Award Shares were granted to 61 Selected Participants, who are the senior management, employed experts and core employees of the Group without initial grant price; and (iii) 712,000 Award Shares were granted to 29 Selected Participants (some of whom overlap with those Selected Participants mentioned in (ii) above) with the initial grant price of HK$9.21 per share. According to the Scheme, included in the Award Shares granted, 1,837,000 shares were vested immediately, 548,000 shares shall be vested in three tranches on the dates when certain performance conditions are met and the Selected Participants remain in service during the next 3 years.

The Award Shares carry rights to dividends.

The following table discloses the movement of the Company's Award Shares granted to the Selected Participants for the year ended December 31, 2015 and outstanding at December 31, 2015:

| | Number of Awarded Shares | | | | | | |
|---|---|---|---|---|---|---|---|
| Category of participant | Outstanding at 2015.1.1 | Granted during the year | Vested during the year | Outstanding at 2015.12.31 | Share price at grant date HK$ | Grant price HK$ | Grant date |
| Directors | — | 440,000 | (440,000) | — | 14.92 | — | 25/05/2015 |
| Directors | — | 400,000 | (400,000) | — | 8.98 | — | 22/12/2015 |
| Sub-total | — | 840,000 | (840,000) | — | | | |
| Employees | — | 880,200 | (880,200) | — | 14.92 | — | 25/05/2015 |
| Employees | — | 3,611,000 | (3,611,000) | — | 14.92 | 12.68 | 25/05/2015 |
| Employees | — | 3,759,000 | — | 3,759,000 | 14.92 | — | 25/05/2015 |
| Employees | — | 725,000 | (725,000) | — | 8.98 | — | 22/12/2015 |
| Employees | — | 712,000 | (712,000) | — | 8.98 | 9.21 | 22/12/2015 |
| Employees | — | 548,000 | — | 548,000 | 8.98 | — | 22/12/2015 |
| Sub-total | — | 10,235,200 | (5,928,200) | 4,307,000 | | | |
| Total | — | 11,075,200 | (6,768,200) | 4,307,000 | | | |

The fair value with total amount of RMB77,974,000 of the Award Shares is determined based on the market price of the shares of the Company at the date of grant, without taking into account any service and non-market performance vesting conditions.

The Group recognised the total expense of RMB41,762,000 for the year ended December 31, 2015 in relation to the Scheme.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 33. Non-Wholly Owned Subsidiary

Summarised financial information in respect of the Group's non-wholly owned subsidiary, Jian Gong Hospital that has material non-controlling interests is set out below. The non-controlling interests owned 20% of ownership and voting right in Jian Gong Hospital as at December 31, 2015 and 2014. The summarised financial information below represents amount before intragroup eliminations.

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Current assets | **403,009** | 363,989 |
| Non-current assets | **287,194** | 286,533 |
| Current liabilities | **(113,015)** | (106,637) |
| Non-current liabilities | **(2,924)** | (3,227) |
| Total equity | **574,264** | 540,658 |
| Non-controlling interests | **114,854** | 108,132 |

| | For the year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Revenue | **581,542** | 560,059 |
| Expenses | **(554,692)** | (512,671) |
| Profit and total comprehensive income for the year | **26,850** | 47,388 |
| Profit and total comprehensive income attributable to non-controlling interests | **5,369** | 9,478 |
| Net cash generated from operating activities | **43,956** | 93,046 |
| Net cash used in investing activities | **(33,488)** | (32,372) |
| Net cash inflow | **10,468** | 60,674 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 34. Capital

| Ordinary shares of HK$ 0.00025 each | Number of shares | Share capital HK$'000 | Share capital RMB'000 |
|---|---|---|---|
| **Authorised** | | | |
| At January 1, 2014 and December 31, 2014 and 2015 | 1,520,000,000 | 380 | 302 |
| **Issued and fully paid** | | | |
| At January 1, 2014 and December 31, 2014 and 2015 | 833,763,000 | 209 | 166 |

Note:

(i) During the year ended December 31, 2015 and 2014, the Group repurchased its own shares on the Stock Exchange as follows:

| Month of repurchase | No. of ordinary shares | Price per share | | Aggregate consideration paid |
|---|---|---|---|---|
| | | Highest | Lowest | |
| | | HK$ | HK$ | HK$'000 |
| January 2015 | 2,144,000 | 14.28 | 13.91 | 30,218 |
| September 2014 | 3,102,500 | 13.21 | 12.62 | 39,999 |
| October 2014 | 6,583,000 | 13.29 | 12.74 | 85,896 |
| November 2014 | 2,159,000 | 15.65 | 15.08 | 32,965 |
| December 2014 | 4,200,000 | 15.10 | 14.89 | 62,996 |

The shares repurchased were held by the Trustee pursuant to the Company's Share Award Scheme as detailed in Note 32.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 35. Operating Leases

### The Group as lessee

| | As at December 31, 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Minimum lease payments under operating leases | | |
| Within one year | **2,748** | 3,238 |
| In the second to the third year inclusive | **718** | 2,026 |
| | **3,466** | 5,264 |

Operating lease payments represent rentals payable by the Group for the office premises leased. These leases were negotiated for lease terms of one to three years at fixed monthly rental.

## 36. Capital and Other Commitments

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

| | As at December 31, 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Capital expenditure | | |
| In respect of acquisition of property, plant and equipment | **10,626** | 7,881 |
| Other commitment | | |
| In respect of Repayable Investment amounts to IOT hospitals under IOT agreement (Note 7) | **570,000** | — |

## 37. Contingent Liabilities

The Group is involved as defendants in certain medical disputes arising from its normal business operations. Management of the Group believes, based on legal advice and considering the insurance coverage, the final result of these lawsuits will not have a material impact on the financial position or operations of the Group and accordingly, no provision is made in this regard.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 38. Related Party Transactions

### 38.1 Names and relationships

Names and relationships with related parties are as follows:

| Name | Relationship |
|---|---|
| Yan Hua Hospital | Entity controlled by close family members of the ultimate beneficial shareholder with significant influence over the Company |
| UMP Phoenix | A joint venture |
| UMP | An associate |

### 38.2 Related party balances

At the end of each reporting period, other than the transactions with Yan Hua Hospital and receivables from Yan Hua Hospital under the IOT arrangements set out in Note 7, the Group had the following balances with related parties:

#### Amounts due from a related party

| Trade in nature | As at December 31, 2015 RMB'000 | As at December 31, 2014 RMB'000 |
|---|---|---|
| Yan Hua Hospital | 57,500 | 67,838 |

The following is an aged analysis of amount due from a related party which is trade in nature based on the invoice date at the end of each reporting period:

| | As at December 31, 2015 RMB'000 | As at December 31, 2014 RMB'000 |
|---|---|---|
| Within 60 days | 38,579 | 60,771 |
| 61–180 days | 18,921 | 7,067 |
| | 57,500 | 67,838 |

The above receivables from the related company are denominated in RMB, unsecured, interest-free and recoverable within one year. As at December 31, 2015 and 2014, the Group did not have amount due from a related party which was past due.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 38. Related Party Transactions (Continued)

### 38.3 Related party transactions

During each reporting period, other than the trade-in-nature transactions with Yan Hua Hospital under the IOT arrangements set out in Note 7 and the loan to UMP Phoenix set out in Note 22, the Group had the following significant transactions with related parties:

| | For the year ended December 31, | |
|---|---|---|
| **Non-trade in nature** | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Yan Hua Hospital | **10,000** | — |

In January 2015, the Group made a prepayment to Yanhua Hospital for the establishment of the advanced clinical testing and laboratory center project. The establishment was suspended due to the management reassessment to the project and the prepayment was refunded to the Group in April 2015.

### 38.4 Compensation of key management personnel

The emoluments of key management during the year is as follows:

| | For the year ended December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Short-term employees benefits | **8,987** | 9,279 |
| Equity-settled share-based payment expense | **8,180** | — |
| Post-employment benefits | **131** | 145 |
| | **17,298** | 9,424 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 39. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, while to maximise the return to the equity holders of the Company through optimisation of debt and equity balances. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of net of cash and bank balances and equity attributable to equity holders of the Company, comprising capital and reserves.

The management reviews the capital structure on a quarterly basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on the recommendation of management, the Group will balance its overall capital structure through issue of new shares, issue of new debts as well as the repayment of existing debts.

## 40. Financial Instruments and Financial Risk Management

### Categories of financial instruments

| | As at December 31, | |
|---|---|---|
| | **2015** | 2014 |
| | **RMB'000** | RMB'000 |
| Financial assets: | | |
| Loans and receivables (including cash and cash equivalents and certificate of deposit) | **1,255,350** | 1,238,879 |
| Financial assets at FVTPL | **74,990** | 77,300 |
| | **1,330,340** | 1,316,179 |
| Financial liabilities: | | |
| Amortised cost | **218,623** | 199,482 |

### Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, amounts due from a related party, other receivables, certificate of deposit, cash and cash equivalents, receivables from IOT Hospitals, short-term investments, trade payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 40. Financial Instruments and Financial Risk Management (Continued)

### Financial risk management objectives and policies (Continued)

#### Currency risk

The Group undertakes certain financing and operating transactions in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities during both years are as follows:

| | Liabilities As at December 31, | | Assets As at December 31, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| US dollar | **—** | — | **3,396** | 962 |
| HK dollar | **—** | — | **87,509** | 26,156 |

#### Currency sensitivity analysis

The Group is mainly exposed to the risk of fluctuations in the HK dollar and US dollar against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against HK dollar and US dollar. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to RMB at year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB weakens 5% against the relevant currency. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

| | HK dollar As at December 31, | | US dollar As at December 31, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Profit or loss | **4,375** | 1,308 | **170** | 48 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 40. Financial Instruments and Financial Risk Management (Continued)

### Financial risk management objectives and policies (Continued)

#### Interest rate risk

The Group is exposed to fair value interest rate risk in relation to receivables from IOT hospitals and cash flow interest risk in relation to variable-rate bank balances (see Note 28), which carry prevailing market interest rates and short-term investments (see Note 27). The Group currently does not have a specific policy to manage their interest rate risk and have not entered into interest rate swaps to hedge its exposure, but will closely monitor their interest rate risk exposure in the future.

The management of the Group considers the fluctuation in interest rates on bank balances and short-term investments is insignificant. Therefore, no sensitivity analysis is presented.

#### Other price risk

The Group is exposed to other price risk through its investments in short-term investments. The management manages this exposure by only investing in investments operated by banks and financial institution with good reputation and by maintaining a portfolio of investments with different risks.

The management of the Group considers the fluctuation in fair value changes on financial products is insignificant, taking into account the short-term duration of such financial products.

The management of the Group considers the fluctuation in fair value changes on mutual funds is insignificant, taking into account that the Group intends to sell them in the near term.

#### Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each material individual debt at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on cash and cash equivalents and certificate of deposit is limited because the majority of the counterparties are banks with good reputation.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 40. Financial Instruments and Financial Risk Management (Continued)

### Financial risk management objectives and policies (Continued)

#### Credit risk (Continued)

The Group has concentration of credit risk on short-term investments which represent investments in financial products operated by banks and investments in mutual funds operated by a financial institution.

The Group has concentration of credit risk in respect of amounts due from the IOT Hospitals, including receivables from the IOT Hospitals, trade receivables from all the IOT Hospitals, and amounts due from a related party. Details of the balances with IOT Hospitals and amounts due from a related party are set out in Notes 7 and 38.2 respectively. The Group monitors the exposure to credit risk on an ongoing basis and credit evaluation is performed on each of the IOT Hospital and the related party. In order to minimise the credit risk, the Group have reviewed the recoverability of receivables from the IOT Hospitals, trade receivables from all the IOT Hospitals and the amounts due from a related party to ensure that follow-up action is taken timely. Therefore the Group's management concludes the exposure to bad debt is not significant. Under such circumstances, the management considers that the Group's credit risk is not significant.

#### Liquidity risk

In management of liquidity risk, the Group's management monitors and maintains a reasonable level of cash and cash equivalents which deemed adequate by the management to finance the Group's operations and mitigate the impacts of fluctuations in cash flows. The management relies on the cash generated from operating activities.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the year.

The amounts included below for variable interest rate financial liabilities are subject to change if changes in actual variable interest rates different to those estimates of interest rates as determined at the end of the year.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 40. Financial Instruments and Financial Risk Management (Continued)

### Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

| | On demand or within one month RMB'000 | 1–3 months RMB'000 | 3 months to 1 year RMB'000 | 1–5 years RMB'000 | >5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|---|---|
| **As at December 31, 2015** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Trade payables | 125,726 | 83,817 | — | — | — | 209,543 | 209,543 |
| Other payables | 5,448 | 3,632 | — | — | — | 9,080 | 9,080 |
| Total | 131,174 | 87,449 | — | — | — | 218,623 | 218,623 |

| | On demand or within one month RMB'000 | 1–3 months RMB'000 | 3 months to 1 year RMB'000 | 1–5 years RMB'000 | >5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|---|---|
| As at December 31, 2014 | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Trade payables | 103,124 | 68,750 | — | — | — | 171,874 | 171,874 |
| Other payables | 16,565 | 11,043 | — | — | — | 27,608 | 27,608 |
| Total | 119,689 | 79,793 | — | — | — | 199,482 | 199,482 |

### Fair value of financial instruments

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

| Financial assets | Fair value as at (RMB'000) 31/12/2015 | 31/12/2014 | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| Mutual funds (Note 27) | 45,000 | Nil | Level 1 | Quoted bid prices in an active market |
| Financial products (Note 27) | 29,990 | 77,300 | Level 3 | Determined in accordance with generally accepted pricing models based on discounted cash flow analysis. Future cash flows are estimated based on expected interest rates. |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 41. Particulars of Principal Subsidiaries of the Company

The Company has the following principal subsidiaries as at December 31, 2015:

| Name of subsidiaries | Place and date of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest and voting power held by the Group December 31, 2014 % | December 31, 2015 % | Principal activities |
|---|---|---|---|---|---|
| Beijing Phoenix | The PRC | RMB500,000,000 | 100.00 | 100.00 | Investment holding and hospital management |
| Jian Gong Hospital* | The PRC May 12, 2003 | RMB420,552,600 | 80.00 | 80.00 | General hospital services |
| Beijing Wanrong Yi kang Medical Pharmaceutical Co., Ltd. 北京萬榮億康醫藥有限公司* | The PRC March 20, 2000 | RMB3,000,000 | 100.00 | 100.00 | Supply chain business |
| Beijing Phoenix Jiayi Medical Devices Co., Ltd. 北京鳳凰佳益醫療器械有限公司* | The PRC December 9, 2004 | RMB4,000,000 | 100.00 | 100.00 | Supply chain business |
| Beijing Phoenix Easylife Healthcare Consulting Co., Ltd. 北京鳳凰益生醫學技術諮詢有限公司* | The PRC January 18, 2008 | RMB1,000,000 | 100.00 | 100.00 | General hospital services |
| Beijing Phoenix Easylife Technology and Trade Co., Ltd. 北京鳳凰益生科貿有限公司* | The PRC April 28, 2011 | RMB500,000 | 100.00 | 100.00 | Supply chain business |
| Beijing Easylife Xinnuo Laundry Service Co., Ltd. 北京益生信諾洗衣服務有限公司* | The PRC October 11, 2013 | RMB500,000 | 100.00 | 100.00 | Supply chain business |
| Easylife Yongxin (Beijing) Trade Co., Ltd. 益生永信(北京)商貿有限公司* | The PRC November 8, 2013 | RMB500,000 | 100.00 | 100.00 | Supply chain business |
| Unison Champ Limited ("Unison Champ") | The BVI January 7, 2013 | USD1 | 100.00 | 100.00 | Investment holding |
| Pinyu | The BVI January 3, 2013 | USD1 | 100.00 | 100.00 | Investment holding |
| Phoenix Healthcare International Investment Limited | Hong Kong August 28, 2012 | HKD1 | 100.00 | 100.00 | Investment holding |
| Star Target Investment Limited | Hong Kong January 3, 2013 | HKD1 | 100.00 | 100.00 | Investment holding |

* The entities are subsidiaries of Beijing Phoenix.

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Notes:

(i) All of the subsidiaries incorporated in the PRC are registered as limited liability companies under the PRC law.

(ii) None of the subsidiaries had issued any debt securities at the end of the year.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 42. Statement of Financial Position and Reserves of the Company

Financial information of the Company at the end of the reporting period includes:

| | Notes | At December 31, 2015 RMB'000 | At December 31, 2014 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investments in subsidiaries | (i) | **1,186,450** | 1,141,060 |
| Amounts due from subsidiaries | | **117,133** | 88,969 |
| | | **1,303,583** | 1,230,029 |
| Current assets | | | |
| Certificate of deposit | | **—** | 72,848 |
| Cash and cash equivalents | | **9,587** | 594 |
| | | **9,587** | 73,442 |
| Current liabilities | | | |
| Amounts due to subsidiaries | | **19,649** | 14,685 |
| Dividends payables | | **83,823** | — |
| Other payables | | **823** | — |
| | | **104,295** | 14,685 |
| Net current (liabilities) assets | | **(94,708)** | 58,757 |
| Total assets less current liabilities | | **1,208,875** | 1,288,786 |
| Capital and reserves | | | |
| Share capital | 34 | **166** | 166 |
| Share premium and reserves | (ii) | **1,208,709** | 1,288,620 |
| Total equity | | **1,208,875** | 1,288,786 |

Notes:

(i) As at December 31, 2015, the Company's balance of investment in a subsidiary mainly represents its investment cost in Unison Champ of 1 US dollar (2014:1 US dollar), the deemed investments arising from the waiver of amounts due from subsidiaries pursuant to the relevant written statements made by the Company during 2014 of RMB1,141,060,000 and the equity contribution to subsidiaries arising from the share based payment arrangements involving equity instruments of the Company.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

## 42. Statement of Financial Position and Reserves of the Company (Continued)

Notes: (Continued)

(ii) Movement in the company's reserves is as follows:

| | Share premium RMB'000 | Capital reserve RMB'000 | Treasury share reserve RMB'000 | Share-based payment reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At January 1, 2014 | 1,542,270 | — | — | — | (42,163) | 1,500,107 |
| Purchase of shares under Share Award Scheme | — | — | (175,684) | — | — | (175,684) |
| Dividend | (44,455) | — | — | — | — | (44,455) |
| Profit and total comprehensive income for the year | — | — | — | — | 8,652 | 8,652 |
| At December 31, 2014 | 1,497,815 | — | (175,684) | — | (33,511) | 1,288,620 |
| Purchase of shares under Share Award Scheme | — | — | (23,892) | — | — | (23,892) |
| Recognition of equity-settled share based payments | | — | — | 39,753 | — | 39,753 |
| Shares vested under the Share Award Scheme | — | (2,877) | 58,848 | (8,438) | — | 47,533 |
| Dividend | (115,079) | — | — | — | — | (115,079) |
| Loss and total comprehensive expense for the year | — | — | — | — | (28,226) | (28,226) |
| At December 31, 2015 | 1,382,736 | (2,877) | (140,728) | 31,315 | (61,737) | 1,208,709 |

# Financial Summary

## IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

| | For the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **CONSOLIDATED RESULTS** | | | | | |
| Revenue | **1,372,267** | 1,206,265 | 887,354 | 758,032 | 509,478 |
| Profit before tax | **247,968** | 316,759 | 143,009 | 147,278 | 78,718 |
| Income tax expense | **(75,554)** | (77,230) | (46,865) | (36,544) | (20,217) |
| Profit for the year | **172,414** | 239,529 | 96,144 | 110,734 | 58,501 |
| Attributable to: | | | | | |
| Equity holders of the Company | **167,045** | 230,051 | 89,992 | 101,088 | 48,130 |
| Non-controlling interests | **5,369** | 9,478 | 6,152 | 9,646 | 10,371 |
| | **172,414** | 239,529 | 96,144 | 110,734 | 58,501 |

| | As at December 31, | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | **2,255,469** | 2,011,906 | 2,124,038 | 1,020,860 | 1,134,678 |
| Total liabilities | **(392,737)** | (276,662) | (408,184) | (443,102) | (338,739) |
| | **1,862,732** | 1,735,244 | 1,715,854 | 577,758 | 795,939 |
| Equity attributable to: | | | | | |
| Equity holders of the Company | **1,747,878** | 1,627,112 | 1,617,200 | 485,256 | 591,779 |
| Non-controlling interests | **114,854** | 108,132 | 98,654 | 92,502 | 204,160 |
| | **1,862,732** | 1,735,244 | 1,715,854 | 577,758 | 795,939 |

# Definitions

| | |
|---|---|
| "Articles of Association" or "Articles" | the articles of association of our Company adopted on September 30, 2013 and as amended from time to time |
| "Audit Committee" | the audit committee of the Board |
| "Award Shares" | such Shares awarded pursuant to the Share Award Scheme, the maximum number of which shall not exceed 5% of the total issued capital of the Company as at July 7, 2014 and 1% of the total number issued Shares to each of the selected Participant as at July 7, 2014 |
| "Beijing Easylife" | Beijing Phoenix Easylife Healthcare Consulting Co., Ltd. (北京鳳凰益生醫學技術諮詢有限公司), a limited liability company established under the laws of the PRC on January 18, 2008, and a wholly-owned subsidiary of our Group |
| "Beijing Jiayi" | Beijing Phoenix Jiayi Medical Devices Co., Ltd. (北京鳳凰佳益醫療器械有限公司), formerly known as Beijing Phoenix Luoke Medical Technology Co., Ltd. (北京鳳凰洛克醫學技術有限公司) and Phoenix Wanfeng Medical Technology (Beijing) Co., Ltd. (鳳凰萬峰醫學技術(北京)有限公司), a limited liability company incorporated under the laws of the PRC on December 9, 2004, and a wholly owned subsidiary of our Company |
| "Beijing Juxin Wantong" | Beijing Juxin Wantong Investment Co., Ltd. (北京聚信萬同投資有限公司), formerly known as Phoenix United Hospital Management (Beijing) Co., Ltd. (鳳凰聯盟醫院管理(北京)有限公司) and Phoenix Healthcare Investment Management (Beijing) Co., Ltd. (鳳凰醫療投資管理(北京)有限公司), a limited liability company established under the laws of the PRC on June 9, 2003, and a wholly-owned subsidiary of Beijing Wantong a connected person to our Company |
| "Beijing Phoenix" | Beijing Phoenix United Hospital Management Consulting Co. Ltd. (北京鳳凰聯合醫院管理諮詢有限公司), formerly known as Beijing Phoenix United Hospital Management Co., Ltd. (北京鳳凰聯合醫院管理有限公司) and Beijing Phoenix United Hospital Management Joint Stock Co., Ltd. (北京鳳凰聯合醫院管理股份有限公司), a limited liability company established under the laws of the PRC on November 6, 2007, and a wholly-owned subsidiary of our Company |
| "Beijing Wanrong" | Beijing Wanrong Yikang Medical Pharmaceutical Co., Ltd. (北京萬榮億康醫藥有限公司), a limited liability company incorporated under the laws of the PRC on March 20, 2000, and a wholly-owned subsidiary of our Company |
| "Beijing Wantong" | Beijing Phoenix Wantong Investment Management Co., Ltd. (北京鳳凰萬同投資管理有限公司), formerly known as Phoenix Hospital Management (Beijing) Co.,Ltd. (鳳凰醫院管理(北京)有限公司), a limited liability company incorporated under the laws of the PRC on April 24, 2002 |

# Definitions

| | |
|---|---|
| "Board" or "Board of Directors" | the board of Directors of our Company |
| "BVI" | the British Virgin Islands |
| "CG Code" | Corporate Governance Code as set out in Appendix 14 to the Listing Rules |
| "Chairman" | the chairman of our Board |
| "Chief Executive Officer" | the chief executive officer of our Company |
| "China" or "PRC" | the People's Republic of China excluding, for the purpose of this report, Taiwan, the Macau Special Administrative Region and Hong Kong |
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Company" or "our Company" | Phoenix Healthcare Group Co. Ltd, a company with limited liability incorporated in the Cayman Islands on February 28, 2013 |
| "Controlling Shareholder(s)" | has the meaning ascribed thereto under the Listing Rules and, depending on the context, refers to Xu Jie (徐捷), Xu Xiaojie (徐小捷), Xu Bao Rui (徐寶瑞) and Speed Key Limited or any one of them |
| "Director(s)" | the directors of our Company or any one of them |
| "Eligible Persons" | any of the (i) key management personnel including the Directors and senior management of the Group; (ii) employed experts as nominated by the Board; and (iii) core employees of the Group |
| "Excluded Pharmaceuticals" | certain pharmaceuticals such as prepared traditional Chinese medicine (中藥飲片) and pharmaceuticals sold at community clinics which are excluded from our supply agreement with Hong Hui |
| "FY2014" | the financial year ended December 31, 2014 |
| "FY2015" | the financial year ended December 31, 2015 |
| "Group", "we" or "us" | our Company and its subsidiaries |
| "HK$" or "HKD" and "cent(s)" | Hong Kong dollar and cent(s) respectively, the lawful currency of Hong Kong |
| "HKEx" | Hong Kong Exchanges and Clearing Limited |
| "Hong Hui" | Hong Hui Pharmaceutical Co., Ltd. (紅惠醫藥有限公司), a limited liability company established under laws of the PRC on March 15, 1994, a supplier of the Group |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |

# Definitions

| | |
|---|---|
| "IFRSs" | International Financial Reporting Standards |
| "IOT" | the "invest-operate-transfer" model |
| "IOT hospitals and clinics" | third-party hospitals and clinics, which we manage and operate under the IOT model |
| "Jian Gong Hospital" | Beijing Jian Gong Hospital Co., Ltd. (北京市健宮醫院有限公司), a limited liability company established under the laws of the PRC on May 12, 2003 and a subsidiary of our Company, and its predecessor, Beijing Construction Worker Hospital (北京市建築工人醫院), before its reform |
| "Jing Mei Hospital" | Jing Mei Hospital (北京京煤集團總醫院), a not-for-profit hospital established under the laws of the PRC in 1956 and wholly owned by Beijing Coal, which we began managing in May 2011 pursuant to the Jing Mei IOT Agreement |
| "Jing Mei Hospital Group" | collectively, Jing Mei Hospital and seven Grade I hospitals and 11 community clinics affiliated with Jing Mei Hospital |
| "Jing Mei IOT Agreement" | collectively, the IOT agreement we entered into with Beijing Coal on May 5, 2011, as amended |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Memorandum of Association" | the memorandum of association of our Company adopted on September 30, 2013, as amended from time to time |
| "Mentougou Hospital" | Mentougou Hospital (北京市門頭溝區醫院), a not-for-profit hospital established under the laws of the PRC in 1951 and wholly owned by the Mentougou District government, which we began managing in June 2010 pursuant to the Mentougou IOT Agreement |
| "Mentougou Hospital for Women and Children" | Mentougou Hospital for Women and Children (門頭溝婦幼保健院) incorporated under the laws of the PRC in 1983 and wholly owned by the Metougou District government, which we began managing in September 2014 pursuant to the Mentougou Hospital for Women and Children IOT Agreement |
| "Mentougou Hospital for Women and Children IOT Agreement" | the IOT agreement we entered into with the Mentougou District government on September 23, 2014 |
| "Mentougou IOT Agreement" | collectively, the IOT agreement we entered into with the Mentougou District government on July 30, 2010, as amended |
| "Mentougou TCM Hospital IOT Agreement" | the IOT agreement we entered into with the Mentougou District government on June 6, 2012 |

# Definitions

| | |
|---|---|
| "Mentougou Traditional Chinese Medicine Hospital" | Mentougou Traditional Chinese Medicine Hospital (北京市門頭溝區中醫院), a not-for-profit hospital established under the laws of the PRC in 1956 and wholly owned by the Mentougou District government, which we began managing in June 2012 pursuant to the Mentougou TCM Hospital IOT Agreement |
| "Pinyu" | a limited liability company incorporated in the BVI on January 3, 2013, a wholly-owned subsidiary of our Company |
| "Prospectus" | the prospectus of the Company dated November 18, 2013 |
| "Remuneration Committee" | the remuneration committee of the Board |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Selected Participant(s)" | Eligible Persons selected by the Board in accordance with the terms of the Share Award Scheme |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Share Award Scheme" | the share award scheme of the Company adopted by the Board pursuant to a resolution passed by the Board on July 7, 2014, as amended by the Board on May 25, 2015 |
| "Share Option Scheme" | the share option scheme conditionally adopted by the Company pursuant to a resolution passed by our Shareholders on September 30, 2013 |
| "Share(s)" | share(s) with par value of HK$0.00025 each in the capital of the Company |
| "Speed Key Limited" | a limited liability company incorporated in the BVI on January 30, 2013 |
| "Stock Exchange" | the Stock Exchange of Hong Kong Limited |
| "Subsidiary" | has the meaning ascribed thereto in the Companies Ordinance |
| "Syndicated Loan" | the facility granted to the Company pursuant to the Syndicated Loan Agreement |

# Definitions

| | |
|---|---|
| "Syndicated Loan Agreement" | the agreement we entered into with a consortium of lenders led by Deutsche Bank AG on February 4, 2015, whereby the Company was granted a facility in the aggregate sum of US$150.0 million with a repayment term of three year (which is extendable for another two years after the initial three-year term), the interest rate of which is determined with reference the three-month London Interbank Offered Rate plus 3.15% per annum |
| "True Point" | True Point Holdings Limited, a limited liability company incorporated in the BVI |
| "UMP China" | UMP Healthcare China Limited, a limited liability company incorporated in the Cayman Islands, and a direct wholly owned subsidiary of UMP Healthcare Holdings |
| "UMP Healthcare Holdings" | UMP Healthcare Holdings Limited (聯合醫務控股有限公司), a limited liability company incorporated in the Cayman Islands, and a subsidiary of True Point Holdings Limited, a limited liability company incorporated in the BVI |
| "JV Company" | UMP Phoenix Healthcare Limited, a Limited Liability company incorporated in the BVI, which is held as to 50% by Pinyu and 50% by UMP China |
| "U.S. dollar" or "US$" | United States dollar, the lawful currency of the United States |
| "United States" or "U.S." | the United States of America, its territories and possessions, and all areas subject to its jurisdiction |
| "Yan Hua Hospital" | Yan Hua Hospital (北京燕化醫院), a not-for-profit hospital established under the laws of the PRC in 1973 and wholly owned by Yan Hua Phoenix, which we started to manage and operate in February 2008 pursuant to the Yan Hua IOT Agreement and a connected person to our Company |
| "Yan Hua Hospital Group" | collectively, Yan Hua Hospital and 17 community clinics affiliated with Yan Hua Hospital |
| "Yan Hua IOT Agreement" | collectively, the IOT agreement we entered into with Yan Hua Hospital Group and Yan Hua Phoenix on February 1, 2008, as amended |
| "Yan Hua Phoenix" | Beijing Yan Hua Phoenix Healthcare Asset Management Co., Ltd. (北京燕化鳳凰醫療資產管理有限公司), a limited liability company established under the laws of the PRC on July 18, 2005, a wholly-owned subsidiary of Beijing Juxin Wantong and a connected person to our Company |

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

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