THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Phoenix Healthcare Group Co. Ltd, you should at once hand this circular to the purchaser or the transferee, or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of Phoenix Healthcare Group Co. Ltd.

华润医疗
CR Healthcare

China Resources Healthcare Group Limited
華潤醫療集團有限公司

(Incorporated in Hong Kong with limited liability)

PHOENIX HEALTHCARE GROUP
凤凰医疗集团

Phoenix Healthcare Group Co. Ltd
鳳凰醫療集團有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock code: 1515)

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF AMPLE MIGHTY LIMITED INVOLVING ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE
(2) APPLICATION FOR WHITEWASH WAIVER
(3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL
(4) PROPOSED CHANGE OF COMPANY NAME
(5) CONTINUING CONNECTED TRANSACTIONS
AND
(6) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial advisers to the Company in respect of the Acquisition

Bank of America Merrill Lynch

交銀國際
BOCOM International

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

SOMERLEY CAPITAL LIMITED

Capitalised terms used on this cover shall have the same meanings as those defined in this circular, unless the context requires otherwise. A letter from the Board is set out on pages 9 to 55 of this circular. A letter from the Independent Board Committee is set out on pages 56 to 57 of this circular. A letter from Somerley containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 58 to 132 of this circular.

A notice convening the EGM to be held at E-825, Fuli Morgan Center, No. 6 Taiping Street, Xicheng District, Beijing, the PRC on 31 October 2016 at 10:00 a.m. is set out on pages 301 to 304 of this circular. A proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

7 October 2016

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the sale and purchase of the entire issued share capital of the Target Company as contemplated under the Sale and Purchase Agreement;
"acting in concert"	has the meaning ascribed to it under the Takeovers Code;
"Announcement"	the announcement of the Company dated 30 August 2016 in relation to, among other things, the Acquisition and the Whitewash Waiver;
"associates"	has the meaning ascribed to it under the Listing Rules;
"Board"	the board of Directors;
"Brain Hospital"	Guangdong 999 Brain Hospital* (廣東三九腦科醫院);
"Business Day"	means a day (other than a Saturday or Sunday or public holiday) when commercial banks are open for ordinary banking business in Hong Kong;
"Change of Company Name"	the proposed change of the Company's name, details of which are set out in the "Letter from the Board" of this circular;
"CITIC"	CITIC Medical & Health Group Co., Ltd, a company incorporated in the PRC with limited liability;
"CITIC Acquisition"	the Company's proposed acquisition of certain hospital assets from CITIC as disclosed in the announcement of the Company dated 3 May 2016;
"CITIC Consideration Shares"	the 130,571,029 Shares (subject to adjustment) to be issued as consideration for the CITIC Acquisition;
"CITIC Term Sheet"	the term sheet entered into among the Company, the Purchaser and CITIC in relation to the CITIC Acquisition dated 29 April 2016;

"Company"	Phoenix Healthcare Group Co. Ltd, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange (stock code: 01515);
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement;
"Completion Date"	the date falling ten Business Days after the day on which the last of the Conditions has been satisfied or (if applicable) waived or such other date as the Purchaser and the Seller may agree in writing;
"Conditions"	the conditions to Completion as set out in the Sale and Purchase Agreement;
"connected person"	has the meaning ascribed to it under the Listing Rules;
"Consideration"	HK$3,721,824,669, being the consideration for the Sale Shares;
"Consideration Shares"	462,913,516 new Shares to be allotted and issued by the Company to the Seller (or its wholly-owned subsidiary as the Seller may nominate) pursuant to the Sale and Purchase Agreement;
"Consultancy Services Contract(s)"	the consultancy services contracts the Target Group entered into with Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital respectively;
"Continuing Connected Transactions"	the CR PMM Framework Agreement and the transactions contemplated thereunder (including the proposed caps in relation thereto);
"controlling shareholder"	has the meaning given to it under the Listing Rules;
"CR Company"	China Resources Company Limited* (華潤股份有限公司) a company incorporated in the PRC with limited liability and the indirect holding company of the Seller;
"CR Health Technology"	China Resources Health Technology (Beijing) Co., Ltd.* (華潤健康科技(北京)有限公司), a company incorporated in the PRC with limited liability;

"CR Holdings"	China Resources (Holdings) Company Limited (華潤(集團)有限公司), a company incorporated in Hong Kong with limited liability and the indirect holding company of the Seller;
"CR Hospital Holding"	China Resources Hospital Holding Company* (華潤醫院控股有限公司), a company incorporated in the PRC with limited liability and a wholly-owned indirect subsidiary of the Target Company;
"CR Hospital Investment"	China Resources Hospital Investment (China) Co., Ltd.* (華潤醫院投資(中國)有限公司), a company incorporated in the PRC with limited liability and a wholly-owned indirect subsidiary of the Target Company;
"CR PMM Framework Agreement"	the pharmaceuticals, medical device and medical consumables supply framework agreement entered into between the Company and CR Holdings dated 5 October 2016;
"CR Wugang"	China Resources Wugang (Hubei) Hospital Management Co., Ltd.* (華潤武鋼(湖北)醫院管理有限公司), a company incorporated in the PRC with limited liability;
"CRH Phoenix"	CRH (Phoenix Healthcare) Limited (華潤集團(鳳凰醫療)有限公司) a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Seller nominated as the allottee and holder of the Consideration Shares;
"Directors"	the directors of the Company;
"EGM"	the extraordinary general meeting of the Company to be held for the purpose of considering and, if thought fit, approving, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder, the Specific Mandate, the Change of Company Name, the increase in authorised share capital, the Whitewash Waiver and the Continuing Connected Transactions;
"Enlarged Group"	the Group and the Target Group;

"Executive"	the Executive Director of the Corporate Finance Division of the SFC from time to time or any delegate of such Executive Director;
"Group"	the Company and its subsidiaries;
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Huaikuang Hospital Group"	Huaibei Miner General Hospital Group* (淮北礦工總醫院集團);
"Independent Board Committee"	the independent board committee of the Board comprising all the independent non-executive Directors established pursuant to the Listing Rules and the Takeovers Code to give recommendation to the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions;
"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions;
"Independent Shareholders"	the Shareholders, other than those who are involved or interested in the Acquisition, the Whitewash Waiver, the Continuing Connected Transactions and/or the Yan Hua CCT Renewals (as the case may be);
"Issue Price"	the per share price of HK$8.04 for the issue of each Consideration Share, which shall be adjusted accordingly in the event that the Shares are traded ex-rights and ex-dividends;
"Latest Practicable Date"	4 October 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information contained therein;

"Listing Committee"	has the meaning given to it under the Listing Rules;
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"Long Stop Date"	31 December 2016 or such other date as the Purchaser and the Seller may agree in writing;
"Million Ease"	Million Ease Limited, a company incorporated in the British Virgin Islands with limited liability;
"PRC"	the People's Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
"Purchaser"	Pinyu Limited, a limited liability company wholly-owned by the Company incorporated in the British Virgin Islands;
"Relevant Period"	the period from 8 October 2015, being the date falling six months preceding the date of the announcement of the Company with regard to the signing of the Term Sheet, up to the Latest Practicable Date;
"Reorganization"	the reorganization in relation to the Target Group for the purpose of the Acquisition, the details of which are set out in the section headed "Reorganization" of "Letter from the Board" of this circular;
"RMB"	Renminbi, being the lawful currency of the PRC;
"Sale and Purchase Agreement"	the share sale and purchase agreement dated 30 August 2016 entered into between the Company, the Purchaser and the Seller in respect of the Acquisition;
"Sale Shares"	50,000 issued shares of US$1.00 each in the Target Company, which represent the entire issued share capital of the Target Company;
"Seller"	China Resources Healthcare Group Limited, a limited liability company incorporated under the laws of Hong Kong;
"SFC"	the Securities and Futures Commission of Hong Kong;

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Shareholders"	holders of the Shares;
"Shares"	ordinary shares of HK$0.00025 each in the share capital of the Company;
"Shenzhen Yukangrun"	Shenzhen Yukangrun Hospital Management Co., Ltd* (深圳市裕康潤醫院管理有限公司), a company incorporated in the PRC with limited liability and a member of the Target Group;
"Specific Mandate"	the specific mandate to be sought from the Independent Shareholders for the allotment and issue of the Consideration Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Subject Institutions"	Xukuang Hospital, Huaikuang Hospital Group, Brain Hospital, 999 Clinic and Wugang Hospital Group;
"subsidiary"	has the meaning given to it under the Listing Rules;
"Supplemental Term Sheet"	the supplemental term sheet entered into among the Company, the Purchaser and the Seller in relation to the Acquisition dated 29 April 2016;
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers;
"Target Company"	Ample Mighty Limited, a wholly-owned subsidiary of the Seller incorporated in the British Virgin Islands;
"Target Group"	the Target Company and its subsidiaries;
"Term Sheet"	the term sheet entered into among the Company, the Purchaser and the Seller in relation to the Acquisition dated 8 April 2016;

"VMS Securities"	VMS Securities Limited, a corporation licensed under the SFO to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and appointed as the independent financial adviser in relation to the Yan Hua IOT Agreement, the Yan Hua PMM Framework Agreement and the proposed annual caps in relation to the Yan Hua IOT Agreement and the Yan Hua PMM Framework Agreement;
"Whitewash Waiver"	the whitewash waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation of CRH Phoenix to make a mandatory general offer for all the issued Shares other than those already owned or agreed to be acquired by the Seller and parties acting in concert with it as a result of the Company allotting and issuing the Consideration Shares;
"Wugang General Hospital"	China Resources Wugang General Hospital* (華潤武鋼總醫院);
"Wugang Group"	Wuhan Iron and Steel (Group) Corporation* (武漢鋼鐵(集團)公司);
"Wugang Hospital Group"	the hospital group comprising Wugang General Hospital, Wugang No. 2 Hospital and their subsidiary institutions;
"Wugang No. 2 Hospital"	Wuhan Iron and Steel (Group) Corporation No. 2 Staff Hospital* (武漢鋼鐵(集團)公司第二職工醫院);
"Xukuang Hospital"	Xuzhou Mining Hospital* (徐州市礦山醫院);
"Yan Hua CCT Circular"	the circular to be despatched to the Shareholders containing, among other things, (i) a letter from the Board setting out details of the Yan Hua IOT Agreement, the Yan Hua PMM Framework Agreement and the proposed annual caps in relation to the Yan Hua IOT Agreement and the Yan Hua PMM Framework Agreement; (ii) a letter of recommendation from the VMS Securities; and (iii) a notice of the Yan Hua CCT EGM;

"Yan Hua CCT EGM"	the extraordinary general meeting of the Company to be held for the purpose of considering and, if thought fit, approving, among other things, the Yan Hua CCT Renewals;
"Yan Hua CCT Renewals"	the approval of Yan Hua IOT Agreement, the extension of the Yan Hua PMM Framework Agreement and the approval of the proposed annual caps in relation to the Yan Hua IOT Agreement and the Yan Hua PMM Framework Agreement;
"Yan Hua Hospital Group"	collectively, Yan Hua Hospital* (北京燕化醫院) and 10 community clinics affiliated with Yan Hua Hospital;
"Yan Hua IOT Agreement"	collectively, the hospital management right and investment framework agreement dated 1 February 2008, and the hospital investment management agreement dated 4 February 2008, both of which were supplemented in April 2008, December 2010, June 2011, June 2013, July 2013, September 2013 and October 2013, and were entered into between Beijing Phoenix United Hospital Management Consulting Co. Ltd.* (北京鳳凰聯合醫院管理諮詢有限公司), Yan Hua Hospital Group and 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);
"Yan Hua PMM Framework Agreement"	the pharmaceuticals, medical device and medical consumables sales framework agreement dated 6 November 2013 entered into between the Company (through its subsidiaries) and Yan Hua Hospital Group; and
"999 Clinic"	999 Medical Clinic (Shenzhen) Co., Ltd.* (三九醫療門診部(深圳)有限責任公司), also known as 三九門診部.

* *For identification purpose only*

PHOENIX
HEALTHCARE
GROUP
凤凰医疗集团

Phoenix Healthcare Group Co. Ltd
鳳凰醫療集團有限公司

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

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

Independent non-executive Directors:
Mr. Kwong Kwok Kong
Ms. Cheng Hong
Mr. Sun Jianhua
Mr. Lee Kar Chung Felix

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

Principal place of business:
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

7 October 2016

To the Shareholders

Dear Sir/Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF AMPLE MIGHTY LIMITED INVOLVING ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE
(2) APPLICATION FOR WHITEWASH WAIVER
(3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL
(4) PROPOSED CHANGE OF COMPANY NAME
(5) CONTINUING CONNECTED TRANSACTIONS
AND
(6) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement. On 30 August 2016, the Company, the Purchaser (a wholly-owned subsidiary of the Company) and the Seller entered into the Sale and Purchase Agreement pursuant to which the Purchaser has conditionally agreed to acquire, and the Seller has conditionally agreed to sell, the entire issued share capital of the Target Company, at the

Consideration of HK$3,721,824,669, which will be satisfied by the allotment and issue of the Consideration Shares, to be credited as fully paid, at the Issue Price of HK$8.04 per Consideration Share to the Seller (or its wholly-owned subsidiary as the Seller may nominate) upon Completion.

Reference is also made to the announcement of the Company dated 3 May 2016 with regard to the signing of the Supplemental Term Sheet and the signing of the CITIC Term Sheet with CITIC to acquire certain hospital assets with the consideration of HK$1,240,424,776 (subject to adjustment) to be satisfied by the allotment and the issue of the CITIC Consideration Shares. The Acquisition and the CITIC Acquisition are separate and independent from each other.

As one or more of the relevant percentage ratios in respect of the Acquisition exceed 25% but all of them are less than 100%, the Acquisition constitutes a major transaction for the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules. As the Seller will become a controller (as defined in the Listing Rules) of the Company upon Completion, the Acquisition also constitutes a connected transaction of the Company under Rule 14A.28 of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Upon Completion, the Seller (or its wholly-owned subsidiary as the Seller may nominate) will hold approximately 35.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Consideration Shares from the Latest Practicable Date and up to the Completion Date). Upon Completion, under Rule 26.1 of the Takeovers Code, the Seller would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares other than those already owned or agreed to be acquired by the Seller and parties acting in concert with it, unless the Whitewash Waiver is obtained from the Executive. In this regard, the Seller has applied to the Executive and the Executive has agreed, subject to, among other matters, the approval of the Independent Shareholders at the EGM, to grant the Whitewash Waiver in respect of the allotment and issue of the Consideration Shares. The Whitewash Waiver and the underlying transactions including the Acquisition will be subject to the approval by the Independent Shareholders by way of a poll at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established in compliance with the Listing Rules and the Takeovers Code to give recommendation to the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions.

The purpose of this circular is to provide you with, among other things, (i) details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions; (iii) the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in the same regard; (iv) the financial information of the Group and the Target Group; and (v) the notice of the EGM.

THE SALE AND PURCHASE AGREEMENT

A summary of the major terms of the Sale and Purchase Agreement is set out below:

Date

30 August 2016

Parties

(1) the Company

(2) the Purchaser (as the purchaser)

(3) the Seller (as the seller)

The Seller and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

The Acquisition

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire from the Seller the Sale Shares with all rights attaching to them (including the right to receive all dividends, distributions or any return of capital declared, made or paid on or after the Completion Date). The Sale Shares represent the entire issued share capital of the Target Company.

The Target Company is a wholly-owned subsidiary of the Seller. The Seller owns 100% equity interests in (i) 999 Clinic, (ii) CR Hospital Holding, which is the sponsor for Huaikuang Hospital Group and Xukuang Hospital, (iii) Shenzhen Yukangrun, which is the sponsor for Brain Hospital, and (iv) 51% equity interest of CR Wugang, which is the sponsor for Wugang Hospital Group. Further information on the Target Group is set out in the section headed "Information on the Target Group" below.

Consideration and Consideration Shares

The Consideration for the Acquisition is HK$3,721,824,669, which will be satisfied by the allotment and issue of the Consideration Shares, to be credited as fully paid, at the Issue Price of HK$8.04 per Consideration Share to the Seller (or its wholly-owned subsidiary as the Seller may nominate) upon Completion. The Seller has nominated CRH Phoenix, its wholly-owned subsidiary, as the allottee and holder of the Consideration Shares. The Issue Price of HK$8.04 per Consideration Share and the number of Consideration Shares shall be adjusted accordingly in the event that the Shares are traded on ex-rights and ex-dividends basis. The Company has undertaken, among other things, not to conduct any activity which would result in the Shares being traded on ex-rights and ex-dividends basis before Completion.

As at the Latest Practicable Date, the Company has 833,763,000 Shares in issue. The Consideration Shares represent approximately 55.52% of the issued share capital of the Company as at the Latest Practicable Date, and approximately 35.70% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Consideration Shares from the Latest Practicable Date up to the Completion Date).

The Consideration Shares, when allotted and issued, will rank *pari passu* in all respects with all the Shares in issue as at the date of allotment and issue of the Consideration Shares, including the right to receive all dividends, distributions or any return of capital declared, made or paid on or after the date of allotment and issue of the Consideration Shares.

The Consideration Shares will be issued by the Company under the Specific Mandate to be sought for approval by the Independent Shareholders at the EGM. The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Issue Price of HK$8.04 per Consideration Share represents:

- a discount of approximately 11.6% to the closing price of the Shares as quoted on the Stock Exchange on the last trading day before the date of the Term Sheet of HK$9.10 per Share;

- the average of the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the last trading day before the date of the Term Sheet of HK$8.04 per Share;

- a premium of approximately 5.0% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten consecutive trading days up to and including the last trading day before the date of the Term Sheet of approximately HK$7.66 per Share; and

- a discount of approximately 37.7% to the closing price of the Shares as quoted on the Stock Exchange on the last trading day before the date of the Sale and Purchase Agreement of HK$12.90 per Share.

The Consideration and the Issue Price were arrived at after arm's length negotiations between the Company and the Seller prior to the signing of the Term Sheet.

The Consideration was arrived at based on (i) the financial information of the Target Group as disclosed in Appendix II of this Circular, together with the unaudited pro-form financial information of the Target Group as disclosed in Appendix IV of this circular and, in particular, unaudited pro forma net profit of the Target Group for the year ended 31 December 2015 in the amount of approximately RMB80.6 million (the "**2015 Pro Forma Net Profit of the Target Group**"); and (ii) the benchmark range (the "**Benchmark Range**") for P/E multiple of 31.0 ~ 67.9, which is determined based on the P/E multiples for certain companies which are also engaged in the provision of healthcare services in the PRC and which are listed on the Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange and the P/E multiples for certain market transactions in the healthcare industry in the PRC and Hong Kong.

In addition, the Directors have also considered the following in determining the Consideration:

(a) the current operation metrics and revenue level of the Subject Institutions;

(b) the significant growth potential and business prospect of the Subject Institutions, which are expected to result in the faster growth of the Group;

(c) the perceived strategic value of the Enlarged Group, being one of the largest medical healthcare groups in Asia measured by the number of beds in operation and patient visits;

(d) the long-term benefits and the synergy that can be achieved as stated in the section headed "Reasons for and benefits of the Acquisition";

(e) the growth potential of the Target Group which is driven by the population and the demography of the areas where the Subject Institutions are located, in particular, areas with relatively high aging population will have a higher demand for healthcare services and faster business expansion in this industry; and

(f) the leading market position of the Target Group which is driven by market share and service standard, in particular, bigger market share and stronger service standard will lead to a better market position which will be reflected in the margin expansion.

The Directors consider the basis in determining the Consideration to be fair and reasonable given, among others, (i) the P/E multiple of the Acquisition is within the Benchmark Range; (ii) the premium in the Consideration is justified by the uniqueness of the assets of the Target Group with growth potential and margin expansion; and (iii) other benefits as discussed in the section headed "Reasons for and benefits of the Acquisition".

The Company also considered other settlement methods (including cash and promissory note) in respect of the Consideration. Having considered that the cash and cash equivalents of the Group as at 31 December 2015 was approximately HK$822 million as stated in the 2015 annual report of the Company, the Directors are of the view that Company does not have sufficient immediate cash to satisfy the Consideration and additional borrowings will be required. The allotment and issuance of the Consideration Shares to settle the Consideration was proposed and considered appropriate as it would not affect the liquidity position or financial leverage of the Group and would allow the Company to complete the Acquisition without any cash outlay. Furthermore, the issue of the Consideration Shares to the Seller would lead to better alignment of interests between the Company and the Seller, which would facilitate the realisation of the intended synergies and commercial benefits and is to the benefit of the Company and the Shareholders as a whole. The willingness to accept the Consideration Shares (as opposed to cash or other form of consideration) also demonstrates the Seller's conviction in the prospects of the Acquisition and the potential cooperation. Based on the above and despite a new controlling shareholder being introduced to the Company and the new directors to be nominated by the Seller pursuant to the Sale and Purchase Agreement, the Directors consider that the allotment and issuance of Consideration Shares to settle the Consideration is in the best interest of the Company and the Shareholders as a whole.

Conditions Precedent

Completion of the Acquisition is conditional upon the satisfaction (or, if applicable, the waiver) of the following Conditions prior to the Long Stop Date:

(1) the entry into and performance of the Sale and Purchase Agreement and the transactions contemplated thereunder by the Purchaser and the Company, including but not limited to the purchase of the Sale Shares, the issue of the Consideration Shares and the grant of the Whitewash Waiver having been approved by the Independent Shareholders by way of poll at the EGM duly convened in accordance with applicable requirements under the Listing Rules, the Takeovers Code and the articles of association of the Company;

(2) the Whitewash Waiver having been granted by the Executive and not having been revoked or withdrawn;

(3) (if required) approval for the new listing application of the transaction contemplated under the Sale and Purchase Agreement having been granted by the Listing Committee of the Stock Exchange (if any additional conditions are imposed by the Stock Exchange, such additional conditions shall be acceptable to both the Seller and the Purchaser; and any conditions that are imposed based on the market practice are deemed to be acceptable to both the Seller and the Purchaser), and such approval not having been revoked or withdrawn;

(4) approval for the listing of, and permission to deal in the Consideration Shares having been granted by the Stock Exchange and not having been revoked or withdrawn;

(5) fulfilment of filing procedures for state-owned assets valuation in relation to the sale of the Sale Shares having been completed by the Seller and that the Sale Shares can be sold at the value of the Consideration;

(6) no change, event or circumstance having occurred which has or may have a material adverse effect on the Target Group as a whole (save and except for matters disclosed in the applicable accounts);

(7) no change, event or circumstance having occurred which has or may have a material adverse effect on the Group as a whole;

(8) approval for the sale of Sale Shares having been granted by the Anti-Monopoly Bureau under the Ministry of Commerce of the PRC and such approval not having been revoked or withdrawn; and

(9) the completion of the Reorganization.

The Company and the Purchaser may at any time waive the Condition set out in sub-paragraph (6) (with respect to the Target Group) above by notice in writing to the Seller, while the Seller may waive the Condition set out in sub-paragraph (7) (with respect to the Purchaser). Save for the aforementioned, the Whitewash Waiver, the Reorganization and the other Conditions set out above are not capable of being waived.

If any of the Conditions set out above has not been fulfilled or waived (if applicable) on or before the Long Stop Date, the Sale and Purchase Agreement shall terminate and the rights and obligations of the Seller and the Purchaser under the Sale and Purchase Agreement shall cease immediately, save in respect of antecedent breaches.

Appointment of Directors

The Company undertakes to the Seller that after Completion, the Company shall, subject to all applicable laws and regulations, including the Listing Rules, procure the Board, which shall comprise 11 Directors out of which at least 4 shall be independent non-executive Directors, to pass a resolution to appoint up to four persons nominated by the Seller to be Directors (of whom two shall be executive Directors and two shall be non-executive Directors). In accordance with the requirements of the Listing Rules and the articles of association of the Company, the new Directors shall hold office only until the first general meeting of the Shareholders after their appointment and shall then be eligible for re-election. The Seller has not yet decided the persons to be nominated as the Directors.

The Board will adhere to the nomination and appointment procedures under the articles of association of the Company and the Listing Rules in relation to the appointment of the Directors to be nominated by the Seller.

Undertaking of the Seller

The Seller undertakes to the Company that it will not sell, transfer or otherwise dispose of the Consideration Shares for a period of one year from the date of issue without the consent of the Company.

Completion

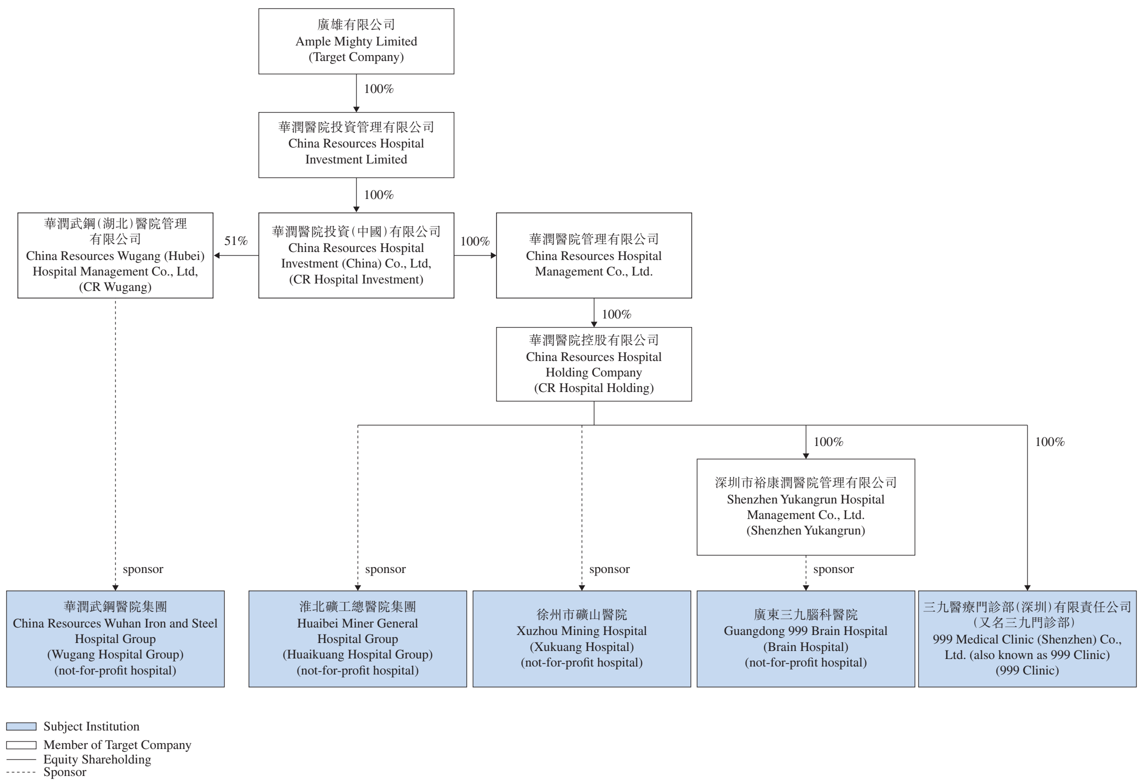
Completion shall take place on the date falling ten Business Days after the day on which the last of the Conditions has been satisfied or (if applicable) waived or such other date as the Purchaser and the Seller may agree in writing.

INFORMATION ON THE TARGET GROUP

Structure of the Target Group

The Target Company is incorporated in the British Virgin Islands whose principal business is to provide general hospital services at 999 Clinic and to provide hospital consultancy services under the Consultancy Services Contracts. Currently, the Group provides general hospital services through its subsidiary, Beijing Jian Gong Hospital Co., Ltd., and provides hospital management/consultancy services to third party hospitals under various management/consultancy agreements. The business model of the Target Group is similar to that of the Group in that both of their principal income are mainly arising from general hospital services and hospital consultancy services. General hospital services revenue mainly consists of fees generated from the provision of outpatient and inpatient services, including fees for healthcare services, pharmaceuticals, medical device and medical consumables. Hospital consultancy services revenue is generally derived from managing hospitals or clinics.

The Target Company owns 100% equity interests of 999 Clinic, CR Hospital Holding, which is the sponsor for Huaikuang Hospital Group and Xukuang Hospital, and Shenzhen Yukangrun, which is the sponsor for Brain Hospital, and 51% equity interest of CR Wugang, which is the sponsor for Wugang Hospital Group. Below is the structure chart depicting the Target Group and the Subject Institutions after the Reorganization:



The Subject Institutions

The Subject Institutions comprise (i) Xukuang Hospital, (ii) Huaikuang Hospital Group, (iii) Brain Hospital, (iv) 999 Clinic, and (v) Wugang Hospital Group. 999 Clinic is the only Subject Institution operated by the Target Group through direct equity interest ownership. The Target Company owns equity interest in the respective sponsors for the remaining Subject Institutions, which enjoy certain rights and powers in relation to such Subject Institutions.

The Subject Institutions (save for 999 Clinic), as not-for-profit hospitals, cannot be registered as companies under the PRC laws and therefore the concepts of ″equity ownership″ and ″share holder″ do not apply. The sponsors of the Subject Institutions, which are not-for-profit hospitals, have respective obligations to contribute start-up capital to such institutions. Such start-up capital, once contributed, shall not be withdrawn by the sponsors. Given the charity nature of the not-for-profit hospitals, the legal income of such hospitals shall only be used in line with its purpose and within its business scope, and where applicable, in accordance with the articles of associations of such hospitals, therefore, the net income is not distributable to its sponsors as dividends, which is different from a shareholder who owns the equity interests of a company. The rights and obligations of the sponsors are stipulated in the articles of associations of each Subject Institution, and where applicable, include, among others, (i) access to the operation status and financial reports of the Subject Institution, (ii) recommending members to the executive committee which is the highest authority of the Subject Institution.

The basic information of the Subject Institutions is set out below.

	Particulars of the hospitals	Commencement date of operation	Date of acquisition by the Seller
Xukuang Hospital	1 Grade II medical institution	1962	December 2014 CR Hospital Holding became the sponsor of Xukuang Hospital
Huaikuang Hospital Group	including 1 Grade III medical institution, 5 Grade II medical institutions and 11 Grade I medical institutions	1958	January 2015 CR Hospital Holding became the sponsor of Huaikuang Hospital Group
Brain Hospital	1 Grade III medical institution	1994	December 2015 CR Company entered into a transfer agreement to acquire the sponsorship
999 Clinic	ungraded	1997	December 2014 CR Hospital Holding entered into a transfer agreement to acquire all the interests and assets of 999 Clinic
Wugang Hospital Group	including 2 Grade III medical institutions and 14 Grade I medical institutions	1952	June 2013 Wugang Hospital Group was injected into CR Wugang as capital contribution

(i) Xukuang Hospital

Xukuang Hospital, whose sponsor is CR Hospital Holding, is a not-for-profit, Grade II hospital located in Xuzhou, the PRC. As of 31 December 2015, Xukuang Hospital had 18 clinical departments, including general medicine, surgery, gynecology, pediatrics, otolaryngology, ophthalmology and is well-known for its nuclear medicine. Xukuang Hospital is a medical insurance designated medical institution in Xuzhou. As of 31 December 2015, Xukuang Hospital had 568 employees, including 145 doctors, 376 other medical professionals and 400 beds in operation. The 145 doctors of Xukuang Hospital consisted of 4 chief doctors, 31 associate-chief doctors, 58 attending doctors and 52 resident doctors.

(ii) Huaikuang Hospital Group

Huaikuang Hospital Group, whose sponsor is CR Hospital Holding, consists of Huaibei Miner General Hospital* (淮北礦工總醫院), 14 branch hospitals, 9 community healthcare centers and 1 elderly care institution. Huaibei Miner General Hospital is a not-for-profit hospital and is one of the largest Grade III hospitals located in Huaibei, Anhui, the PRC. As of 31 December 2015, Huaibei Miner General Hospital had 29 clinical departments, including 1 provincial key specialized department and 9 municipal key specialized departments, with a focus on traumatology. Huaibei Miner General Hospital is affiliated with Bengbu Medical College* (蚌埠醫學院) and is a medical insurance designated medical institution in Huaibei. As of 31 December 2015, Huaikuang Hospital Group had 2,583 employees, including 858 doctors, 1,509 other medical professionals and 2,765 beds in operation. The 858 doctors of Huaikuang Hospital Group consisted of 33 chief doctors, 90 associate-chief doctors, 453 attending doctors and 282 resident doctors.

(iii) Brain Hospital

Brain Hospital, whose sponsor is Shenzhen Yukangrun, is a not-for-profit specialized hospital accredited as equivalent to Grade III, located in Guangzhou, Guangdong, the PRC. Brain Hospital has the largest rehabilitation training center in Guangdong. As of 31 December 2015, Brain Hospital had 15 clinical departments, including its nationally renowned neurosurgery. Brain Hospital is a medical insurance designated medical institution in Guangzhou. As of 31 December 2015, Brain Hospital had 1,051 employees, including 236 doctors, 663 other medical professionals and 776 beds in operation. The 236 doctors of Brain Hospital consisted of 31 chief doctors, 32 associate-chief doctors, 62 attending doctors and 111 resident doctors.

(iv) 999 Clinic

999 Clinic is a for-profit medical institution wholly owned by CR Hospital Holding located in Shenzhen, the PRC. As of 31 December 2015, 999 Clinic had 7 clinical departments, including general medicine, surgery, dermatology, otolaryngology and Chinese medicine. 999 Clinic is a medical insurance designated medical institution in Shenzhen. As of 31 December 2015, 999 Clinic had 47 employees, including 36 doctors and 11 other medical professionals. The 36 doctors of 999 Clinic consisted of 1 chief doctor, 2 associate-chief doctors, 26 attending doctors and 7 resident doctors.

(v) Wugang Hospital Group

Wugang Hospital Group consists of Wugang General Hospital and Wugang No. 2 Hospital, both of which are Grade III hospitals located in Wuhan, Hubei, the PRC. The sponsor for Wugang General Hospital is CR Wugang, a joint venture company with 51% equity interest held by CR Hospital Investment and 49% equity interest held by Wugang Group. As of 31 December 2015, Wugang General Hospital had 7 subsidiary institutions, including 1 rehabilitation hospital and 6 community healthcare centers, and Wugang No. 2 Hospital had 9 subsidiary institutions, including 1 clinic, 2 elderly care institutions and 6 community healthcare centers. As of 31 December 2015, Wugang General Hospital and Wugang No. 2 Hospital had 46 clinical departments in total, of which 2 are provincial key specialized departments and 7 are municipal key specialized departments. Wugang General Hospital and Wugang No. 2 Hospital are both medical insurance designated medical institutions in Wuhan.

As of 31 December 2015, Wugang Hospital Group had 2,715 employees, including 646 doctors, 1,299 other medical professionals and 1,868 beds in operation. The 646 doctors of Wugang Hospital Group consisted of 41 chief doctors, 262 associate-chief doctors, 192 attending doctors and 151 resident doctors.

The following table sets forth certain key operational information of the Subject Institutions for the year ended 31 December 2015 and the five months ended 31 May 2016:

Subject Institutions	Number of beds in operation as at 31 December 2015	For the year ended 31 December 2015				For the five months ended 31 May 2016			
		Number of outpatient visit	Number of inpatient visit	Average spending per outpatient visit (RMB)	Average spending per inpatient visit (RMB)	Number of outpatient visit	Number of inpatient visit	Average spending per outpatient visit (RMB)	Average spending per inpatient visit (RMB)
Xukuang Hospital	400	95,575	15,767	359	8,183	47,423	7,354	350	8,961
Huaikuang Hospital Group	2,765	1,115,127	57,848	209	7,783	504,455	26,206	189	7,196
Brain Hospital	776	175,797	25,427	776	24,032	70,934	10,196	851	26,134
999 Clinic	No bed in operation	22,300	No inpatient visit	183	No inpatient visit	9,065	No inpatient visit	182	No inpatient visit
Wugang Hospital Group	1,868	976,338	54,831	295	7,989	386,396	21,326	281	8,961

The revenue and profits of the Subject Institutions have remained stable for the three years ended 31 December 2015 and the audited total revenue and net profit of the Subject Institutions for the year ended 31 December 2015 are approximately RMB2,434 million and RMB182 million respectively. As such, the profits of the Subject Institutions would be able to satisfy the profit requirements under Rule 8.05 of the Listing Rules.

Consultancy Services Contracts

CR Hospital Investment entered into a Consultancy Services Contract with each of Huaikuang Hospital Group and Brain Hospital, which took effect as from 1 May 2016, and a Consultancy Services Contract with Xukuang Hospital, which took effect as from 24 December 2015. All the Consultancy Services Contracts are on largely the same terms and conditions, save for the contracting parties and effective dates and a summary of the key terms of the Consultancy Services Contracts are set out below.

Term

The initial term is 20 years from the effective date of the Consultancy Services Contract. The parties will negotiate to renew the term of the Consultancy Services Contract every five years and the term of 20 years will recount after every renewal.

Scope of Consultancy Services

CR Hospital Investment will provide the following consultancy services to the relevant Subject Institutions to ensure that a standardized process is implemented throughout these hospitals which utilizes the platform and resources of the Target Group (and the Enlarged Group after Completion) and improves these hospitals' management and services quality:

- CR Hospital Investment grants a non-exclusive right to the relevant Subject Institutions to use its brand name, which enables the Subject Institutions to leverage on the Target Group's brand value;
- CR Hospital Investment provides support to the relevant Subject Institutions and assists them to improve and standardise the service quality, the information systems, the logistics management and other aspects of their operations;
- CR Hospital Investment provides consultancy services to the relevant Subject Institutions in relation to areas such as human resources, organizational structure, operation performance, training and cost management including assisting them to recruit the necessary experts and specialists;
- CR Hospital Investment shares its resources with the relevant Subject Institutions in accordance with their business development plans and their needs, including but not limited to, the hospital internal management system, the medical instruments, the medicine search and order system, the medical software programme and the training systems; and
- CR Hospital Investment utilizes its experience in hospital supply chain management to provide support to the relevant Subject Institutions in relation to procurement channels, commercial negotiation and purchase order management.

Service Fees

CR Hospital Investment charges Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital service fees for the consultancy services provided. Under the Consultancy Services Contracts, the service fees will be charged on a yearly basis (proportionately for period less than one year) and shall represent approximately 5~10% of the revenue of the relevant Subject Institution, provided that the service fees shall not be more than the audited net profits (before deduction of the service fees) of the relevant Subject Institution.

The audited revenues for Xukuang Hospital, Brain Hospital and Huaikuang Hospital Group for the year ended 31 December 2015 are approximately RMB169 million, RMB769 million and RMB749 million respectively. For illustration purpose only, the average monthly service fees for Xukuang Hospital, Brain Hospital and Huaikuang Hospital Group are approximately RMB0.70~1.41 million, RMB3.20~6.41 million and RMB3.12~6.24 million, based on the aforementioned audited revenues and such broad principle of charging 5~10% of the revenue of the Subject Institutions as service fees.

For the period from 1 January 2016 to 31 May 2016, the service fees incurred under the Consultancy Services Contracts (i.e. the sum of the service fees since 1 January 2016 for Xukuang Hospital and the service fees since 1 May 2016 for Brain Hospital and Huaikuang Hospital Group) are in the total amount of HK$15.4 million. For illustration purposes only, please refer to the unaudited pro forma financial information of the Target Group set out in Appendix IV to this circular for the service fees as if the Consultancy Services Contracts had been entered into on 1 January 2015.

Payment Terms

The service fees under the Consultancy Services Contracts shall be settled in cash on quarterly basis.

Exclusivity

Under the Consultancy Services Contracts, CR Hospital Investment has the exclusive right to provide consultancy services to the relevant Subject Institutions.

Governing Law

The Consultancy Services Contracts are governed by the laws of the PRC.

Legality of the Consultancy Services Contracts

The state and provincial policies of the PRC, such as the Notice of NHFPC on Perfecting Regional Health Planning and Establishment Planning for Healthcare Institutions for Promoting the Development of Non-public Healthcare Institutions (衛生部關於做好區域衛生規劃和醫療機構設置規劃促進非公立醫療機構發展的通知) (Wei Gui Cai Fa [2012] No. 47), the Several Opinions of the State Council on Promoting the Development of Healthcare Services Business (國務院關於促進健康服務業發展的若干意見) (Guo Fa [2013] No. 40), the Guiding Opinions of General Office of the State Council on the Pilot of Comprehensive Reform of Urban Public Hospitals (國務院辦公廳關於城市公立醫院綜合改革試點的指導意見) (Guo Ban Fa [2015] No. 38), the Notice of the General Office of the People's Government of Guangdong Province on Issuing the Implementation Suggestions of the Comprehensive Reform of Urban Public Hospitals in Guangdong Province (廣東省人民政府辦公廳關於印發廣東省城市公立醫院綜合改革實施意見的通知) (Yue Ban Han [2015] No. 530) and the Implementation Suggestions of the People's Government of Anhui Province on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Social Investment (安徽省人民政府關於創新重點領域投融資機制鼓勵社會投資的實施意見) (Wan Zheng [2015] No. 123) have advocated the entrustment management (託管, the provision of comprehensive management services) as a recognized way of the reform of public hospitals in the PRC.

The PRC legal advisor to the Company, Commerce & Finance Law Offices, is of the view that the Consultancy Services Contracts do not include any circumstance as stipulated in the Clause 52 of the Contract Law of the PRC that will result in the voidance of such contracts. Therefore, the Consultancy Services Contracts entered into between CR Hospital Investment and Huaikuang Hospital Group, or Xukuang Hospital or Brain Hospital, are legitimate, valid and legally binding between the relevant parties to the respective contract.

Executive Committee

According to the latest articles of association of Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital, their respective executive committee is the highest authority for the management of each hospital. Such executive committee comprises 3 members appointed by the sponsor, a member elected by the employees and a member who is the chairman of the labour union of the relevant hospital. The senior management of each hospital, comprising the administrator, deputy administrator, financial officer and other management staff, is responsible for the daily operation of the hospital. The adoption of the Consultancy Services Contracts provides guidance and standardised operation protocols to be extended to each hospital. Important matters of the hospital, including but not limited to (1) amendments of the articles of association, (2) merger, reorganization and dissolution of the hospital, (3) approval of annual budget, and (4) appointment of the administrator of the hospital would require the consent of at least two-thirds of the members of the executive committee. This would perpetuate a consensus building culture and mitigate risks of unnecessary changes to management directions.

999 Clinic and Wugang Hospital Group

999 Clinic is a for-profit medical institution with equity interest owned by CR Hospital Holding and, after Completion, the Company would be able to operate 999 Clinic in the same manner as Beijing Jian Gong Hospital Co., Ltd., an equity-owned for-profit hospital of the Group. As such, the parties consider that a consultancy services contract and new articles of association are not necessary for 999 Clinic.

CR Hospital Investment only holds 51% equity interest in CR Wugang, the sponsor for Wugang Hospital Group. The Target Group is currently in the course of negotiation with Wugang Group, the other shareholder holding 49% equity interest in CR Wugang, and Wugang Hospital Group in relation to the new articles of association and consultancy services contract of Wugang Hospital Group.

Reorganization

The Seller carried out the Reorganization to finalize and group together the Subject Institutions, which are the subject medical institutions relating to the Acquisition, and to streamline the operations of the Target Group. As at the Latest Practicable Date, the Reorganization has been completed, and in particular, the following steps have been carried out:

(a) Commencement of transfer of the employees not related to the hospital operation division out of the Target Group and the termination of leases of the Target Group's office premises in Beijing and Shenzhen;

(b) The Seller procured CR Company, the indirect holding company of the Seller, to transfer 100% equity interest in Shenzhen Yukangrun, being the sponsor of the Brain Hospital, to the Target Group for the purposes of the Acquisition;

(c) The Seller further transferred Million Ease, which holds equity interest in one of the joint sponsors for Kunming Children's Hospital, out of the Target Group for the reason that the Seller has not yet obtained the consent for the transfer of the sponsorship to the Company from Kunming Bureau of Health, which is the other joint sponsor for Kunming Children's Hospital;

(d) CR Health Technology was transferred out of the Target Group as it is principally engaged in the business of health information services and currently only has limited operations, which do not fit into the business of the Company;

(e) CR Hospital Investment entered into the Consultancy Services Contracts with Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital, respectively;

(f) The Target Company issued 49,999 shares to the Seller by capitalizing the loans in the total amount of approximately RMB1,109,633,000 advanced by the Seller to the Target Company, which form part of the Sale Shares to be transferred to the Purchaser; and

(g) CR Wugang transferred certain assets used for the operation of Wugang Hospital Group to Wugang Hospital Group.

Financial Information of the Target Group

Set out below is the financial information extracted from the audited consolidated financial statements of the Target Group for the two years ended 31 December 2014 and 2015 and as at 31 May 2016:

	For the year ended 31 December 2015	For the year ended 31 December 2014
Net losses before tax	RMB114 million	RMB121 million
Net losses after tax	RMB115 million	RMB121 million

	As at 31 May 2016
Net assets	RMB899 million

The net losses before and after tax disclosed in the table above represent the historical financial information of the Target Group and therefore do not reflect the impact of the Consultancy Services Contracts and the Reorganization.

As disclosed in the Announcement, if the conditions precedent set out below for the Target Group to achieve before Completion as stated in the Sale and Purchase Agreement had been satisfied on 1 January 2015:

(a) the transfer of the employees not related to hospital operation division out of the Target Group and the termination of two leases of the Target Group's office premises in Beijing and Shenzhen;

(b) the disposal of Million Ease;

(c) the disposal of CR Health Technology;

(d) the capitalisation of the Seller's loans in the total amount of approximately RMB1,109,633,000;

(e) the entering of the Consultancy Services Contracts; and

(f) the transfer of certain assets of CR Wugang used for the operation of Wugang Hospital Group to Wugang Hospital Group, the unaudited pro forma net profit of the Target Group would be as follows:

	For the year ended 31 December 2015	For the five months ended 31 May 2016
Unaudited pro forma net profit	RMB80.6 million	RMB46.4 million

The difference between the audited net losses and the unaudited pro forma net profits of the Target Group is due to the pro forma adjustments stated above, and in particular resulted from the impact of the Consultancy Services Contracts and the Reorganization.

The unaudited pro forma financial information of the Target Group included in the Announcement has been repeated in Appendix IV to this circular. The unaudited pro forma financial information of the Target Group constitutes a profit forecast under Rule 10 of the Takeovers Code and pro forma financial information under Rule 4.29 of the Listing Rules. Merrill Lynch (Asia Pacific) Limited and BOCOM International (Asia) Limited, the Company's financial advisers in respect of the Acquisition, have reported on the unaudited pro forma financial information of the Target Group in accordance with Rule 10 of the Takeovers Code. Deloitte Touche Tohmatsu, the Company's reporting accountants, has reported on the unaudited pro forma financial information of the Target Group in accordance with Rule 10 of the Takeovers Code and Rule 4.29(7) of the Listing Rules. The respective reports of Merrill Lynch (Asia Pacific) Limited, BOCOM International (Asia) Limited and Deloitte Touche Tohmatsu of the date of the Announcement have been included in Appendices V, VI and IV to this circular. The Board has confirmed that the unaudited pro forma financial information of the Target Group remains valid for the purpose of the Whitewash Waiver. Each of Merrill Lynch (Asia Pacific) Limited, BOCOM International (Asia) Limited and Deloitte Touche Tohmatsu has given and has not withdrawn its consent to the issue of this circular with the inclusion of its report and reference to its name and logo in the form and context in which they respectively appear and has no objection to its report continuing to apply.

CONTINUING CONNECTED TRANSACTIONS

In contemplation of Completion and to comply with the applicable connected transaction requirements under the Listing Rules in relation to the supply of the pharmaceuticals, medical device and medical consumables by CR Holdings and its subsidiaries to the Enlarged Group and its sponsored hospitals (including the Subject Institutions), the Company and CR Holdings entered into the CR PMM Framework Agreement on 5 October 2016, the details of which are set out below.

Date: 5 October 2016

Parties: the Company and CR Holdings

Term

The term of the CR PMM Framework Agreement is from the date of Completion or the date on which the approval of the CR PMM Framework Agreement by the Independent Shareholders has been obtained (whichever is the later) to 31 December 2018, subject to renewal for another three years by mutual consent and negotiation between the parties. The Company may terminate the CR PMM Framework Agreement unilaterally by written notice of at least 30 days to CR Holdings.

Subject matter

Pursuant to the CR PMM Framework Agreement, CR Holdings may, through its subsidiaries, supply pharmaceuticals, medical device and medical consumables to the Enlarged Group and its sponsored hospitals (including the Subject Institutions) from time to time. The Enlarged Group and its sponsored hospitals may place purchase orders for pharmaceuticals, medical device and medical consumables with CR Holdings or its subsidiaries from time to time and CR Holdings or its subsidiaries may sell the products to the Enlarged Group and its sponsored hospitals at a price in accordance with the agreed pricing policy. The details of each purchase order, including price, payment terms and delivery arrangement, are to be separately agreed in accordance with the principles laid down in the CR PMM Framework Agreement.

Pricing policy

The price of pharmaceuticals, medical device and medical consumables under the CR PMM Framework Agreement shall be determined in accordance with the applicable prescribed price or guided price of those products fixed by the PRC regulators, if applicable. If there is no such prescribed price or guided price for the particular product, the price shall be determined based on arm's length negotiation between the parties and with reference to the then prevailing market price as evidenced by the invoices provided by CR Holdings or its subsidiaries for their supply of the relevant product to no less than three hospitals of similar grade.

Other than the pricing methodology set out above, the Group and the Subject Institutions may also introduce an open tendering process to ensure fairness of terms. In such scenario, certain designated personnel will be appointed to survey the price of designated pharmaceutical and medical products and ensure the tender pricing meets all such standards.

From time to time, sales agents are required to produce pricing guides as part of their pitching. With such pricing information and the accumulated market experience from the long operation track record of the Group's hospitals and the Subject Institutions, the Company is always able to stay aware of the fair market terms for different supplies.

Reasons for the transactions

The underlying rationale for the proposed Continuing Connected Transactions is mainly driven by commercial attractiveness of the terms offered by CR Holdings. The reasons for the Continuing Connected Transactions are further elaborated below:

(a) Historical business relationship with CR Holdings

CR Holdings through its subsidiaries has a long track record of supplying pharmaceuticals, medical device and medical consumables in the PRC. A stable and long term procurement arrangement between CR Holdings, the Group and the Subject Institutions has been in place for a number of years. The cooperation with CR Holdings will help to secure a constant supply of the pharmaceuticals, medical device and medical consumables which are essential for the daily operation of the Enlarged Group and its sponsored hospitals.

(b) Offering of competitive terms

CR Holdings is currently selected as one of the suppliers of the Group and the Subject Institutions mainly because of, among others, its competitiveness and willingness to offer favourable commercial terms following arm's length negotiation as compared to other existing suppliers of the Group and the Subject Institutions. In addition, the Group and the Subject Institutions have also considered the fact that CR Holdings is the second largest pharmaceutical distributor in the PRC with a prevailing market presence in the regions where the Group and Subject Institutions operate, and its capability to offer better pricing and credit terms to the Company and the Subject Institutions when compared with the other existing suppliers.

(c) Consolidation of suppliers

Historically, the Group and the Subject Institutions conducted their procurement process based on a standardized policy where suppliers were selected on an ad hoc basis in accordance with the adopted supplier selection policy. In the course of their recent review of management process, the Group and the Subject Institutions decided to further enhance their operational efficiency by consolidating the number of their suppliers in order to leverage on the economies of scale from larger orders that is typically available with a more centralised procuring system. The CR PMM Framework Agreement will enable the Enlarged Group and its sponsored hospitals to coordinate and manage the procurement of the pharmaceuticals, medical device and medical consumables in an efficient and standardized manner.

(d) Recent supply contracts with Wugang Hospital Group and Huaikuang Hospital Group

CR Holdings, along with a few other selected suppliers, have been in discussion with Wugang Hospital Group since 2015 to explore the possibility of becoming a main supplier of medical and pharmaceutical supplies to Wugang Hospital Group. In August 2016, CR Holdings (through its subsidiary) won the Wugang Hospital Group tender. In September 2016, CR Holdings (through its subsidiary) executed a supply contract with Huaikuang Hospital Group, details of which are set out in the paragraph headed "Huaikuang Hospital Group" under the sub-section headed "Basis of determination" below. The decisions of Wugang Hospital Group and Huaikuang Hospital Group to enter into the supply arrangements with CR Holdings was mainly driven by an aim to streamline the procurement procedures, hence enhance operational efficiency.

(e) Compliance with supplier selection process by CR Holdings

In selecting the suppliers for the Enlarged Group and its sponsored hospitals (whether such suppliers are connected persons or not), the Enlarged Group and its sponsored hospitals are required to go through a stringent selection and approval process involving arm's length commercial negotiation. CR Holdings and its subsidiaries are required to comply with such selection process before becoming one of the suppliers of the Enlarged Group and its sponsored hospitals.

(f) Mutual benefits

The execution of the CR PMM Framework Agreement is beneficial to both CR Holdings and the Enlarged Group and the Subject Institutions. On the one hand, dealing with reputable customers like the Enlarged Group and the Subject Institutions can enhance CR Holdings' reputation and market shares in the pharmaceutical supply industry; on the other hand, the Enlarged Group and the Subject Institutions can achieve better operating efficiency and economies of scale through dealing with a fewer number of suppliers with better quality like CR Holdings.

(g) No reliance on CR Holdings

The Group and the Subject Institutions are not dependent on CR Holdings even with the transactions contemplated under the CR PMM Framework Agreement given the reasons stated in the sub-section headed "No Reliance on CR Holdings" below. Moreover, under the CR PMM Framework Agreement, the Company has the right to terminate the agreement without cause with 30 days' written notice, which provides the Group and the Subject Institutions with sufficient independence and flexibility. Except in the case of Huaikuang Hospital Group which has signed an exclusive three year supply agreement with CR Holdings as referred to in the paragraph headed "Huaikuang Hospital Group" under the sub-section headed "Basis of determination" below, there is no fixed procurement requirements imposed on the Group and the Subject Institutions and accordingly the Group and the Subject Institutions may adjust their procurement policies in respect of CR Holdings on an on-going basis in accordance with the applicable circumstances.

The Directors (excluding the independent non-executive Directors whose views have been set out in "Letter from the Independent Board Committee" of this circular) are of the view that the terms of the CR PMM Framework Agreement and the proposed caps set out below are fair and reasonable, have been entered into on normal commercial terms and in the ordinary and usual course of business of the Company, and are in the interests of the Company and the Shareholders as a whole.

Historical transaction amounts

(i) The table below sets out the historical total transaction amounts in relation to the procurement of the pharmaceuticals, medical device and medical consumables by (a) Wugang Hospital Group, (b) Huaikuang Hospital Group and (c) the Group and the remaining Subject Institutions for the three financial years ended 31 December 2015:

	Financial year ended 31 December 2013 *(RMB)*	**Financial year ended 31 December 2014** *(RMB)*	**Financial year ended 31 December 2015** *(RMB)*
Wugang Hospital Group	283 million	296 million	274 million
Huaikuang Hospital Group	278 million	307 million	284 million
the Group and the remaining Subject Institutions	872 million	1,287 million	1,499 million
Total	1,433 million	1,890 million	2,057 million

(ii) The table below sets out the historical transaction amounts in relation to procurement of the pharmaceuticals, medical device and medical consumables by (a) Wugang Hospital Group, (b) Huaikuang Hospital Group and (c) the Group and the remaining Subject Institutions from CR Holdings and its subsidiaries for the three financial years ended 31 December 2015 and the six months ended 30 June 2016:

	Financial year ended 31 December 2013 *(RMB)*	**Financial year ended 31 December 2014** *(RMB)*	**Financial year ended 31 December 2015** *(RMB)*	**Six months ended 30 June 2016** *(RMB)*
Wugang Hospital Group	30 million	74 million	73 million	29 million
Huaikuang Hospital Group	2 million	2 million	3 million	3 million
the Group and the remaining Subject Institutions	12 million	19 million	18 million	7 million
Total	44 million	95 million	94 million	39 million

(iii) The table below sets out the historical percentages of procurement of the pharmaceuticals, medical device and medical consumables from CR Holdings and its subsidiaries out of the total procurement of the pharmaceuticals, medical device and medical consumables by (a) Wugang Hospital Group, (b) Huaikuang Hospital Group and (c) the Group and the remaining Subject Institutions for the three financial years ended 31 December 2015:

	Financial year ended 31 December 2013 *(%)*	**Financial year ended 31 December 2014** *(%)*	**Financial year ended 31 December 2015** *(%)*
Wugang Hospital Group	10.5	25.0	26.5
Huaikuang Hospital Group	0.8	0.5	1.2
the Group and the remaining Subject Institutions	1.3	1.5	1.2

Proposed caps

The table below sets out the proposed caps under the CR PMM Framework Agreement for the period from 1 November 2016 or the Completion Date, whichever is the earlier, to 31 December 2016 and the two financial years ending 31 December 2018:

	The period from 1 November 2016 or the Completion Date, whichever is the earlier, to 31 December 2016 *(RMB)*	**Financial year ending 31 December 2017** *(RMB)*	**Financial year ending 31 December 2018** *(RMB)*
Wugang Hospital Group	23 million	202 million	216 million
Huaikuang Hospital Group	36 million	247 million	247 million
the Group and the remaining Subject Institutions	7.5 million	60 million	75.5 million
Total	**66.5 million**	**509 million**	**538.5 million**

Basis of determination

The Group

In determining the above proposed caps, the Company has has taken into account (i) the Group's historical costs of procurement of the pharmaceuticals, medical device and medical consumables; (ii) the anticipated price movements of the typical medical/pharmaceutical supplies required by the Group; (iii) an average growth rate of 15% per year for the procurement requirement of the Group, as estimated by the Company on a conservative basis; and (iv) a moderate increase by approximately 1~2% in the Group's total procurement from CR Holdings and its subsidiaries.

The Subject Institutions (other than Wugang Hospital Group and Huaikuang Hospital Group)

With regard to the annual caps proposed for the Subject Institutions (other than Wugang Hospital Group and Huaikuang Hospital Group), a conservative average growth rate of 2~5% per year is applied for the procurement requirement of such Subject Institutions. The increase in the procurement from CR Holdings and its subsidiary is primarily driven by the adoption of a centralized procurement approach by such Subject Institutions.

Wugang Hospital Group

To benefit from economies of scale and the best possible offer price from suppliers, Wugang Hospital Group decided to adopt a centralized procurement approach and conducted a public tender through an independent agent in accordance with the applicable PRC laws in August 2016. CR Holdings (through its subsidiary) won the tender and entered into a centralized procurement arrangement with Wugang Hospital Group, pursuant to which CR Holdings will be Wugang Hospital Group's key supplier and Wugang Hospital Group may allocate around 70~75% of its total procurement of pharmaceuticals, medical device and medical consumables to CR Holdings and its subsidiaries. Under the centralized procurement arrangement with CR Holdings, Wugang Hospital Group does not have any obligation to purchase a minimum amount from CR Holdings, but a right to purchase up to 75% of its total procurement needs. Wugang Hospital Group will review such centralized procurement arrangement annually. The projected total procurement amounts by Wugang Hospital Group, and the projected amounts and percentages of procurement from CR Holdings and its subsidiaries are set out in the table below:

	Two months ending 31 December 2016	**Financial year ending 31 December 2017**	**Financial year ending 31 December 2018**
Total procurement by Wugang Hospital Group (RMB)	46 million	288 million	292 million
Procurement from CR Holdings and its subsidiaries (RMB)	23 million	202 million	216 million
Percentage (%)	50	70.1	74.0

In particular, if such centralized procurement arrangement had been entered into between CR Holdings and Wugang Hospital Group on 1 January 2013, Wugang Hospital Group's procurement amounts from CR Holdings and its subsidiaries would have been RMB198 million, RMB207 million and RMB192 million respectively for the financial years ended 31 December 2013, 31 December 2014 and 31 December 2015 respectively (assuming that 70% of the total procurement of Wugang Hospital Group was from CR Holdings and its subsidiaries).

Huaikuang Hospital Group

Huaikuang Hospital Group has adopted a centralized procurement approach since 2008 as it prized the benefits of dealing with a small number of suppliers offering competitive commercial terms, over the benefits of flexibility from multiple suppliers. Despite dealing with a smaller number of suppliers, it carries out periodic reviews of the market prices and had in the past replaced suppliers found to be underperforming during such reviews. In September 2016, Huaikuang Hospital Group entered into an exclusive pharmaceutical supply agreement with CR Holdings (through its subsidiary) upon finding CR Holdings to be more competitive than its previous key supplier, which is an independent third party. Pursuant to the pharmaceutical supply agreement, Huaikuang Hospital Group will purchase all its needs for pharmaceutical supplies from CR Holdings and its subsidiaries and Huaikuang Hospital Group has retained the flexibility to switch supplier at the end of the current term (which is three years ending September 2018) in the event any other supplier is to offer more competitive terms than CR Holdings. The projected total procurement amounts by Huaikuang Hospital Group, and the projected amounts and percentages of procurement from CR Holdings and its subsidiaries are set out in the table below:

	Two months ending 31 December 2016	Financial year ending 31 December 2017	Financial year ending 31 December 2018
Total procurement by Huaikuang Hospital Group (RMB)	50 million	325 million	315 million
Procurement from CR Holdings and its subsidiaries (RMB)	36 million	247 million	247 million
Percentage (%)	72	76	78.4

In particular, if such pharmaceutical supply agreement had been entered into between CR Holdings and Huaikuang Hospital Group on 1 January 2013, Huaikuang Hospital Group's procurement amounts from CR Holdings and its subsidiaries would have been RMB209 million, RMB230 million and RMB213 million respectively for the three financial years ended 31 December 2013, 31 December 2014 and 31 December 2015 respectively (assuming that 75% of the total procurement of Huaikuang Hospital Group was from CR Holdings and its subsidiaries).

Existing Procurement Model

The existing procurement of the Group and the Subject Institutions (other than Wugang Hospital Group and Huaikuang Hospital Group) is largely conducted on a regular basis where the Group and such Subject Institutions typically procure supplies on a monthly basis from a sizeable range of approved suppliers. In respect of the Subject Institutions, under applicable PRC regulations, they are now encouraged to procure supplies through centralized arrangements and each Subject Institution has developed its own procurement process based on past practices.

In particular, Wugang Hospital Group had been considering a policy of consolidating its suppliers to enhance operational efficiency. To ensure that it will obtain the most competitive commercial terms under such approach, Wugang Hospital Group conducted a public tender through an independent agent in accordance with the applicable PRC laws in August 2016. Different suppliers were invited to bid with the most favourable supply terms and the tender was won by CR Holdings.

Huaikuang Hospital Group has historically adopted a centralized approach with a small number of key suppliers since 2008 which provided substantially all the hospital's medical and pharmaceutical supplies. Huaikuang Hospital Group periodically reviews the terms offered by such key suppliers against market prices and prescribed prices for similar products to ensure that it is kept informed of the latest market conditions. Huaikuang Hospital Group used to engage other independent third parties as its key suppliers. As referred to in the paragraph headed "Huaikuang Hospital Group" under the sub-section headed "Basis of determination" above, Huaikuang Hospital Group has recently entered into an exclusive pharmaceutical supply agreement with CR Holdings (through its subsidiary) due to the more favorable terms from CR Holdings, including (i) CR Holdings placing a certain amount of product quality assurance deposit to demonstrate confidence in its product quality and inventory stability, (ii) better pricing and (iii) longer credit terms.

Future Procurement Model

Wugang Hospital Group and Huaikuang Hospital Group will continue to procure their supplies from CR Holdings in accordance with their existing supply arrangements with CR Holdings.

The proposed Continuing Connected Transactions would not drastically affect the future procurement model of the Enlarged Group. Save for Huaikuang Hospital Group, the Enlarged Group and the Subject Institutions will have the right but not the obligation to acquire their supplies through CR Holdings under the terms of the proposed Continuing Connected Transactions and in accordance with the approved annual caps. The Enlarged Group and the Subject Institutions will continue to strive for the best available supplies in the market, bearing in mind the benefit to the Company and its Shareholders as a whole.

No Reliance on CR Holdings

The Enlarged Group and the Subject Institutions will not be dependent on CR Holdings even with the proposed Continuing Connected Transactions because (i) the medical/pharmaceutical supplies are generic in nature and are readily available from different suppliers in the PRC; (ii) the Enlarged Group and the Subject Institutions have existing relationships with a number of different suppliers who can easily step in to replace any supplies from CR Holdings and its subsidiaries. There is no reason to believe that any such independent suppliers would be unwilling to continue or re-commence their supplies to the Enlarged Group and the Subject Institutions in the event of any shortfall of supplies from CR Holdings and its subsidiaries; and (iii) the contemplated transaction amounts under the CR PMM Framework Agreement only constitute approximately 20% of the total procurement amounts for the pharmaceuticals, medical device and medical consumables by the Enlarged Group and the Subject Institutions during the period up to 31 December 2018.

In view of the alternative suppliers available in the market as of the Latest Practicable Date, the Company considers that it would not be difficult for the Enlarged Group and the Subject Institutions to source similar products that are to be supplied by CR Holdings and its subsidiaries pursuant to the CR PMM Framework Agreement from other independent suppliers.

INFORMATION ON THE PARTIES

Information on the Company and the Purchaser

The Company was incorporated in the Cayman Islands and the Shares are listed on the Main Board of the Stock Exchange. The Purchaser is a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands.

The Group is one of the largest private hospital groups in the PRC and there are 60 medical institutions with approximately 5,780 beds in operation in Beijing and Hebei owned or operated by the Group, including three Grade III hospitals, six Grade II hospitals and nine Grade I hospitals. The network hospitals and clinics of the Group offer healthcare services from community healthcare to primary preventive care and acute care.

Information on the Seller

The Seller is principally engaged in the businesses of hospital investment, operation, management and relevant extended services and is a wholly-owned subsidiary of CR Holdings, a diversified conglomerate in the PRC and Hong Kong, which is one of the key and large scale state-owned enterprises under the administration of the State-owned Assets Supervision and Administration Commission of the State Council in the PRC.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition represents a valuable opportunity for the Company to significantly and quickly expand its hospital network, which forms part of its key strategies to become the leading hospital group in Asia, as described in its prospectus of 18 November 2013. The Group's current hospital network focuses on Beijing and Hebei only and the Acquisition will significantly expand the geographical coverage of the Group's hospital network to cover more key districts of the PRC. The Subject Institutions will become the regional centers of the Group, based on which a national medical and healthcare resources platform would be established. These immediate benefits align with the Group's long established development strategy and will also boost up the Group's brand.

The Seller, as one of the large state-owned enterprises in the healthcare industry in the PRC, will become a controlling shareholder of the Company. The Company considers that the cooperation is of critical value for the integration of the resources of the Group and China Resources Group, which will further advance the expansion of the Group's hospital network. Combining China Resources Group's extensive resources and diversified business structures in the medial healthcare industry and the Group's experience and expertise in public hospital reform and hospital group management, the alignment of interests through the Acquisition will enable the Enlarged Group to become a leading player in the healthcare industry in the PRC.

The Acquisition will also establish a national healthcare platform to promote the sharing of resources among the member agencies and lower the procurement costs through economies of scale, by which the Enlarged Group's operation efficiencies will be increased. This will further optimize the Group's medical service business structure, enhance the quality of the Group's medical service as well as operation and management capabilities and provide stronger support for the Enlarged Group's long term development.

The Enlarged Group will focus on development of regional integrated delivery system and building the hierarchical medical system to optimize medical resources allocation through the synergies among the service networks of primary preventive care, acute care and post-operative rehabilitation. With the strategic expansion into industry chains, including elderly care and insurance, the Enlarged Group will explore the integration of healthcare with insurance and elderly care so as to become an important part of the national ecosystem of medical healthcare services supply.

In view of the above, the Directors (excluding members of the Independent Board Committee whose views have been set out in "Letter from the Independent Board Committee" of this circular) are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

In so far as the Company is aware, upon Completion, it is the intention of the Seller to continue the existing business of the Group and the Seller has no intention to introduce any major changes to the business (including any redeployment of the fixed assets of the Group) or terminate the employment of the existing employees of the Group. Nevertheless, the Seller may from time to time review the business, operation and/or direction of the Group and may implement such changes based on the outcome of the regular review. The Company understands that the Seller is optimistic about the prospect of the existing business of the Group and considers that the acquisition of a controlling interest in the Company is commercially justifiable.

As at the Latest Practicable Date, save for the Acquisition and the CITIC Acquisition, the issue of the Consideration Shares and CITIC Consideration Shares, each of the Company and the Seller had no intention, arrangement, agreement, understanding, negotiation (concluded or otherwise) (i) on any material disposal/termination/scaling-down of the existing businesses of the Group; (ii) to inject any other new business to the Group; and (iii) to change the shareholding structure of the Company.

EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company has 833,763,000 Shares in issue. The Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible into or exchangeable into Shares.

The following table illustrates the shareholding structures of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion (assuming there is no change in the issued share capital of the Company other than the issue of the Consideration Shares from the Latest Practicable Date up to the Completion Date):

Name of the Shareholder	**(i) At the Latest Practicable Date** *Number of Shares*	**(i) At the Latest Practicable Date** *Approximate percentage of shareholding*	**(ii) Immediately after Completion** *Number of Shares*	**(ii) Immediately after Completion** *Approximate percentage of shareholding*
Seller (through CRH Phoenix)	0	0%	462,913,516	35.70%
Ms. Xu Jie and parties acting in concert with her[1]	208,860,000	25.05%	208,860,000	16.11%
Mr. Liang Hongze[2]	26,860,912	3.22%	26,860,912	2.07%
Mr. Jiang Tianfan[3]	10,551,648	1.27%	10,551,648	0.82%
Other Directors[4]	6,677,580	0.80%	6,677,580	0.51%
Other public Shareholders	580,812,860	69.66%	580,812,860	44.79%
Total	833,763,000	100%	1,296,676,516	100%

1. Including Ms. Xu Jie, who is an executive Director and the chairman of the Company and was interested in 13,868,000 Shares (representing 1.66% of the existing issued Shares), Ms. Xu Xiaojie, who is the daughter of Ms. Xu Jie and was interested in 13,590,640 Shares (representing 1.63% of the existing issued Shares), and Speed Key Limited, which is wholly owned by Xu Baorui, the father of Xu Jie, and was interested in 181,401,360 Shares (representing 21.76% of the existing issued Shares).

2. Mr. Liang Hongze is an executive Director and the chief executive officer of the Company. 26,705,912 of these Shares were held through a wholly-owned company of Mr. Liang, Xin Yue Development Limited, and 155,000 of these Shares were held by Mr. Liang personally.

3. Mr. Jiang Tianfan is an executive Director and the chief financial officer of the Company. 10,401,648 of these Shares were held through a wholly-owned company of Mr. Jiang, True Glory Global Limited, and 150,000 of these Shares were held by Mr. Jiang personally.

4. Including Mr. Zhang Xiaodan, Mr. Xu Zechang, Mr. Shan Baojie and Mr. Cheng Libing.

Based on the current shareholding structure of the Company, the Company will continue to be able to satisfy the public float requirement under the Listing Rules following the issue of the Consideration Shares.

As at the Latest Practicable Date, the Seller confirms that (i) none of the Seller, its ultimate beneficial owners and/or parties acting in concert with any of them owns or has control or direction over any voting rights and rights over any Shares or any options, warrants or convertible securities in respect of the Shares or has entered into any outstanding derivatives contracts in respect thereof; (ii) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Seller, its ultimate beneficial owners and/or any parties acting in concert with any of them has borrowed or lent; and (iii) none of the Seller, its ultimate beneficial owners and/or parties acting in concert with any of them has dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

As at the Latest Practicable Date, save for the Sale and Purchase Agreement, the Seller confirms that (i) there are no agreements or arrangements to which the Seller is a party which relate to circumstances in which it may or may not invoke or seek a pre-condition or a condition to the Acquisition and/or the Whitewash Waiver; (ii) none of the Seller, its ultimate beneficial owners and/or parties acting in concert with any of them has received any irrevocable commitment to vote for or against the Acquisition and/or the Whitewash Waiver; and (iii) there are no arrangements (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the Shares or the shares of the Company or the Seller, which might be material to the Acquisition and/or the Whitewash Waiver.

REGULATORY OVERVIEW

Set out below is a summary of certain aspects of PRC laws and regulations, which are relevant to the operations and business of the Target Group.

Rules on Classification of Medical Institutions

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

The "Basic Standards for Medical Institutions (For Trial Implementation)" provides basic standards for medical institutions at all grades and in all types in respect of hospital beds, establishment of departments, personnel, housing, equipment, establishment of various rules and regulations and the post responsibility system for personnel, the amount of registered capital in place and others. Provincial branch of the NHFPC has the discretion to adjust the standards based on local conditions and file such adjusted standards to NHFPC for records.

LAWS AND REGULATIONS RELATED TO THE HEALTHCARE SERVICE SECTOR IN CHINA

Regulations on the Reform of Healthcare Institutions

Opinions on Promoting Further Reform of the Healthcare System

The Opinions on Promoting Further Reform of the Healthcare System (中共中央國務院關於深化醫藥衛生體制改革的意見) (the "Opinions"), which were promulgated by the State Council on 17 March 2009, advocate a range of measures to reform healthcare institutions in the PRC and establish a basic healthcare system covering urban and rural residents. Measures aimed at reforming healthcare institutions include the separation of: (i) government agencies from public healthcare institutions, (ii) for-profit healthcare institutions from not-for-profit healthcare institutions, (iii) sponsorship from operations of public hospitals, and (iv) pharmaceutical dispensing from pharmaceutical prescription. The Opinions include proposals for the establishment and improvement of corporate governance systems of public healthcare institutions, and checks and balances in decision-making, execution and supervision processes between organizers and operators of public healthcare institutions. The Opinions also encourage private capital to invest in healthcare institutions (including investments by foreign investors), the development of private healthcare institutions and the reform of public healthcare institutions (including those established by state-owned enterprises) through private capital investment.

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

The Notice of the State Council on Forwarding the Opinions of the NDRC, the NHFPC and other Departments on Further Encouraging and Guiding Private Capital to Invest in Medical Institutions (關於進一步鼓勵和引導社會資本舉辦醫療機構意見的通知) ("Order No. 58"), which was promulgated by the General Office of the State Council on 26 November 2010, stipulates that the PRC government encourages and supports investments by private investors in healthcare institutions of various types. Private investors are permitted to apply to establish for-profit or not-for-profit healthcare institutions. Private investors are also encouraged to participate in the reform of existing public hospitals, including those established by state-owned enterprises, by converting them into non-public healthcare institutions in order to systematically reduce the proportion of public hospitals in the system. Private healthcare institutions with experience in the provision of healthcare services and good reputation shall be selected as participants in the restructuring of public hospitals. The restructuring of public hospitals may be carried out through pilot reform programs in hospitals established by state-owned enterprises. Private healthcare institutions are encouraged to modernize hospital management, establish standardized corporate governance structures, step up cost control and quality management systems, and employ professional administrators to manage the hospital. Private investors are encouraged to set up hospital management companies to provide specialized services. Private healthcare institutions are encouraged to engage or authorize domestic or overseas healthcare institutions with professional experience to participate in the management of hospitals to improve their efficiencies. Healthcare institutions are encouraged to develop into large, sophisticated, technology-intensive medical groups and adopt brand-focused development strategies to build good reputation and image. Private healthcare institutions are encouraged to improve their clinical research and build their research and development teams.

Several Policies and Measures Regarding the Promotion of Accelerating the Development of the Medical Institutions Invested by Private Capital

Several Policies and Measures Regarding the Promotion of Accelerating the Development of the Medical Institutions Invested by Private Capital (關於促進社會辦醫加快發展若干政策措施的通知), which were promulgated by the General Office of the State Council on 11 June 2015 and came into effect on the same day, stipulate that, (i) the elimination and cancellation of unreasonable preceding items for examination and approval and the reduction in the time required for making such examination and approval; (ii) the reasonable control of the number and scale of the public medical institutions and the exploration of the space for development of the medical institutions invested by private capital; (iii) the support for the listing and financing of such eligible and qualified for-profit medical institutions invested by private capital; (iv) and that private investors with managerial experience in medical institutions are encouraged to participate in the management of public medical institutions through various formats including hospital management groups and subject to the clear distribution of power and responsibilities.

Regulations on the Administration and Classification of Healthcare Institutions

Administrative Measures on Medical Institutions and the Medical Institution Practicing License

The Administrative Measures on Medical Institutions (醫療機構管理條例), which were promulgated on 26 February 1994 by the State Council and came into effect on 1 September 1994 and amended on 6 February 2016, and the Implementation Measures of the Administrative Measures on Medical Institutions (醫療機構管理條例實施細則), which were promulgated by the NHFPC on 29 August 1994 and came into effect on 1 September 1994, stipulate that the establishment of healthcare institutions shall comply with the relevant regional planning requirements as well as the basic standards of healthcare institutions. Any entity or individual that intends to establish a healthcare institution must follow the application approval procedures and register with the relevant healthcare administrative authorities to obtain a Medical Institution Practicing License (醫療機構執業許可證).

Law on Maternal and Infant Healthcare and Its Implementation Measures

The Law of the People's Republic of China on Maternal and Infant Healthcare (中華人民共和國母嬰保健法), which was promulgated by the Standing Committee of the National People's Congress (the "NPC") on 27 October 1994 and came into effect on 1 June 1995, and the Implementation Measures of the Law of the People's Republic of China on Maternal and

Infant Health Care (中華人民共和國母嬰保健法實施辦法), which were promulgated by the State Council on 20 June 2001 and came into effect on the same day, stipulate that medical institutions engaged in (i) genetic disease diagnosis and prenatal diagnosis, (ii) pre-marital medical examinations, or (iii) midwifery services, ligature operations or operations for termination of gestation, shall be licensed by the public health administrative authority of different level as stipulated to obtain the corresponding qualification certificates.

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

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

Opinions on Implementing Classification Administration of Urban Medical Institution

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

Categories of Healthcare Institutions in China

According to the Basic Standards for Medical Institutions (For Trial Implementation) (醫療機構基本標準(試行)) which was promulgated on 2 September 1994 and revised on 5 December 2011 and the Interim Measures for the Assessment of Medical Institutions (醫院評審暫行辦法) promulgated by the NHFPC on 21 September 2011, medical institutions in the PRC can be graded into three classes (Class I, II and III) with regard to their medical practice conditions, including but not limited to, the amount of registered beds, treatment departments, personnel, properties, equipment as well as completeness of their internal rules and regulations.

Regulations on the Supervision over Pharmaceuticals and Medical Equipment in Healthcare Institutions

Measures for the Supervision and Administration of Pharmaceuticals in Medical Institutions (for Trial Implementation)

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

Administrative Measures for the Control of Radioactive Pharmaceuticals

The Administrative Measures for the Control of Radioactive Pharmaceuticals (放射性藥品管理辦法), which were promulgated by the State Council and came into effect on 13 January 1989 and revised on 8 January 2011, require healthcare institutions to comply with relevant national regulations and rules concerning radioisotope health protection when using radioactive pharmaceuticals. Any healthcare institution that wants to use radioactive pharmaceuticals must obtain a License for the Use of Radioactive Pharmaceuticals from the public security departments, the environmental protection departments and the public health departments at provincial, regional or municipal levels, as applicable.

Regulations on the Administration of Narcotic Pharmaceuticals and Psychotropic Substances

The Regulations on the Administration of Narcotic Pharmaceuticals and Psychotropic Substances (麻醉藥品和精神藥品管理條例), which were promulgated by the State Council on 3 August 2005 and revised on 7 December 2013, provide that, where a healthcare institution needs to use any narcotic pharmaceutical or Class I psychotropic substance, it shall, upon approval by the competent public health department, obtain the Seal Card for the Purchase and Use of Narcotic Pharmaceuticals and Class I Psychotropic Substances (the "Seal Card").

Administrative Measures on the Radiotherapy

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

Administrative Measures on the Deployment and Use of Large Medical Equipment

The Administrative Measures on the Deployment and Use of Large Medical Equipment (大型醫用設備配置與使用管理辦法), which were jointly promulgated by the NHFPC, the NDRC and the MOF on 31 December 2004 and came into effect on 1 March 2005, provide that the management of large medical equipment is subject to the allocation planning and licensing system. Large medical equipment refers to those medical equipment listed in the catalog issued by the public health administrative authorities of the State Council or those unlisted medical equipment deployed for the first time within the provincial regions with a unit price of RMB5 million or above. Medical institutions that wish to purchase large medical equipment shall apply to the competent public health administrative authorities and purchase the approved large medical equipment upon receipt of a License for the Deployment of Large Medical Equipment. Operating personnel of the large medical equipment (including doctors, operation staff, engineers and technicians) shall accept corresponding job training and obtain corresponding operating qualifications.

Laws and Regulations on Medical Personnel of Healthcare Institutions

The Law on Medical Practitioners of the People's Republic of China (中華人民共和國執業醫師法), which was promulgated by the Standing Committee of the NPC on 26 June 1998 and came into effect on 1 May 1999, provides that physicians in China must obtain qualification licenses for their medical profession. Qualified physicians and qualified assistant physicians must register with the relevant public health administrative authorities at or above the county level.

The Notice on Issues concerning Multi-sited Practices of Physicians (衛生部關於醫師多點執業有關問題的通知), which was promulgated by the NHFPC on 11 September 2009 and came into effect on the same date, provides that a classification administration system shall be implemented for physicians' multi-sited practices. Physicians can practice in its cooperative healthcare institutions after performing relevant record-filing procedures with the authorities with which physicians' Medical Institution Practicing License registered. The local NHFPC shall implement its multi-sited practices policies after being approved by NHFPC. On 12 July 2011, the Notice of the Office of the NHFPC on Expanding the Pilot Scope of Multi-sited Practices of Physicians (衛生部辦公廳關於擴大醫師多點執業試點範圍的通知) further relaxed the regulation on physicians' multi-sited practices and expands its pilot areas. Qualified physicians in the pilot areas can apply for at most three locations as their practicing sites. Several Opinions on Accelerating the Development of Medical Institutions with Social Capital (關於加快發展社會辦醫的若干意見), which were promulgated on 30 December 2013 by NHFPC and the State Administration of Traditional Chinese Medicine, specifically stipulate that multi-sited practices of physicians shall be permitted and relevant authorities should allow the orderly movements of the medical personnel.

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

Laws and Regulations on Medical Malpractice

The Tort Liability Law of the People's Republic of China (中華人民共和國侵權責任法), which as promulgated by the Standing Committee of the NPC on 26 December 2009 and came into effect on 1 July 2010, provides that, if a healthcare institution or its medical personnel are at fault for damage inflicted on a patient during the course of diagnosis and treatment, the healthcare institution will be liable for compensation. The damage caused to the patient by the failure of the medical personnel to fulfill their statutory obligations in the course of diagnosis and treatment will be paid by the healthcare institution. Healthcare institutions and their medical personnel will protect the privacy of their patients and will be liable for damage caused by divulging the patients' private or medical records without consent.

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

Regulations on Medical Advertising in China

The Advertisement Law of the People's Republic of China (中華人民共和國廣告法), which was promulgated by the Standing Committee of the NPC on 27 October 1994 and came into effect on 1 February 1995 and further amended on 1 September 2015, provides that advertisements shall not contain false statements and be deceitful or misleading to consumers, in addition, any advertisement for medical treatment, pharmaceuticals or medical devices shall not contain: (i) any assertion or guarantee for efficacy and safety; (ii) any statement on cure rate or effective rate; (iii) any comparison with the efficacy and safety of other pharmaceuticals or medical devices or with other healthcare institutions; (iv) any use of endorsements or testimonials; or (v) other items as prohibited by laws and administrative regulations.

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

Regulations on Environmental Protection related to Healthcare Institutions

The Regulations on the Management of Medical Waste (醫療廢物管理條例), which were promulgated by the State Council on 16 June 2003 and came into effect on the same day, and further amended on 8 January 2011, and the Implementation Measures of the Management of Medical Waste (醫療衛生機構醫療廢物管理辦法), which were promulgated by the NHFPC on 15 October 2003 and came into effect on the same day, stipulate that healthcare institutions must timely deliver medical waste to a specially designated location for centralized disposal of medical waste and categorize the medical waste in accordance with the Classified Catalog of Medical Waste.

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

LAWS AND REGULATIONS RELATED TO FOREIGN INVESTMENT IN CHINA

Company Law of the People's Republic of China

The Company Law of the People's Republic of China (中華人民共和國公司法), which was promulgated by the Standing Committee of the NPC on 29 December 1993 and came into effect on 1 July 1994 (subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013), provides that companies established in China may take form of company of limited liability or company limited by shares. Each company has the status of a legal person and owns its assets itself. Assets of a company may be used in full for the company's liability. The Company Law applies to foreign-invested companies unless relevant laws provide otherwise.

Wholly Foreign-Owned Enterprise Law of the People's Republic of China and its implementation measures

The Wholly Foreign-Owned Enterprise Law of the People's Republic of China (中華人民共和國外資企業法), which was promulgated by the NPC on 12 April 1986 and amended by the Standing Committee of the NPC on 31 October 2000 and came into effect on the same day, and the Implementation Measures for the Wholly Foreign-Owned Enterprise Law (中華人民共和國外資企業法實施細則), which were promulgated by the State Council on 12 December 1990 and came into effect on the same day and amended 12 April 2001 and on 19 February 2014, stipulate that foreign enterprises and other economic organizations or individuals may establish wholly foreign-owned enterprises ("WFOEs") in China. The application for the establishment of a WFOE is subject to the examination and approval by the competent commercial departments before an Approval Certificate is issued.

Interim Provisions on Investment Made by Foreign-Invested Enterprises in China

The Interim Provisions on Investment Made by Foreign-Invested Enterprises in China (關於外商投資企業境內投資的暫行規定), which were jointly promulgated by MOFCOM and the State Administration of Industry and Commerce on 25 July 2000 and came into effect on 1 September 2000, stipulate that the provisions of the Interim Provisions Guiding Foreign Investment Direction and the Industry Catalog for Guiding Foreign Investment will govern foreign-invested enterprises' investment in China. Foreign-invested enterprises are not permitted to invest in any sector prohibited to foreign investment. Where a foreign-invested enterprise makes investment in a restricted sector, the foreign-invested enterprise must file an application with the provincial commercial department of the place where the investee company is located. The relevant company registration authority will, in accordance with the relevant provisions of the Company Law and the Regulations on the Administration of Company Registration of the People's Republic China (中華人民共和國公司登記管理條例), decide whether to approve the registration or not. If the registration is approved, a Business License of an Enterprise Legal Person will be issued with the designation "Invested by a Foreign-Invested Enterprise" added. The foreign-invested enterprise is required to report the establishment of the investee company within 30 days of the date of its establishment to the original examination and approval authority for record-filing.

The Industry Catalogue for Guiding Foreign Investment and the Provisions Guiding Foreign Investment Direction

The current Industry Catalogue for Guiding Foreign Investment (外商投資產業指導目錄) (the "Foreign Investment Catalogue") was jointly promulgated by the NDRC and MOFCOM on 10 March 2015 and came into effect on 10 April 2015, and the Provisions Guiding Foreign Investment Direction (指導外商投資方向規定), which were promulgated by the State Council on 11 February 2002 and came into effect on 1 April 2002, classify all foreign investment projects into four categories: (1) encouraged projects, (2) permitted projects, (3) restricted projects, and (4) prohibited projects. If the industry in which the investment is to occur falls into the encouraged category, foreign investment, in certain cases, may enjoy preferential policies or benefits. If restricted, foreign investment may be conducted in accordance with applicable legal and regulatory restrictions. If prohibited, foreign investment of any kind is not allowed. According to the current Foreign Investment Catalogue, foreign investment in healthcare institutions is restricted to the form of sino-foreign cooperation or joint venture.

LAWS AND REGULATIONS RELATED TO LABOR PROTECTION IN CHINA

The Labor Contract Law (中華人民共和國勞動合同法), which was promulgated by the Standing Committee of the NPC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012, and the Implementation Regulations on Labor Contract Law (勞動合同法實施條例) which were promulgated on 18 September 2008 and came into effect on the same day, regulate employer and the employee relations and contain specific provisions involving the terms of the labor contract. Labor contracts must be made in writing and may, after reaching agreement upon due negotiations, be for a fixed-term, an un-fixed term, or conclude upon the completion of certain work assignments. An employer may legally terminate a labor contract and dismiss its employees after reaching an agreement upon due negotiations with the employee or by fulfilling the statutory conditions.

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

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

LAWS AND REGULATIONS RELATED TO TAXATION IN CHINA

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

According to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the "Tax Treaty"), if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which beneficially owns a 25% or more interest in the PRC enterprise, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends and 7% for interest payments once approvals have been obtained from the relevant tax authorities. The determination of beneficial ownership is clarified under the Notice on Understanding and Determining Beneficial Owners (國家稅務總局關於如何理解和認定稅收協定中"受益所有

人"的通知) issued by the SAT on 27 October 2009, which expressly excludes from the definition of a beneficial owner any company not engaged in actual operations such as manufacturing, sales or management but that is established for the purpose of avoiding or reducing tax obligations or transferring or accumulating profits.

Pursuant to the Notice on the Several Issues of the Implementation of Tax Treaty (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT and came into effect on 20 February 2009, the non-resident taxpayer or the withholding agent is required to obtain and keep sufficient documentary evidence proving that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty if the main purpose of an offshore transaction or arrangement is to obtain a preferential tax treatment. Pursuant to the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (非居民納稅人享受稅收協定待遇管理辦法), which was promulgated by the SAT on 27 August 2015, any non-resident taxpayer fulfilling conditions for enjoying the convention treatment may be entitled to the convention treatment on its own when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

Business Tax

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

Value-added Tax

The Temporary Regulations on Value-added Tax (增值稅暫行條例), which were promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, and amended on 10 November 2008 and 6 February 2016, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (增值稅暫行條例實施細則), which were promulgated by the MOF and became effective on 25 December 1993, and were amended on 15 December 2008 and 28 October 2011, set out that all taxpayers selling goods or providing processing, repairing or replacement services and importing goods in China shall pay a value-added tax. A tax rate of 17% shall be levied on general taxpayers selling or importing various goods and on taxpayers providing processing, repairing or replacement service; the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated.

According to the Pilot Scheme for the Conversion of Business Tax to Value-added Tax (營業稅改徵增值稅試點方案), which were promulgated by the MOF and the SAT, the government launched gradual taxation reforms starting from 1 January 2012, whereby it collected value-added tax in lieu of business tax on a trial basis in regions and industries showing strong economic performance, such as transportation and certain modern service industries.

Furthermore, according to the Notice of the Ministry of Finance and the State Administration of Taxation on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax (財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知), all business tax payers in consumer service industry shall pay value-added tax in lieu of business tax from 1 May 2016 and the taxpayer may continue to enjoy tax incentives of VAT in accordance with the relevant provisions in the remaining period of tax incentives if tax incentives of business tax before the application of pilot collection of VAT in lieu of business tax has already been enjoyed.

LEGAL SUPERVISION OVER FOREIGN EXCHANGE IN CHINA

The Regulations on the Control of Foreign Exchange

The Regulations on the Control of Foreign Exchange (外匯管理條例), which were promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996, and amended on 14 January 1997 and 5 August 2008, set out that foreign exchange receipts of domestic institutions or individuals may be transferred to China or deposited abroad and that SAFE shall specify the conditions for transfer to China or overseas and other requirements in accordance with the international receipts, payments status and requirements of foreign exchange control. Foreign exchange receipts for current account transactions may be retained or sold to financial institutions engaged in the settlement or sale of foreign exchange. Domestic institutions or individuals that make direct investments abroad or are engaged in the distribution or sale of valuable securities or derivative products overseas should register according to SAFE regulations. Such institutions or individuals subject to prior approval or record-filing with other competent authorities shall complete the required approval or record-filing prior to foreign exchange registration. The exchange rate for RMB follows a managed floating exchange rate system based on market demand and supply.

The Regulations on the Administration of the Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定), which were promulgated by the PBOC on 20 June 1996 and came into effect on 1 July 1996, provide that foreign exchange receipts under the current account of foreign-invested enterprises may be retained to the fullest extent specified by the foreign exchange bureau. Any portion in excess of such amount shall be sold to a designated foreign exchange bank or through a foreign exchange swap center.

The Notice on Further Improving and Adjusting Policies Relating to Foreign Exchange Administration in Direct Investment (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知), which was promulgated by the SAFE on 19 November 2012 and came into effect on 17 December 2012, improves foreign exchange administration in direct investment by repealing or adjusting certain approval items for foreign exchange administration in direct investment.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 25% but all of them are less than 100%, the Acquisition constitutes a major transaction for the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Seller will become a controller (as defined in the Listing Rules) of the Company upon Completion, the Acquisition also constitutes a connected transaction of the Company under Rule 14A.28 of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As CR Holdings, a holding company of the Seller, will become a connected person of the Company upon Completion, the Continuing Connected Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) relating to the proposed caps under the CR PMM Framework Agreement exceeds 5%, the Continuing Connected Transactions are subject to the requirements of reporting, announcement and approval by the Independent Shareholders under Chapter 14A of the Listing Rules.

IMPLICATIONS UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date, the Seller, CRH Phoenix and parties acting in concert with any of them did not hold any Shares. Upon Completion, the Seller (through CRH Phoenix) will hold approximately 35.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Consideration Shares from the Latest Practicable Date and up to the Completion Date).

Upon Completion, under Rule 26.1 of the Takeovers Code, the Seller (through CRH Phoenix) would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares other than those already owned or agreed to be acquired by the Seller and parties acting in concert with it, unless the Whitewash Waiver is obtained from the Executive. In this regard, the Seller has applied to the Executive and the Executive has agreed, subject to, among other matters, the approval of the Independent Shareholders at the EGM, to grant the Whitewash Waiver in respect of the allotment and issue of the Consideration Shares. The Whitewash Waiver and the underlying transactions including the Acquisition will be subject to the approval by the Independent Shareholders by way of a poll at the EGM.

As at the Latest Practicable Date, Ms. Xu Jie, the chairman and an executive director of the Company, was interested in 13,868,000 Shares (representing 1.66% of the existing issued Shares). Speed Key Limited, a company that is wholly owned by Mr. Xu Baorui, father of Ms. Xu Jie, was interested in 181,401,360 Shares (representing 21.76% of the existing issued Shares). Ms. Xu Xiaojie, who is the daughter of Ms. Xu Jie, was interested in 13,590,640 Shares (representing 1.63% of the existing issued Shares). Mr. Liang Hongze, the chief executive officer and an executive director of the Company, was interested in 26,860,912 Shares (representing 3.22% of the existing issued Shares), of which 26,705,912 Shares were held through a wholly-owned company, Xin Yue Development Limited, and 155,000 Shares were held personally. Mr. Jiang Tianfan, the chief financial officer and an executive Director of the Company, was interested in 10,551,648 Shares (representing 1.27% of the existing issued Shares), of which 10,401,648 Shares were held through a wholly-owned company, True Glory Global Limited, and 150,000 Shares were held personally. Ms. Xu Jie, Mr. Liang Hongze and Mr. Jiang Tianfan were involved in the Acquisition and the Whitewash Waiver and accordingly, Ms. Xu Jie together with her associates and parties acting in concert with her (including Speed Key Limited, Mr. Xu Baorui and Ms. Xu Xiaojie), Mr. Liang Hongze and Mr. Jiang Tianfan will abstain from voting on the resolutions to approve the Acquisition, the Specific Mandate and the Whitewash Waiver at the EGM, in respect of their respective shareholding interests in the Company. Save as disclosed above, no other Shareholder will be required to abstain from voting at the EGM in relation to the resolutions to be proposed in respect of the Acquisition, the Specific Mandate and the Whitewash Waiver.

Reference is made to the announcement of the Company dated 8 July 2016 in respect of the Yan Hua IOT Agreement with Yan Hua Hospital Group and the Announcement, the extension of the Yan Hua PMM Framework Agreement with Yan Hua Hospital Group and the approval of the proposed annual caps in relation to the Yan Hua IOT Agreement and the Yan Hua PMM Framework Agreement. The sponsor for Yan Hua Hospital Group is indirectly wholly-owned by Ms. Xu Jie, the chairman of the Company and an executive Director, and Ms. Xu Xiaojie, daughter of Ms. Xu Jie. Thus, Yan Hua Hospital Group is a connected person of the Company as defined under the Listing Rules and the Yan Hua CCT Renewals constitute continuing connected transactions under Chapter 14A of the Listing Rules.

The Yan Hua CCT Renewals are renewals of existing connected transactions of the Company and are conducted in the ordinary and usual course of business of the Company based on arm's length negotiation. Due to the Whitewash Waiver application, the Yan Hua CCT Renewals constitute special deals under Rule 25 of the Takeovers Code, which require among other thing the consent of the Executive. The Company has made an application to the Executive for the consent to proceed with the Yan Hua CCT Renewals. The Executive has indicated that it will grant consent to the special deals provided that (i) VMS Securities, the independent financial adviser of the Company, stating that in its opinion that the terms of the Yan Hua CCT Renewals are fair and reasonable; and (ii) the Yan Hua CCT Renewals are approved by the Independent Shareholders by way of a poll at the Yan Hua CCT EGM.

The Yan Hua CCT Circular containing, among other things, (i) a letter from the Board setting out details of the Yan Hua IOT Agreement, the Yan Hua PMM Framework Agreement and the proposed annual caps in relation to the Yan Hua IOT Agreement and the Yan Hua PMM Framework Agreement; (ii) a letter of recommendation from VMS Securities; and (iii) a notice of the Yan Hua CCT EGM will be despatched in due course.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

The authorised share capital of the Company is HK$380,000 comprising 1,520,000,000 Shares, of which 833,763,000 Shares are in issue as at the Latest Practicable Date. In view of the Acquisition and the CITIC Acquisition and to provide the Company with greater flexibility to raise funds by allotting and issuing Shares in the future as and when necessary, the Board proposes to increase the authorised share capital of the Company from HK$380,000 to HK$760,000 by the creation of an additional 1,520,000,000 unissued Shares which rank *pari passu* in all respects with the existing Shares of the Company. The increase in authorised share capital of the Company is subject to the approval by an ordinary resolution of the Shareholders, which is proposed to be sought at the EGM.

PROPOSED CHANGE OF COMPANY NAME

Pursuant to the Sale and Purchase Agreement, the Board proposes to change the Company's English name and Chinese name from "Phoenix Healthcare Group Co. Ltd 鳳凰醫療集團有限公司" to "China Resources Phoenix Healthcare Holdings Company Limited 華潤鳳凰醫療控股有限公司" conditional upon and with effect from Completion. The Change of Company Name is subject to the approval by a special resolution of the Shareholders, which is proposed to be sought at the EGM.

Conditions of the Change of Company Name

The Change of Company Name will be subject to the following conditions:

1. the passing of a special resolution by the Shareholders at the EGM approving the Change of Company Name; and

2. the approval of the Registrar of Companies in Cayman Islands for the change of the English name and secondary name in Chinese of the Company.

Subject to the satisfaction of the conditions set out above, the Change of Company Name will take effect from the date on which the Registrar of Companies in Cayman Islands enters the new names on the register maintained by it in place of the existing names of the Company. Thereafter, the Company will then carry out all necessary filing procedures with the Companies Registry in Hong Kong.

Effects of the Change of Company Name

The Change of Company Name will not affect any of the rights of the existing Shareholders. All existing share certificates of the Company in issue bearing the existing name of the Company will, after the Change of Company Name becoming effective, continue to be evidence of title to the Shares and will be valid for trading, settlement, registration and delivery for the same number of Shares in the new English name and the secondary name in Chinese of the Company. As soon as the Change of Company Name has become effective, any new issue of share certificates will be issued in the new English name and secondary name in Chinese of the Company. There will not be any arrangement for free exchange of the existing share certificates of the Company for new share certificates bearing the new name of the Company.

Further announcements concerning the effective date of the Change of Company Name and the arrangement for the trading and dealings in the Shares (including the date on which the Shares will commence to be traded under the new stock short name on the Stock Exchange) will be made in due course.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Kwong Kwok Kong, Ms. Cheng Hong, Mr. Sun Jianhua and Mr. Lee Kar Chung Felix, has been established in compliance with the Listing Rules and the Takeovers Code to advise the Independent Shareholders as to (i) whether the terms of the Acquisition (including but not limited to the grant of the Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and to give its recommendation as to the voting in respect of the resolution(s) to be proposed at the EGM for approving the Acquisition and the Specific Mandate; (ii) whether the terms of the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to give its recommendation as to the voting in respect of the resolution to be proposed at the EGM for approving the Whitewash Waiver; and (iii) whether the terms of the Continuing Connected Transactions and the proposed caps are on normal commercial terms and in the ordinary and usual course of businesses of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole, after taking into account the recommendation of Somerley. Somerley has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions.

None of the Directors has a material interest in the Acquisition, the Specific Mandate, the Whitewash Waiver, the increase in authorized share capital, the Change of Company Name and the Continuing Connected Transactions, and none of the Directors was required to abstain from voting on the relevant board resolutions.

The voting in respect of the Acquisition, the Specific Mandate, the Whitewash Waiver, the increase in authorized share capital, the Change of Company Name and the Continuing Connected Transactions at the EGM will be conducted by way of a poll.

EGM

The notice convening the EGM to be held at E-825, Fuli Morgan Center, No. 6 Taiping Street, Xicheng District, Beijing, the PRC on 31 October 2016 at 10:00 a.m. is set out on pages 301 to 304 of this circular. A proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

As at the Latest Practicable Date, Ms. Xu Jie, the chairman and an executive director of the Company, was interested in 13,868,000 Shares (representing 1.66% of the existing issued Shares). Speed Key Limited, a company that is wholly owned by Mr. Xu Baorui, father of Ms. Xu Jie, was interested in 181,401,360 Shares (representing 21.76% of the existing issued Shares). Ms. Xu Xiaojie, who is the daughter of Ms. Xu Jie, was interested in 13,590,640 Shares (representing 1.63% of the existing issued Shares). Mr. Liang Hongze, the chief executive officer and an executive director of the Company, was interested in 26,860,912 Shares (representing 3.22% of the existing issued Shares), of which 26,705,912 Shares were held through a wholly-owned company, Xin Yue Development Limited, and 155,000 Shares were held personally. Mr. Jiang Tianfan, the chief financial officer and an executive director of the Company, was interested in 10,551,648 Shares (representing 1.27% of the existing issued Share), of which 10,401,648 Shares were held through a wholly-owned company, True Glory Global Limited, and 150,000 Shares were held personally. Ms. Xu Jie, Mr. Liang Hongze and Mr. Jiang Tianfan were involved in the Acquisition and the Whitewash Waiver and accordingly, Ms. Xu Jie together with her associates and parties acting in concert with her (including Speed Key Limited, Mr. Xu Baorui and Ms. Xu Xiaojie), Mr. Liang Hongze and Mr. Jiang Tianfan will abstain from voting on the resolutions to approve the Acquisition, the Specific Mandate and the Whitewash Waiver at the EGM, in respect of their respective shareholding interests in the Company. Save as disclosed above, no other Shareholder will be required to abstain from voting at the EGM in relation to the resolutions to be proposed in respect of the Acquisition, the Specific Mandate and the Whitewash Waiver; and no Shareholder will be required to abstain from voting at the EGM in relation to the resolutions to be proposed in respect of the increase in authorized share capital and the Change of Company Name.

Any Shareholders who have a material interest in the Continuing Connected Transactions shall abstain from voting on the resolution in relation thereto to be proposed at the EGM. As at the Latest Practicable Date, neither the Seller nor its associates were interested in any Shares. Accordingly, none of the Shareholders has an interest in the Continuing Connected Transactions which is different from the other Shareholders and no Shareholder is required to abstain from voting on the resolution in relation to the Continuing Connected Transactions to be proposed at the EGM.

RECOMMENDATION

The Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) consider that (i) the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition, the Specific Mandate, the Whitewash Waiver and the Change of Company Name), are on normal commercial terms, fair and reasonable, and in the ordinary and usual course of business of the Group; and (ii) the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition, the Specific Mandate, the Whitewash Waiver and the Change of Company Name) and the increase in authorized share capital are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote in favour of (i) the ordinary resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition, the Specific Mandate and the Whitewash Waiver), and the increase in authorized share capital, and (ii) the special resolution to be proposed at the EGM to approve the Change of Company Name.

The Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) consider that the Continuing Connected Transactions and the proposed caps are on normal commercial terms, fair and reasonable, in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors after considering the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Continuing Connected Transactions.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 56 to 57 of this circular which contain their recommendation to the Independent Shareholders as to voting at the EGM and the letter from Somerley set out on pages 58 to 132 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions.

Your attention is also drawn to the financial information of the Group, the Target Group and the Enlarged Group and other general information set out in the appendices to this circular.

By order of the Board
Phoenix Healthcare Group Co. Ltd
Xu Jie
Chairman

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the Acquisition and the Whitewash Waiver.

PHOENIX
HEALTHCARE
GROUP
凤凰医疗集团

Phoenix Healthcare Group Co. Ltd
鳳凰醫療集團有限公司

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

7 October 2016

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF AMPLE MIGHTY LIMITED INVOLVING ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE (2) APPLICATION FOR WHITEWASH WAIVER AND (3) CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 7 October 2016 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the (i) Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition, the Specific Mandate, the Whitewash Waiver and the Change of Company Name); and (ii) the Continuing Connected Transactions and the proposed caps in relation thereto, details of which are set out in the "Letter from the Board" contained in the Circular. Somerley has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 58 to 132 of the Circular.

Having considered the terms of the Sale and Purchase Agreement and the advice of Somerley, we are of the opinion that the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition, the Specific Mandate, the Whitewash Waiver and the Change of the Company Name) are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable so far as the Shareholders (including Independent Shareholders) are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of (i) the ordinary resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition, the Specific Mandate and the Whitewash Waiver), and (ii) the special resolution to be proposed at the EGM to approve the Change of Company Name.

Having considered the terms of the Continuing Connected Transactions and the advice from Somerley, we also consider that the Continuing Connected Transactions and the proposed caps in relation thereto are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable so far as the Shareholders (including Independent Shareholders) are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Continuing Connected Transactions and the proposed caps.

Yours faithfully,
Independent Board Committee

Mr. Kwong Kwok Kong	**Ms. Cheng Hong**	**Mr. Sun Jianhua**	**Mr. Lee Kar Chung Felix**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of the letter of advice from Somerley, the Independent Financial Adviser appointed by the Company (while the appointment has been approved by the Independent Board Committee), to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

7 October 2016

To: The Independent Board Committee and the Independent Shareholders of Phoenix Healthcare Group Company Limited

Dear Sirs,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF AMPLE MIGHTY LIMITED INVOLVING ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; (2) APPLICATION FOR WHITEWASH WAIVER; AND (3) CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions. Details of the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions are contained in the circular issued by the Company to the Shareholders dated 7 October 2016 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 31 August 2016, the Company, the Purchaser (a wholly-owned subsidiary of the Company) and the Seller entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Seller has conditionally agreed to sell, the entire issued share capital of the Target Company, at the Consideration of HK$3,721,824,669, which shall be satisfied by the Company by way of allotment and issue of Consideration Shares at the Issue Price of HK$8.04 per Consideration Share to the Seller (or its wholly-owned subsidiary as the Seller may nominate) upon Completion.

The key subject matter of the Acquisition as held by the Target Company are the assets and equity interests of and/or the right to operate the Subject Institutions. To facilitate the Acquisition, the Seller carried out the Reorganisation to finalise and group together the Subject Institutions. Upon Completion, the Company will acquire from the Seller the Target Group which operates all the Subject Institutions. Independent Shareholders' attention is drawn to the further details of the Subject Institutions as set out in the paragraph headed "The Subject Institutions" under the section headed "Information on the Target Group" in the letter from the Board of the Circular.

The Acquisition constitutes a major transaction for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. The Seller (or, as the case may be, its wholly-owned subsidiary) will become a controller (as defined in the Listing Rules) of the Company upon Completion. The Acquisition therefore also constitutes a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Immediately after Completion, the Seller (through CRH Phoenix) will be interested in 462,913,516 Shares, representing approximately 35.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Consideration Shares from the Latest Practicable Date and up to the Completion Date). Upon Completion, under Rule 26.1 of the Takeovers Code, the Seller (through CRH Phoenix) would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares other than those already owned or agreed to be acquired by the Seller and parties acting in concert with it, unless the Whitewash Waiver is obtained from the Executive. In this regard, the Seller has applied to the Executive for the Whitewash Waiver. Completion is subject to, among other things, the approval by the Independent Shareholders of the Whitewash Waiver at the EGM by way of a poll and the granting of the Whitewash Waiver by the Executive. The granting of the Whitewash Waiver is a non-waivable condition precedent to Completion. If the Whitewash Waiver is not obtained and/or approved by the Independent Shareholders, the Acquisition will not proceed.

On 5 October 2016, the Company and CR Holdings entered into the CR PMM Framework Agreement. Since CR Holdings, as a holding company of the Seller, will become a controlling shareholder of the Company upon Completion and hence is a connected person by virtue of it being a controlling shareholder of the Company pursuant to Chapter 14A of the Listing Rules. The Continuing Connected Transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules upon Completion. As one or more of the applicable percentage ratios (as defined under the Listing Rules) relating to the proposed annual caps under the CR PMM Framework Agreement exceeds 5%, the Continuing Connected Transactions are subject to the requirements of reporting, announcement and approval by the Independent Shareholders under Chapter 14A of the Listing Rules.

The voting in respect of, among others, the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions at the EGM will be conducted by way of a poll.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Kwong Kwok Kong, Ms. Cheng Hong, Mr. Sun Jianhua and Mr. Lee Kar Chung Felix, has been established to advise the Independent Shareholders in respect of, among others, the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions, and to make a recommendation to the Independent Shareholders on how to vote on the proposed resolutions. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard. Our appointment has been approved by the Independent Board Committee.

We are not associated with the Company, the Purchaser, the Seller, their respective associates, close associates or core connected persons or any party acting, or presumed to be acting, in concert with any of them, and accordingly, are considered eligible to give independent advice and recommendation on the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions. Apart from normal professional fee payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Purchaser, the Seller, their respective associates, close associates or core connected persons or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion and recommendation, we have reviewed, among other things, the Term Sheet, the Supplemental Term Sheet, the Sale and Purchase Agreement, the Consultancy Services Contracts, the CR PMM Framework Agreement, the interim report of the Company for the six months ended 30 June 2016, the annual reports of the Company for the two years ended 31 December 2015 (the "**2015 Annual Report**") and 2014 (the "**2014 Annual Report**"), the accountants' reports of the Target Group for the five months ended 31 May 2016 and the three years ended 31 December 2015, 2014 and 2013, the unaudited pro forma financial information of the Enlarged Group (the "**Pro Forma Financial Information**"), the Announcement, the announcement of the Company dated 8 April 2016 in relation to, among others, the Term Sheet, the announcement of the Company dated 3 May 2016 in relation to the CITIC Acquisition and the Supplemental Term Sheet, the announcement of the Company dated 5 October 2016 in relation to, among others, the Continuing Connected Transactions and the information as set out in the Circular. We have also discussed with the management of the Group and the Target Group regarding the business and future prospects of the Enlarged Group. We have also selectively visited the Subject Institutions.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and the Target Group and have assumed that they are true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Target Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the following principal factors and reasons:

1. Information on the Group

(a) Business of the Group

The Company was incorporated in the Cayman Islands and the Shares have been listed on the Main Board of the Stock Exchange since 2013. The Group is mainly engaged in general hospital services, hospital management services, and supply chain businesses in Beijing, the PRC. The Group is one of the largest private hospital groups in the PRC and it invested and operated 57 medical institutions in Beijing and Hebei, including 3 Grade III hospitals[1], 6 Grade II hospitals[2], 9 Grade I hospitals[3] and 39 community healthcare centers, with around 5,867 beds in operation. The network hospitals and clinics of the Group offer healthcare services from community healthcare to primary preventive care and acute care.

(b) Financial results of the Group

Set out below is a summary of the financial results of the Group for the six months ended 30 June 2016 and 2015 and the three years ended 31 December 2015, 2014 and 2013.

1 Grade I hospitals: The smaller local hospitals designated as Grade I hospitals by the National Health and Family Planning Commission (the "**NHFPC**") hospital classification system, typically with 20 to 99 beds as for a general hospital and primarily providing basic healthcare services limited to the surrounding community.

2 Grade II hospitals: The regional hospitals designated as Grade II hospitals by the NHFPC hospital classification system, typically with 100 to 499 beds as for a general hospital, providing multiple communities with integrated healthcare services and undertaking certain academic and scientific research missions.

3 Grade III hospitals: The largest regional hospitals in the PRC designated as Grade III hospitals by the NHFPC hospital classification system, typically with 500 beds or above as for a general hospital, providing high-quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives.

	For the six months ended 30 June		For the year ended 31 December		
	2016	2015	2015	2014	2013
	RMB (million)	*RMB (million)*	*RMB (million)*	*RMB (million)*	*RMB (million)*
Revenue	705.2	602.3	1,372.3	1,206.3	887.4
Cost of sales	(523.1)	(460.7)	(1,042.7)	(908.6)	(674.7)
Gross profit	182.1	141.6	329.6	297.7	212.7
Other income, other gains and losses and other expenses	29.4	39.5	86.9	97.4	31.3
Administrative expenses	(53.6)	(43.1)	(139.3)	(77.4)	(65.8)
Finance costs	–	–	(27.4)	(0.9)	(35.2)
Share of profit of an associate	–	–	1.0	–	–
Share of loss of a joint venture	(3.5)	–	(2.8)	–	–
Profit before tax	154.4	138.0	248.0	316.8	143.0
Income tax	(19.5)	(33.8)	(75.6)	(77.3)	(46.9)
Profit for the period/year	134.9	104.2	172.4	239.5	96.1
Profit for the period/year attributable to:					
– the Shareholders	130.3	101.6	167.0	230.0	90.0
– non-controlling interests	4.6	2.6	5.4	9.5	6.1

The Group derived revenue from hospital and clinic network through three different ways, namely, (i) the provision of general hospital services; (ii) supply chain business which primarily supplies pharmaceuticals, medical devices and medical consumables, and ancillary services to hospitals and clinics; and (iii) the provision of hospital management services under the "invest-operate-transfer" model (the "**IOT Model**").

The Group recorded consecutive growth in revenue in both 2014 and 2015. Revenue increased by approximately 35.9% to approximately RMB1,206.3 million in 2014 and approximately 13.8% to approximately RMB1,372.3 million in 2015. The increase in revenue was mainly due to the increase in total patient visits and average spending per patient visit in general hospital services and sales ramp up in the supply chain business.

The total number of patient visits at Jian Gong Hospital, a major revenue contributor to the Group's general hospital services, increased from approximately 695,700 in 2013 by approximately 9.1% to approximately 758,700 in 2014. The number further increased by approximately 3.9% to approximately 788,400 in 2015. The average spending per inpatient visit increased gradually from approximately RMB15,558 in 2013 by approximately 13.6% to approximately RMB17,667 in 2014 and then by approximately 8.5% to approximately RMB19,177 in 2015. The average spending per outpatient visit also exhibited an increasing trend, which grew from approximately RMB439 in 2013 by approximately 2.3% to approximately RMB449 in 2014 and further by approximately 0.4% to approximately RMB451 in 2015.

The revenue contributed from supply chain business increased significantly by approximately 63.0% from approximately RMB479.7 million in 2013 to approximately RMB781.8 million in 2014 and further grew by approximately 18.4% to approximately RMB925.4 million in 2015. Similar to the general hospital services segment, the increase in the revenue from supply chain business was mainly due to the continuous increase in total number of patient visits at the Group's in-network hospitals and clinics, which increased from approximately 3.4 million in 2013 by approximately 11.8% to approximately 3.8 million in 2014 and further increased by approximately 10.5% to approximately 4.2 million in 2015. The results from supply chain business segment was the main contributor of the Group's profit before tax.

Among the three segments of the Group, there had been a notable increase in contribution to total revenue by the provision of hospital management services from 2013 to 2015. The revenue contributed by the provision of hospital management services to the Group increased by approximately 47.3% from approximately RMB40.8 million in 2013 to approximately RMB60.1 million in 2014, and further increased by approximately 20.0% to approximately RMB72.1 million in 2015. As advised by the management of the Group, the significant increase in revenue for the year ended 31 December 2014 was primarily attributable to (i) effective cost control implemented on hospitals under management which resulted in an increase in net income of the hospital and in turn the management fee received by the Group; (ii) increase in average spending per inpatient visit of the managed hospitals in 2014; and (iii) increase in total patient visits of the managed hospitals in 2014. The percentage increase in revenue for the year ended 31 December 2015 was less than that for the year ended 31 December 2014 was mainly due to higher base revenue for 2014 resulting from cost control procedures implemented on hospitals since 2014. The Group recorded revenue from the provision of hospital management services for the six months ended 30 June 2016 of approximately RMB43.1 million, representing a year-on-year increase of approximately 47.7% compared with the corresponding period in prior year. As mentioned above, the provision of hospital management services were conducted under the IOT Model, pursuant to which the Group typically would enter into an "invest-operate-transfer" agreement with sponsors of the relevant hospital and operates and provides management services to the relevant hospital and derives management fee from the hospital based on a pre-set formula. As at 30 June 2016, the Group managed and operated a total of 15 general hospitals, 1 traditional Chinese hospital, 1 hospital for women and children and 39 community clinics under the IOT Model.

Cost of sales mainly comprised costs of provision of healthcare services incurred in the provision of general hospital services and costs of pharmaceuticals, medical devices and medical consumables incurred in the supply chain business. The increase in cost of sales during the period was mainly due to the increase in number of total patient visits as mentioned above.

Gross profit increased from approximately RMB212.7 million in 2013 by approximately 40.0% to approximately RMB297.7 million in 2014 and further rose by approximately 10.7% to approximately RMB329.6 million in 2015. The increases were in line with the growth in number of total patient visits and average spending per patient visit as mentioned above. The gross profit margin remained stable at approximately 24.0% in 2013, approximately 24.7% in 2014 and approximately 24.0% in 2015.

The Group recorded administrative expenses of approximately RMB139.3 million in 2015, which was significantly higher compared to approximately RMB77.4 million and RMB65.8 million in 2014 and 2013 respectively. The increase was mainly due to (i) the initial recognition of cost of share-based payment of approximately RMB41.8 million during 2015; (ii) increase in staff cost including social security contributions; and (iii) increase in professional service fees.

Despite achieving year-on-year revenue increase from 2013 to 2015, the profit after tax to the Group in 2015 was approximately RMB172.4 million, which was lower than that of approximately RMB239.5 million in 2014, representing a decrease of approximately 28.0%. The decrease in profit after tax was mainly attributable to (i) the initial recognition of cost of share-based payment of approximately RMB41.8 million as mentioned above; (ii) additional finance costs of approximately RMB27.4 million due to the initial payment expense for a United States dollar-denominated syndicated loan committed during 2015. Excluding the above-mentioned expenses, which are non-recurring in nature, the profit after tax to the Group in 2015 would have been approximately RMB241.6 million, which would be in line with that of the prior year.

During the six months ended 30 June 2016, the Group recorded revenue of approximately RMB705.2 million, representing an increase of approximately 17.1% from the corresponding period in 2015. The increase was mainly attributable to the overall improvement in the Group's hospital management service segment, general hospital services segment and supply chain business segment. The Group achieved an increase in gross profit margin from approximately 23.5% for the six months ended 30 June 2015 to approximately 25.8% in the period. As a result, the Group achieved a net profit attributable to the Shareholders of approximately RMB130.3 million during the period, representing an increase of approximately 28.2% compared with the corresponding period in 2015. The management of the Group attributed the significant increase in net profit to the enhancement of the Group's overall quality of healthcare services and operational efficiency during the period.

(c) Financial position of the Group

Set out below is a summary of the financial position of the Group as at 30 June 2016, 31 December 2015, 2014 and 2013.

	As at 30 June 2016 *RMB (million)*	As at 31 December 2015 *RMB (million)*	2014 *RMB (million)*	2013 *RMB (million)*
Non-current assets				
Property, plant and equipment	144.4	145.2	138.3	123.2
Intangible assets	395.1	404.6	360.0	317.2
Lease prepayments for land use right	145.4	147.1	150.4	157.9
Interest in an associate	158.2	155.0	–	–
Other non-current assets	134.7	109.7	70.4	52.3
	977.8	961.6	719.1	650.6
Current assets				
Inventories	44.5	42.3	33.8	31.1
Trade receivables and other current assets	654.0	313.0	263.5	336.0
Certificate of deposit	74.5	116.7	384.0	704.5
Cash and cash equivalents	528.3	821.9	611.5	401.8
	1,301.3	1,293.9	1,292.8	1,473.4
Current liabilities				
Trade and other payables	246.4	269.1	230.4	178.0
Tax payables	18.8	36.9	43.0	24.9
Dividends payable	–	83.8	–	–
Borrowings	–	–	–	200.0
	265.2	389.8	273.4	402.9
Net current assets	1,036.1	904.1	1,019.4	1,070.5

	As at 30 June 2016 *RMB (million)*	As at 31 December 2015 *RMB (million)*	2014 *RMB (million)*	2013 *RMB (million)*
Non-current liabilities				
Retirement benefit obligations	1.7	2.9	3.2	5.3
Total equity attributable to the Shareholders	1,892.1	1,747.9	1,627.1	1,617.2
Net asset value ("NAV") per Share				
– in RMB	2.27	2.10	1.95	2.01
– in HK$ equivalent	2.63	2.44	2.26	2.33

As shown in the table above, the majority of the Group's assets as at 30 June 2016 were (i) intangible assets of approximately RMB395.1 million; (ii) trade receivables and other current assets of approximately RMB654.0 million; and (iii) cash and cash equivalents and certificate of deposit of approximately RMB602.8 million. Intangible assets represented operating rights of various hospitals acquired by the Group under the IOT Model.

Trade receivables and other current assets as at 30 June 2016 mainly consisted of (i) trade receivables of approximately RMB144.1 million (31 December 2015: approximately RMB137.6 million); (ii) prepayments and other receivables of approximately RMB241.8 million (31 December 2015: approximately RMB42.9 million); and (iii) short-term investments in financial products operated by banks of approximately RMB197.6 million (31 December 2015: approximately RMB75.0 million). The significant increase in the prepayments and other receivables was mainly due to the Company was in the process of redemption of short-term investments in financial products from a bank as at 30 June 2016 and as a result the expected proceeds of approximately RMB200.0 million from the redemption was booked in such balance.

In February 2015, the Group entered into a syndicated loan agreement of which the syndicated loan was denominated in United States dollar ("**US Dollar**"). Due to the instability of the foreign exchange market, the Group terminated the facility granted to the Company under the syndicated loan agreement in January 2016. Such facility has never been drawn by the Group. As at 31 December 2015, the Group did not have any borrowings.

As stated in the table above, the NAV per Share had increments from approximately RMB1.95 per Share on 31 December 2014 to approximately RMB2.10 per Share on 31 December 2015 and further to approximately RMB2.27 per Share on 30 June 2016.

In summary, the Group's business is centered around the provision of general hospital service and supply chain business with increasing activities from the provision of hospital management services. The profitability of the Group was mainly driven by the increases in: (i) the number of patients visits; (ii) the average spending of patients; and (iii) the number of hospitals managed by the Group. The provision of hospital management services by the Group through the IOT Model was profitable and has been fast growing in the last few years. As the Target Group also provides hospital management/consultancy services to the Subject Institutions through a similar model under the Consultancy Services Contracts, the Acquisition appears to offer an attractive expansion opportunity to broaden the Group's operational coverage and consolidate more hospitals into the Group's network. For further information on the benefits of the Acquisition, please refer to the section headed "5. Reasons for and benefits of the Acquisition" in this letter below.

2. Information on the Seller

The Seller is principally engaged in the businesses of hospital investment, operation, management and relevant extended services and is a wholly-owned subsidiary of CR Holdings, a diversified conglomerate in the PRC and Hong Kong, which is one of the key and large scale state-owned enterprises under the administration of the State-owned Assets Supervision and Administration Commission of the State Council in the PRC.

3. Information on the Target Group and the Subject Institutions

The Target Company was incorporated in the British Virgin Islands on 28 October 2011. The Target Company is an investment holding company and its subsidiaries are principally engaged in provision of hospital consultancy services and general hospital services in the PRC.

(a) The Reorganisation

The Reorganisation is the necessary precursor to the Acquisition. The Seller carried out the Reorganisation to finalise and group together the Subject Institutions, which are the subject medical institutions relating to the Acquisition, and to streamline the operations of the Target Group. In particular, the following steps have been carried out and completed:

(i) commencement of transfer of the employees not related to the hospital operation division out of the Target Group and the termination of leases of the Target Group's office premises in Beijing and Shenzhen;

(ii) the Seller procured CR Company, the indirect holding company of the Seller, to transfer 100% equity interest in Shenzhen Yukangrun, being the sponsor of the Brain Hospital, to the Target Group for the purposes of the Acquisition;

(iii) the Seller further transferred Million Ease, which holds equity interest in one of the joint sponsors for Kunming Children's Hospital, out of the Target Group for the reason that the Seller has not yet obtained the consent for the transfer of the sponsorship to the Company from Kunming Bureau of Health, which is the other joint sponsor for Kunming Children's Hospital;

(iv) CR Health Technology was transferred out of the Target Group as it is principally engaged in the business of health information services and currently only has limited operations, which do not fit into the business of the Company;

(v) CR Hospital Investment entered into the Consultancy Services Contracts with Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital, respectively;

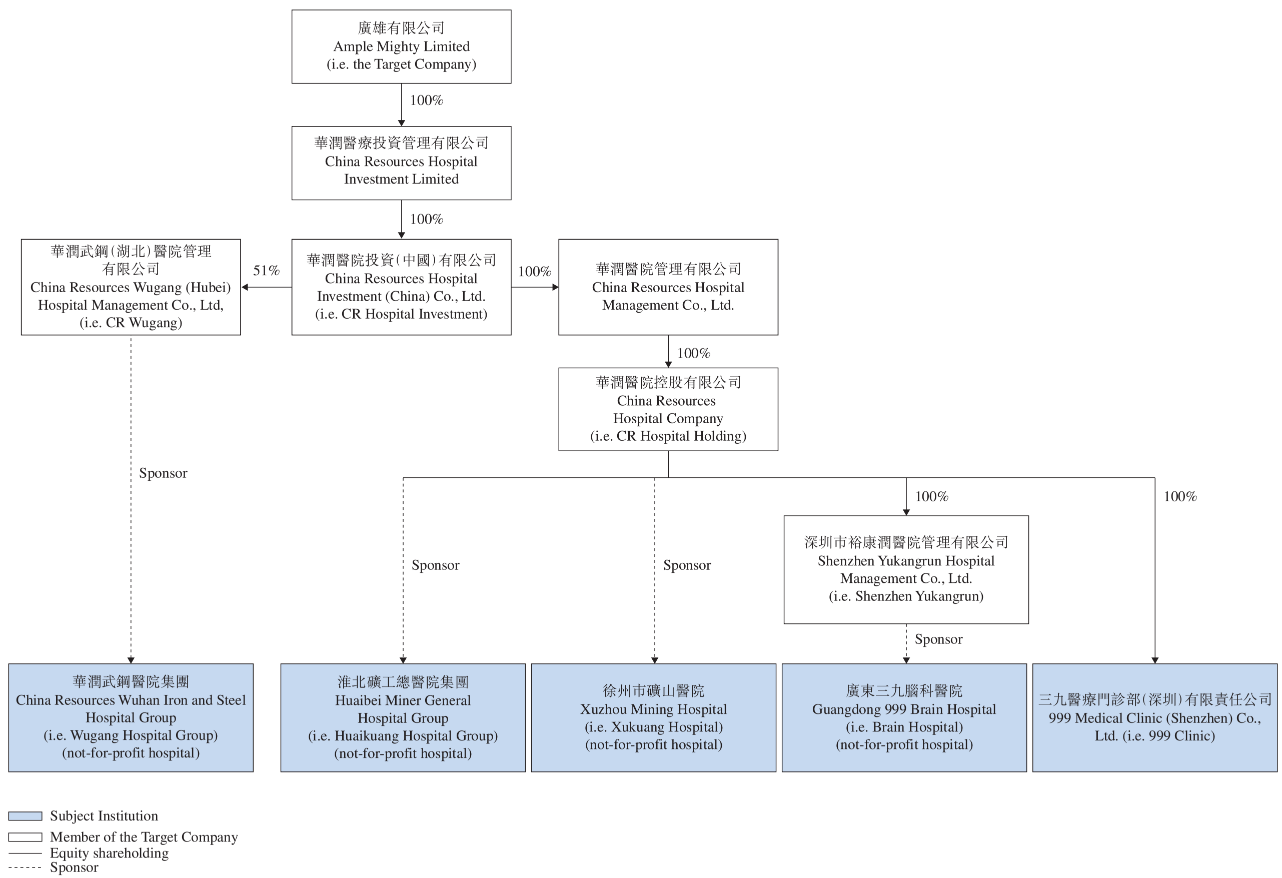
(vi) the Target Company issued 49,999 shares to the Seller by capitalising the loans in the total amount of approximately RMB1,109,633,000 advanced by the Seller to the Target Company, which form part of the Sale Shares to be transferred to the Purchaser; and

(vii) CR Wugang transferred certain assets used for the operation of Wugang Hospital Group to Wugang Hospital Group.

As at the Latest Practicable Date, the Reorganisation has been completed.

(b) Structure of the Target Group and the Subject Institutions

The Target Company owns 100% equity interests in (i) 999 Clinic; (ii) CR Hospital Holding, which is the sponsor for Huaikuang Hospital Group and Xukuang Hospital; (iii) Shenzhen Yukangrun, which is the sponsor for Brain Hospital; and (iv) 51% equity interest of CR Wugang, which is the sponsor for Wugang Hospital Group. Set out below is the structure chart depicting the Target Group and the Subject Institutions after the Reorganisation.



(c) Information on the Subject Institutions

The Subject Institutions comprise (i) Xukuang Hospital; (ii) Huaikuang Hospital Group; (iii) Brain Hospital; (iv) 999 Clinic; and (v) Wugang Hospital Group. 999 Clinic is the only Subject Institution operated by the Target Group through direct equity interest ownership. The Target Company owns equity interest in the respective sponsors for the remaining Subject Institutions, which enjoy certain rights and powers in relation to such Subject Institutions.

The Subject Institutions (save for 999 Clinic), as not-for-profit hospitals, cannot be registered as companies under the PRC laws and therefore the concepts of "equity ownership" and "share holder" do not apply. The sponsors of the Subject Institutions, which are not-for-profit hospitals, have respective obligations to contribute start-up capital to such institutions. Such start-up capital, once contributed, shall not be withdrawn by the sponsors. Given the charity nature of the not-for-profit hospitals, the legal income of such hospitals shall only be used in line with its purpose and within its business scope, and where applicable, in accordance with the articles of associations of such hospitals, therefore, the net income is not distributable to its sponsors as dividends, which is different from a shareholder who owns the equity interests of a company. Therefore, except for 999 Clinic, before entering into of the Consultancy Services Contracts/management agreements with the Subject Institutions, the sponsors had not earned any revenue or profit by operating the Subject Institutions. The rights and obligations of the sponsors are stipulated in the articles of associations of each Subject Institution, and where applicable, include, among others, (i) access to the operation status and financial reports of the Subject Institution, (ii) recommending members to the executive committee which is the highest authority of the Subject Institution.

(i) Xukuang Hospital

Xukuang Hospital, whose sponsor is CR Hospital Holding, is a not-for-profit, Grade II hospital located in Xuzhou, the PRC. As of 31 December 2015, Xukuang Hospital had 18 clinical departments, including general medicine, surgery, gynecology, pediatrics, otolaryngology, ophthalmology and is well-known for its nuclear medicine. Xukuang Hospital is a medical insurance designated medical institution in Xuzhou.

(ii) Huaikuang Hospital Group

Huaikuang Hospital Group, whose sponsor is CR Hospital Holding, consists of Huaibei Miner General Hospital* (淮北礦工總醫院), 14 branch hospitals, 9 community healthcare centers and 1 elderly care institution. Huaibei Miner General Hospital is a not-for-profit hospital and is one of the largest Grade III hospitals located in Huaibei, Anhui, the PRC. As of 31 December 2015, Huaibei Miner General Hospital had 29 clinical departments, including 1 provincial key specialised department and 9 municipal key specialised departments, with a focus on traumatology. Huaibei Miner General Hospital is affiliated with Bengbu Medical College* (蚌埠醫學院) and is a medical insurance designated medical institution in Huaibei.

(iii) Brain Hospital

Brain Hospital, whose sponsor is Shenzhen Yukangrun, is a not-for-profit specialised hospital accredited as equivalent to Grade III, located in Guangzhou, Guangdong, the PRC. Brain Hospital has the largest rehabilitation training center in Guangdong. As of 31 December 2015, Brain Hospital had 15 clinical departments, including its nationally renowned neurosurgery. Brain Hospital is a medical insurance designated medical institution in Guangzhou.

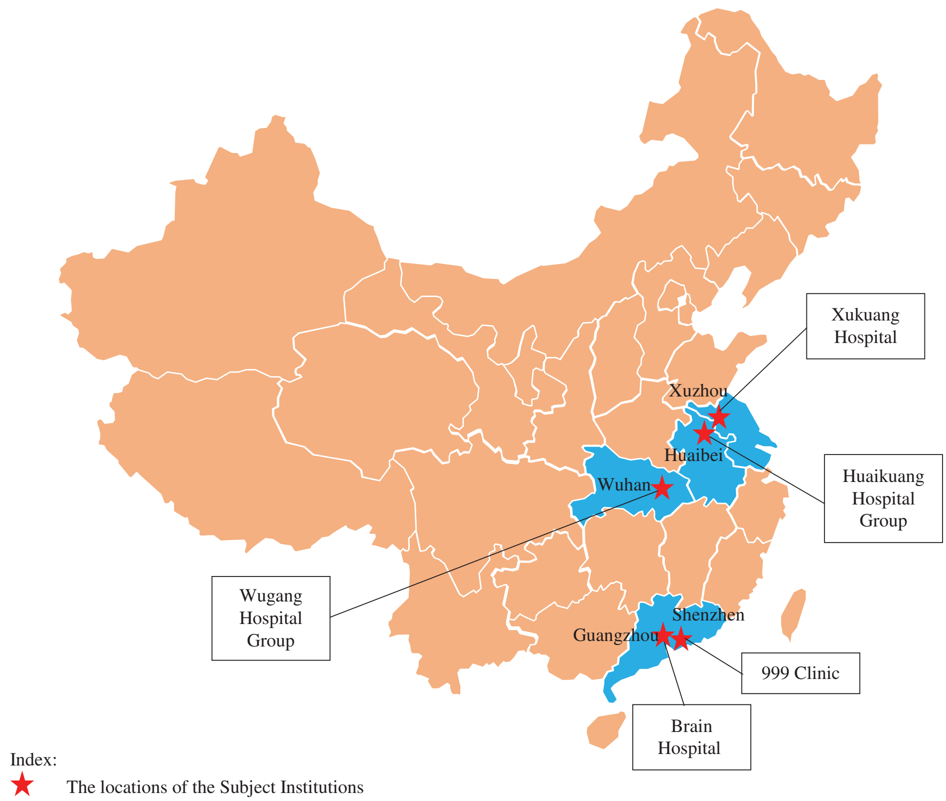
(iv) 999 Clinic

999 Clinic is a for-profit medical institution wholly owned by CR Hospital Holding located in Shenzhen, the PRC. As of 31 December 2015, 999 Clinic had 7 clinical departments, including general medicine, surgery, dermatology, otolaryngology and Chinese medicine. 999 Clinic is a medical insurance designated medical institution in Shenzhen.

(v) Wugang Hospital Group

Wugang Hospital Group consists of Wugang General Hospital and Wugang No. 2 Hospital, both of which are Grade III hospitals located in Wuhan, Hubei, the PRC. The sponsor for Wugang General Hospital is CR Wugang, a joint venture company with 51% equity interest held by CR Hospital Investment and 49% equity interest held by Wugang Group. As of 31 December 2015, Wugang General Hospital had 7 subsidiary institutions, including 1 rehabilitation hospital and 6 community healthcare centers, and Wugang No. 2 Hospital had 9 subsidiary institutions, including 1 clinic, 2 elderly care institutions and 6 community healthcare centers. As of 31 December 2015, Wugang General Hospital and Wugang No. 2 Hospital had 46 clinical departments in total, of which 2 are provincial key specialised departments and 7 are municipal key specialised departments. Wugang General Hospital and Wugang No. 2 Hospital are both medical insurance designated medical institutions in Wuhan.

Set out in the chart below are the geographical locations of the Subject Institutions.



Set out below in the table are certain key operational figures of the Subject Institutions as at 31 December 2015 or for the year ended 31 December 2015.

Subject Institutions	**Xukuang Hospital**	**Huaikuang Hospital Group**	**Brain Hospital**	**999 Clinic**	**Wugang Hospital Group**
Location	Xuzhou, Jiangsu Province	Huaibei, Anhui Province	Guangzhou, Guangdong Province	Shenzhen, Guangdong Province	Wuhan, Hubei Province
Hospital Grade *(Note)*	II	III	equivalent to III	N/A	III
Number of beds in operation	400	2,765	776	No bed in operation	1,868
Number of doctors	145	858	236	36	646
– Chief doctors	4	33	31	1	41
– Associate-chief doctors	31	90	32	2	262

Subject Institutions	Xukuang Hospital	Huaikuang Hospital Group	Brain Hospital	999 Clinic	Wugang Hospital Group
– Attending doctors	58	453	62	26	192
– Resident doctors	52	282	111	7	151
Number of other medical professionals	376	1,509	663	11	1,299
Number of outpatient visit	95,575	1,115,127	175,797	22,300	976,338
Number of inpatient visit	15,767	57,848	25,427	No inpatient visit	54,831
Average spending per outpatient visit *(RMB)*	359	209	776	183	295
Average spending per inpatient visit *(RMB)*	8,183	7,783	24,032	No inpatient visit	7,989

Note:

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

The "Basic Standards for Medical Institutions (For Trial Implementation)" provides basic standards for medical institutions at all grades and in all types in respect of hospital beds, establishment of departments, personnel, housing, equipment, establishment of various rules and regulations and the post responsibility system for personnel, the amount of registered capital in place and others. Provincial branch of the NHFPC has the discretion to adjust the standards based on local conditions and file such adjusted standards to NHFPC for records.

In addition to the operational figures of the Subject Institutions for the most recent financial year above, set out in the tables below are certain key operational figures of the Subject Institutions, being the number of inpatient visit, outpatient visit, average spending per outpatient visit and average spending per inpatient visit, from 2013 to 2015 and for the five months ended 31 May 2016 and the respective compound annual growth rate (the "**CAGR**") of the relevant operational figures.

Number of inpatient visit	2013	2014	2015	For the five months ended 31 May 2016	CAGR from 2013 to 2015
Xukuang Hospital	10,512	13,594	15,767	7,354	22.5%
Huaikuang Hospital Group	47,497	50,566	57,848	26,206	10.4%
Brain Hospital	20,664	22,823	25,427	10,196	10.9%
Wugang Hospital Group	55,556	56,631	54,831	21,326	(0.7)%

Number of outpatient visit	2013	2014	2015	For the five months ended 31 May 2016	CAGR from 2013 to 2015
Xukuang Hospital	65,756	88,095	95,575	47,423	20.6%
Huaikuang Hospital Group	1,062,389	1,106,016	1,115,127	504,455	2.5%
Brain Hospital	117,242	142,643	175,797	70,934	22.5%
Wugang Hospital Group	1,047,545	913,214	976,338	386,396	(3.5)%

Average spending per inpatient visit	2013	2014	2015	For the five months ended 31 May 2016	CAGR from 2013 to 2015
Xukuang Hospital	7,896	8,016	8,183	8,961	1.8%
Huaikuang Hospital Group	8,814	10,340	7,783	7,196	(6.0)%
Brain Hospital	19,316	23,412	24,032	26,134	11.5%
Wugang Hospital Group	7,795	7,704	7,989	8,961	1.2%

Average spending per outpatient visit	2013	2014	2015	For the five months ended 31 May 2016	CAGR from 2013 to 2015
Xukuang Hospital	325	294	359	350	5.1%
Huaikuang Hospital Group	211	132	209	189	(0.5)%
Brain Hospital	799	817	776	851	(1.4)%
Wugang Hospital Group	252	334	295	281	8.2%

As shown above, Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital experienced a general increasing in the number of inpatient visit during the period with CAGRs ranging from approximately 10.4% to approximately 22.5%. The outpatient visit during the period for Xukuang Hospital and Brain Hospital remained strong, with CAGRs of approximately 20.6% and 22.5% respectively. The number of inpatient visit and outpatient visit of Wugang Hospital Group slightly decreased during the period.

Growth of average spending of inpatient and outpatient of Xukuang Hospital and Wugang Hospital Group remained steady with the CAGR ranging from approximately 1.2% to approximately 8.2%. It is notable that Huaikuang Hospital Group had year-on-year decreases of approximately 6.0% in average spending per inpatient and approximately 0.5% in in average spending per outpatient visit. The Brain Hospital, on the other hand, enjoyed a CAGR of approximately 11.5% in average spending per inpatient visit during the period although the average spending per outpatient visit during the period has been static.

Based on the above, we note that the abovementioned Subject Institutions, in general, have enjoyed a stable growing business operation during the period.

The audited total revenue and net profit of the Subject Institutions for the year ended 31 December 2015 were approximately RMB2,434 million and RMB182 million respectively. In particular, the audited revenues for Xukuang Hospital, Brain Hospital and Huaikuang Hospital Group for the year ended 31 December 2015 were approximately RMB169 million, RMB769 million and RMB749 million respectively. We also reviewed the financial statements of the Subject Institutions for the three years ended 31 December 2015 and noted that the changes in revenues of the Subject Institutions were in general in line with the key operational figures as stated above and therefore were mainly driven by the average spending and number of patients visit.

(d) Consultancy Services Contracts

CR Hospital Investment entered into a Consultancy Services Contract with each of Huaikuang Hospital Group and Brain Hospital, which took effect as from 1 May 2016, and a Consultancy Services Contract with Xukuang Hospital, which took effect as from 24 December 2015. All the Consultancy Services Contracts have an initial term of 20 years and are on largely the same terms and conditions, save for the contracting parties and effective dates.

Pursuant to the Consultancy Services Contracts, CR Hospital Management provides consultancy services to the relevant Subject Institutions to ensure that a standardised process is implemented throughout these hospitals which utilises the platform and resources of the Target Group (and the Enlarged Group after Completion) and improves these hospitals' management and services quality. In particular, these Subject Institutions are permitted to use the brand name of CR Hospital Investment under the Consultancy Services Contracts which enables them to leverage on the Target Group's brand value. CR Hospital Investment also provides support to these Subject Institutions and assists them to improve and standardise the service quality, the information systems, the logistics management and other aspects of their operations. CR Hospital Investment also provides its consultancy services to these Subject Institutions in relation to areas such as human resources, organisational structure, operation performance, training and cost management including assisting them to recruit the necessary experts and specialists. Moreover, CR Hospital Investment is able to share its resources with these Subject Institutions in accordance with their business development plans and their needs, including but not limited to, the hospital internal management system, the medical instruments, the medicine search and order system, the medical software programme and the training systems. These Subject Institutions would also benefit from the experience of CR Hospital Investment in hospital supply chain management.

In return, CR Hospital Investment charges Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital service fees for the consultancy services provided. Under the Consultancy Services Contracts, the service fees will be charged on a yearly basis (proportionately for period less than one year) and shall represent approximately 5% to 10% of the revenue of the relevant Subject Institution, provided that the service fees shall not be more than the audited net profits (before deduction of the service fees) of the relevant Subject Institution. The service fees under the Consultancy Services Contracts shall be settled in cash on quarterly basis.

As set out in the letter from the Board and for illustration purpose only, the average monthly service fees for Xukuang Hospital, Brain Hospital and Huaikuang Hospital Group are approximately RMB0.70 million to RMB1.41 million, RMB3.20 million to RMB6.41 million and RMB3.12 million to RMB6.24 million, based on the aforementioned audited revenues and such broad principle of charging 5% to 10% of the revenue of the Subject Institutions as service fees.

On a pro forma basis as if the Consultancy Services Contracts with the aforesaid sponsored hospitals had been entered into on 1 January 2015, the Target Group would have received the service fees of approximately RMB126.4 million and RMB50.9 million for the year ended 31 December 2015 and five months ended 31 May 2016 respectively.

We have reviewed the PRC legal opinion issued by Commerce & Finance Law Office ("**C&F Law Office**"), the PRC legal advisors to the Company, and noted that the Consultancy Services Contracts are in line with PRC government's policy stance and are legitimate, valid and legally binding on the parties to the Consultancy Services Contracts. Drawing from the experience of the Group's IOT Model, C&F Law Office also considered that the Target Group's use of hospital management model as manifested by the entering into of the Consultancy Services Contracts between CR Hospital Investment, being an onshore management entity, with certain Subject Institutions, being public and not-for-profit hospitals, to provide management services to these hospitals and derives management fee based on a pre-set formula, are in-line with market practices. We have reviewed the PRC legal opinion and paid attention to (i) C&F Law Office's terms of engagement with the Company; and (ii) C&F Law Office's qualification and experience in relation to the preparation of the PRC legal opinion. For our review of the engagement letter between the Company and C&F Law Office, we are satisfied that the terms of engagement between the Company and C&F Law Office are appropriate to the opinion C&F Law Office is required to give. C&F Law Office has confirmed that it is independent from the Company, the Purchaser, the Seller and their respective core connected persons, close associates and associates. We further understand that C&F Law Office is certified with the relevant qualifications required to issue the PRC legal opinion and the signing partner has over 10 years' experience in conducting legal advisory services to clients in the PRC.

Based on our review on the information of certain listed companies engaging in the provision of general hospital services and hospital consultancy services in the PRC, we note that while it is not uncommon for companies to enter into management or consultancy agreements to provide management or consultancy services to hospitals in the PRC, the terms of the Consultancy Services Contracts and the relevant management or consultancy agreements vary significantly in terms of, among other things, scope of services, duration, basis of computation of service fees which may determine with reference to revenue, profit, other operational and/or performance parameters.

(e) Executive Committee

According to the latest articles of association of Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital, their respective executive committee is the highest authority for the management of each hospital. Such executive committee comprises 3 members appointed by the sponsor, a member elected by the employees and a member who is the chairman of the labour union of the relevant hospital. The senior management of the hospital, comprising the administrator, deputy administrator, financial officer and other management staff, is responsible for the daily operation of the hospital. The adoption of the Consultancy Services Contracts provides guidance and standardised operation protocols to be extended to each hospital. Important matters of the hospital, including but not limited to (1) amendments of the articles of association, (2) merger, reorganisation and dissolution of the hospital, (3) approval of annual budget, and (4) appointment of the administrator of the hospital would require the consent of two-thirds of the members of the executive committee. The establishment of the executive committee would perpetuate a consensus building culture and mitigate risks of unnecessary changes to management directions.

(f) 999 Clinic and Wugang Hospital Group

999 Clinic is a for-profit medical institution with equity interest owned by CR Hospital Holding and, after Completion, the Company would be able to operate 999 Clinic in the same manner as Beijing Jian Gong Hospital Co., Ltd., an equity-owned for-profit hospital of the Group. As such, the parties consider that a consultancy services contract and new articles of association are not necessary for 999 Clinic.

CR Hospital Investment only holds 51% equity interest in CR Wugang, the sponsor for Wugang Hospital Group. The Target Group is currently in the course of negotiation with Wugang Group, the other shareholder holding 49% equity interest in CR Wugang, and Wugang Hospital Group in relation to the new articles of association and consultancy services contract of Wugang Hospital Group.

(g) Financial information of the Target Group

Set out below in this section is a discussion and analysis of the financial information of the Target Group. As the Seller continued to restructure the make-up of the Subject Institutions within the Target Group during the five months ended 31 May 2016 and three years ended 31 December 2015, 2014 and 2013 (the "**Period Under Review**"), with (i) the addition of companies into and the removals of subsidiaries from the Target Group; and (ii) the entering into of the Consultancy Services Contracts between CR Hospital Investment, an indirect wholly-owned subsidiary of the Target Company, and the Subject Institutions (save for Wugang Hospital Group and 999 Clinic), the financial performance or financial position of the Target Group continued to evolve over time during the Period Under Review. In particular, these financial information are historical information and have not fully reflected the effect of the Reorganisation. Accordingly, these financial information may not be indicative to the future financial performance or financial position of the Target Group.

Independent Shareholders, while reading the discussion and analysis below, should also be mindful that the Target Group, although owned equity interests in the respective sponsors for the Subject Institutions (for the purpose of this paragraph below, excludes 999 Clinic), are unable to consolidate the financial results and assets and liabilities of the Subject Institutions. As advised by the management of the Target Group, due to (i) the relevant PRC legal and regulatory requirements concerning the not-for-profit business purpose of the Subject Institutions; and (ii) the lack of decision making power under governance bodies and committees to direct the relevant activities of the Subject Institutions, the financial results and assets and liabilities of the Subject Institutions are unable to be consolidated into the Group. As such, the discussion and analysis below would not include those financial results and assets and liabilities of the Subject Institutions. Nevertheless, the Target Company, as explained below, is able to earn consultancy services fees from the Subject Institutions pursuant to the Consultancy Services Contracts.

(i) Financial performance

The accountants' report on the Target Group is set out in Appendix II to the Circular. Set out in below is a summary of the combined statements of profit or loss of the Target Group for the five months ended 31 May 2016 and three years ended 31 December 2015, 2014 and 2013. For reasons stated above, the Independent Shareholders would be mindful that the financial results and assets and liabilities of the Target Group do not consolidate with those of the Subject Institutions.

	For the five months ended 31 May	**For the year ended 31 December**		
	2016	**2015**	**2014**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	18,336	12,166	442	–
Cost of sales and services	(5,194)	(17,836)	(418)	–
Gross profit/(loss)	13,142	(5,670)	24	–
Operating income/(expenses)				
Other income	2,763	31,181	5,165	4,182
Other gains/(losses)	2,169	(15,399)	(1,061)	2,621
Administrative expenses	(22,011)	(68,211)	(72,436)	(44,560)
Finance costs	(9,963)	(17,470)	(2,704)	–
Other expenses	(13,935)	(31,611)	(31,498)	(46,664)
Share of profit/(loss) of a joint venture	2,206	(6,580)	(18,329)	(7,249)

	For the five months ended 31 May 2016	For the year ended 31 December 2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loss before tax	(25,629)	(113,760)	(120,839)	(91,670)
Income tax credit/(expenses)	35,277	(1,430)	–	394
Profit/(loss) for the period/year	9,648	(115,190)	(120,839)	(91,276)
Profit/(loss) for the period/year attributable to:				
Shareholders of the Target Company	14,432	(110,617)	(109,844)	(75,293)
Non-controlling interests	(4,784)	(4,573)	(10,995)	(15,983)
	9,648	(115,190)	(120,839)	(91,276)

(1) Revenue

The revenue of the Target Group for the five months ended 31 May 2016 and three years ended 31 December 2015, 2014 and 2013 was primarily derived from the provision of (i) general hospital services; and (ii) consultancy services, to the Subject Institutions. In respect of the general hospital services, the Target Group derived revenue from hospital medical services and sales of pharmaceuticals and medical devices. The general hospital services mainly represented the revenue generated from the provision of hospital medical services by 999 Clinic. Since 999 Clinic was acquired by the Target Group on 29 December 2014, the revenue from the provision of general hospital services only started to accrue from 2015. In respect of the consultancy services, the revenue mainly represented the service income generated from the Consultancy Services Contracts entered between CR Hospital Investment and each of Huaikuang Hospital Group, Xukuang Hospital and Brain Hospital on 24 May 2016. Pursuant to the Consultancy Services Contracts, the Target Group, through CR Hospital Investment, provides consultancy services to the aforesaid hospitals to ensure that a standardised process is implemented throughout these hospitals which utilises the platform and resources of the Target Group (and the Enlarged Group after Completion) and improves these hospitals' management and services quality. The consultancy services fee is calculated based on an agreed formula of a set percentage of the respective hospitals' revenue and net profit. Details of the Consultancy Services Contracts are set out in the paragraph headed "(d) Consultancy Services Contracts" under the section headed "3. Information of the Target Group and the Subject Institutions" in this letter above.

As the Seller continued to restructure the make-up of the Subject Institutions within the Target Group during the Period Under Review, notably with (i) the addition of the Shenzhen Yukangrun, being the sponsor of Brain Hospital, in May 2016 and the removals of Million Ease, which holds equity interest in one of the joint sponsors for Kunming Children's Hospital, in May 2016 and CR Health Technology in June 2016; and (ii) the entering into of the Consultancy Services Contracts between CR Hospital Investment, an indirect wholly-owned subsidiary of the Target Company, and each of Huaikuang Hospital Group and Brain Hospital on 24 May 2016 with effect from 1 May 2016 and Xukuang Hospital on 24 May 2016 with effect from 24 December 2015, the revenue of the Target Group continued to ease upwards.

As can be seen from the table above, the Target Group went from recording almost no revenue for the two years ended 31 December 2014 and 2013 to a revenue of approximately RMB12.2 million for the year ended 31 December 2015 and approximately RMB18.3 million for the five months ended 31 May 2016. The growth of revenue was largely attributable to aforesaid Reorganisation and the build-up of consultancy services revenue through signings of the Consultancy Services Contracts. In 2015, the only consultancy services revenue was attributed to Xukuang Hospital whereby a management agreement was entered on 6 September 2015 with effect from 1 January 2015 and was terminated on 24 December 2015. The Target Company recorded approximately RMB5.7 million consultancy services revenue for the almost 12 months of contractual period while of the remainder of the revenue (i.e. approximately RMB6.5 million) was mainly contributed by the provision of general hospital services by 999 Clinic. For the five months ended 31 May 2016, the consultancy services revenue further significantly increased to approximately RMB15.4 million, almost three times of that of the whole year of 2015. The increase was mainly due to (i) CR Hospital Investment's renewal of a Consultancy Services Contract with Xukuang Hospital with effect from 24 December 2015 where consultancy services revenue attributable to Xukuang Hospital continued to record for the five months ended 31 May 2016 of approximately RMB5.4 million, representing a significant increase from the corresponding period in 2015, largely due to the renewed basis of charging service fees from Xukuang Hospital under the renewed Consultancy Services Contract has almost doubled compared to the previous basis; and (ii) CR Hospital Investment's signings of the two Consultancy Services Contracts with Huaikuang Hospital Group (i.e. with effect from 1 May 2016) and Brain Hospital (i.e. with effect from 1 May 2016) which recorded an aggregate consultancy services revenue of approximately RMB10.0 million. Management of the Target Group explained that substantial increase in consultancy services revenue for the five months ended 31 May 2016 was due to the relevant hospitals recorded strong revenue and net profit during the same period.

(2) Cost of sales and services

Cost of sales and services is generally associated with the activities for the Target Group to provide (i) general hospital services; and (ii) consultancy services, to the Subject Institutions during the Period Under Review. According to management of the Target Group, the cost of sales and services are mainly (i) direct overhead expenses associated with running the operation and information services departments of the Target Group in operating and servicing the Subject Institutions; and (ii) the direct operational costs of operating 999 Clinic.

The relevant cost was almost not existed for the two years ended 31 December 2014 and 2013. With the progress of the Reorganisation (including the signing of a management agreement with Xukuang Hospital in September 2015 and three Consultancy Services Contracts in May 2016) and the acquisition of 999 Clinic on 29 December 2014, the Target Group's cost of sales and services for the year ended 31 December 2015 was approximately RMB17.8 million and for the five months ended 31 May 2016 was proportionately less at approximately RMB5.2 million. As explained by management of the Target Group, in order to prepare for the entering into of the Consultancy Services Contracts with Huakuang Hospital Group and Brain Hospital in May 2016, the Target Group had provided the relevant hospital operation services to these two hospitals for the year ended 31 December 2015, prior to the entering of the relevant Consultancy Services Contracts.

(3) Other income

For the two years ended 31 December 2014 and 2013, the other income of the Target Group were approximately RMB5.2 million and RMB4.2 million respectively, which were represented by the interest income from bank deposit and investment income on financial products. Other income for the year ended 31 December 2015 increased significantly to approximately RMB31.2 million, representing an increase of around 5 times compared to the prior year. According to management of the Target Group, the Target Group recorded an additional other income of approximately RMB20.6 million in the form of rental income which was attributable to a rental agreement entered into between a subsidiary of Million Ease and Kunming Children's Hospital dated 18 December 2015 which was effective from 1 January 2015 to 31 December 2015, pursuant to which the subsidiary of Million Ease was eligible for a rental income for the leasing of certain medical premises and residential quarters to Kunming Children's Hospital. Other contributing factors to the increase in other income in 2015 included (i) interest income of approximately RMB3.8 million charged on the amount due from Xukuang Hospital; and (ii) interest income of approximately RMB2.2 million from a certificate of deposit maintained by a subsidiary of Million Ease. Such income is not expected to be recurrent after Completion as Million Ease had been effectively transferred out of the Target Group on 31 May 2016.

(4) Other gains and losses

The other gains and losses of the Target Group during the Period Under Review mainly represented foreign exchange charges on certain loans denominated in US Dollar advanced by the Seller during the relevant period. In 2015, there had been a significant one-off foreign exchange loss of approximately RMB15.4 million due to the depreciation of RMB against US Dollar during the year. The loans advanced by the Seller were converted as capital of the Target Company after 31 May 2016.

(5) Administrative expenses

The administrative expenses of the Target Group were approximately RMB22.0 million, RMB68.2 million, RMB72.4 million and RMB44.6 million for the five months ended 31 May 2016 and the three years ended 31 December 2015, 2014 and 2013 respectively. Being the largest component of the profit and loss account of the Target Group and the main driver for the Target Group's losses during the Period Under Review, administrative expenses were mainly represented by staff costs, rental, professional fees, transportation expenses and software expenses. The volatility in the administrative expenses during the Period Under Review were due to the Target Group's corporate development activities carried out during this period such as new strategic assets acquisitions, disposals and start-up business development which involved a significant amount of expenses such as dedicated staff costs, professional fees and transportation related to such corporate development activities.

(6) Finance costs

Finance costs of the Target Group were mainly interest expenses incurred from shareholder loans provided by CR Company. The Target Group's finance costs were modest during the two years ended 31 December 2014 and 2013. The increase in finance costs for the year ended 31 December 2015 was in line with the increase in shareholder loans provided by CR Company. For the five months ended 31 May 2016 the finance costs of the Target Group was approximately RMB10.0 million. A total amount of approximately RMB1.1 billion of amount due to the Seller was capitalised as the share capital and share premium of the Target Company effective from 31 May 2016.

(7) Other expenses

The other expense of the Target Group were approximately RMB13.9 million, RMB31.6 million, RMB31.5 million and RMB46.7 million for the five months ended 31 May 2016 and the three years ended 31 December 2015, 2014 and 2013 respectively. Such expenses were mainly the depreciation and amortisation of certain property, plant and equipment operated by Kunming Children's Hospital for providing general hospital services.

(8) Share of net profit/loss of a joint venture

During the Period Under Review, the only joint venture held by the Target Company was the 51% equity interest in CR Wugang, the sponsor for Wugang Hospital. For details of the joint venture investment in CR Wugang, please refer to the discussion in the sub-paragraph headed "(3) Interests in a joint venture" under the paragraph headed "(ii) Financial position" in this letter below. The Target Group recorded share of loss of CR Wugang of approximately RMB6.6 million, RMB18.3 million and RMB7.2 million for the three years ended 31 December 2015, 2014 and 2013, respectively. The Target Group recorded share of profit of CR Wugang of approximately RMB2.2 million for the five months ended 31 May 2016. The reversal of losses into a profit for the five months ended 31 May 2016 was mainly due to CR Wugang transferred its medical assets to Wugang Hospital Group in February 2016 whereby indirectly reducing the relevant depreciation expense for such assets.

(9) The profit/loss attributable to the shareholders of the Target Company

As a result of the aforesaid reasons and factors, the losses attributable to the shareholders of the Target Company for the three years ended 31 December 2015, 2014 and 2013 were approximately RMB110.6 million, RMB109.8 million and RMB75.3 million. While for the five months ended 31 May 2016, the Target Group turned around with a profit of approximately RMB14.4 million, which was largely attributable to an income tax credit of approximately RMB35.3 million for the relevant period and the additional revenue generated as part of the relevant Reorganisation (including the entering into of the Consultancy Services Contracts). As explained by the management of the Target Group, the tax credit was mainly due to the recognition of deferred tax asset for tax loss previously not recognised but was considered appropriate to recognise in the current period. The management of the Target Group considered the recognition of tax credit to be appropriate as the entering into of the Consultancy Services Contracts took place prior to the end of the Period Under Review and as opposed to being treated as a pro forma adjustment as the recognition of the tax credit is not dependent on Completion. Without the income tax credit of approximately RMB35.3 million for the relevant period, the loss before tax of the Target Group would be approximately RMB25.6 million, which, in our view, would represent a more meaningful comparison with the past the losses before tax of the Target Group for the three years ended 31 December 2015, 2014 and 2013 of approximately RMB113.8 million, RMB120.8 million and RMB91.7 million. In such comparison, the proportional improvement in loss before tax of the Target Group for the five months ended 31 May 2016 was mainly attributable to (i) the significant increase of consultancy services revenue for the relevant period; (ii) the absence of large foreign currency losses in the relevant period; (iii) the significant reduction in administrative and other expenses for the relevant period; and (iv) the share of net profit of CR Wugang as discussed above.

(10) Pro forma profit of the Target Group after the Reorganisation

Independent Shareholders should be aware that the abovementioned net losses attributable to the shareholders of the Target Company for the Period Under Review represent the historical financial information of the Target Group, on the basis that the Reorganisation has not fully completed during the Period Under Review and the Consultancy Services Contracts were not effective for the entire Period Under Review, and therefore do not fully reflect the impact of completion of the Reorganisation including the entering into of the Consultancy Services Contracts.

On a pro forma basis as if the Acquisition (including among others, completion of the Reorganisation and the entering into of the Consultancy Services Contracts) had been completed on 1 January 2015, the Target Group would have recorded unaudited pro forma net profits of approximately RMB46.4 million and RMB80.6 million for the five months ended 31 May 2016 and the year ended 31 December 2015 respectively. The substantial improvements in profitability of the Target Group for the year ended 31 December 2015 (i.e. from a net loss attributable to the shareholder of the Target Company of approximately RMB110.6 million to a net profit attributable to the shareholder of the Target Company of approximately RMB80.6 million) and for the five months ended 31 May 2016 (i.e. from a net profit attributable to the shareholder of the Target Company of approximately RMB14.4 million to a net profit attributable to the shareholder of the Target Company of approximately RMB46.4 million) were mainly due to the adjustments for the entering into of the Consultancy Services Contracts.

For the unaudited pro forma net profit of the Target Group for the year ended 31 December 2015, the relevant pro forma adjustments comprised, among other things, (i) the recognition of estimated hospital consultancy service income of approximately RMB126.4 million attributable to the Consultancy Services Contracts; (ii) the estimated reduction of administrative expenses of approximately RMB44.7 million as a result of workforce trimming and termination of leases of offices; (iii) the reduction of operating loss incurred by Million Ease and its subsidiaries of approximately RMB14.5 million; (iv) the eliminations of estimated interest expenses of approximately RMB17.5 million and the estimated exchange losses of approximately RMB15.1 million after the capitalisation of the Seller's shareholder loans of approximately RMB1.1 billion; and (v) enterprise income tax expenses in respect of the pro forma adjustments of approximately RMB28.5 million.

For the unaudited pro forma net profit of the Target Group for the five months ended 31 May 2016, the relevant pro forma adjustments comprised, among other things, (i) the recognition of estimated hospital consultancy service income of approximately RMB50.9 million attributable to the Consultancy Services Contracts; (ii) the estimated reduction of administrative expenses by approximately RMB12.7 million as a result of workforce trimming and termination of lease of offices; (iii) the reduction of operating loss incurred by Million Ease and its subsidiaries of approximately RMB13.1 million; (iv) the eliminations of estimated interest expenses of approximately RMB9.9 million and the estimated exchange losses of approximately RMB0.1 million after the capitalisation of the Seller's shareholder loans of approximately RMB1.1 billion; and (v) enterprise income tax expenses in respect of the pro forma adjustments of approximately RMB50.1 million.

For details of the pro forma adjustments made by the Company to determine the unaudited pro forma net profit of the Target Group for the year ended 31 December 2015 and the five months ended 31 May 2016, please refer to Appendix IV to the Circular. The unaudited pro forma net profit figure constitutes a profit forecast under Rule 10 of the Takeovers Code and pro forma financial information under Rule 4.29 of the Listing Rules. Merrill Lynch (Asia Pacific) Limited and BOCOM International (Asia) Limited, the Company's financial advisers in respect of the Acquisition, have reported on the unaudited pro forma financial information of the Target Group in accordance with Rule 10 of the Takeovers Code, whose reports are set out in Appendices V and VI to the Circular. Deloitte Touche Tohmatsu, the Company's reporting accountants, has reported on the unaudited pro forma financial information of the Target Group in accordance with Rule 10 of the Takeovers Code and Rule 4.29(7) of the Listing Rules, whose report is set out in Appendix IV to the Circular. On the above basis, we are of the view that the pro forma adjustments made to determine the unaudited pro forma net profit for the Target Group for the year ended 31 December 2015 and the five months ended 31 May 2016 reasonable.

(ii) Financial position

Set out in below is a summary of the combined statements of financial position of the Target Group as at 31 May 2016, 31 December 2015, 31 December 2014 and 31 December 2013.

	As at 31 May	As at 31 December		
	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	71,251	609,708	615,099	544,122
Intangible assets	849,294	300,697	135,005	990
Lease prepayments for land use right	–	62,174	62,174	62,174
Goodwill	14,974	14,974	14,974	–
Receivables from a hospital	56,950	55,798	52,005	–
Interests in a joint venture	190,899	188,693	195,273	213,602
Amount due from a related party	700	–	–	–
Deferred tax assets	35,036	–	394	394
	1,219,104	1,232,044	1,074,924	821,282
Current assets				
Inventories	196	200	222	–
Receivables from hospitals sponsored or joint sponsored by the Target Group	14,871	23,839	–	787
Trade receivables	475	357	390	–
Prepayments and other receivables	1,777	7,964	2,137	2,776
Amounts due from related parties	1,929	22,035	20,280	49,167
Certificate of deposit	–	217,000	–	–
Cash and cash equivalents	23,795	198,885	339,661	375,042
	43,043	470,280	362,690	427,772
Assets classified as held for sale	2,272	–	–	–
	45,315	470,280	362,690	427,772

	As at 31 May 2016	As at 31 December 2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities				
Trade payables	482	602	740	–
Other payables and accruals	28,944	45,880	40,746	22,015
Amounts due to related parties	3,511	1,103,445	814,552	632,557
Payables to the Hospitals	315,484	282,832	281,629	312,058
Tax payables	–	1,895	–	–
	348,421	1,434,654	1,137,667	966,630
Liabilities associated with assets classified as held for sale	2,329	–	–	–
	350,750	1,434,654	1,137,667	966,630
Net current liabilities	(305,435)	(964,374)	(774,977)	(538,858)
Total assets less current liabilities	913,669	267,670	299,947	282,424
Non-current liabilities				
Amounts due to a related party	–	257,999	174,227	–
Deferred tax liability	14,556	14,914	15,773	–
	14,556	272,913	190,000	–
Net assets/(liabilities)	899,113	(5,243)	109,947	282,424
Capital and reserves				
Capital	329	–	–	–
Share premium	1,109,304	–	–	–
Reserves	(210,520)	(301,116)	(184,839)	(23,357)
Equity attributable to				
Equity holders of the Target Company	899,113	(301,116)	(184,839)	(23,357)
Non-controlling interests	–	295,873	294,786	305,781
Total equity	899,113	(5,243)	109,947	282,424

(1) Property, plant and equipment

Property, plant and equipment of the Target Group mainly comprised leasehold land and buildings and office equipment and medical equipment owned by the Target Group. In the disposal of Million Ease from the Target Group, being part of the Reorganisation, an approximately RMB466.0 million of the carrying value of leasehold land and buildings were removed from the property, plant and equipment of the Target Group. As a result, the carrying value of the property, plant and equipment of the Target Group as at 31 May 2016 was approximately RMB71.3 million.

(2) Intangible assets

The largest assets of the Target Group were the intangible assets as at 31 May 2016, the majority of which were sponsorship rights. As discussed above, during the Period Under Review, the management of the Target Group devoted themselves on extensive resources and diversified business structures in the medical healthcare industry and CR Company's experience and expertise in public hospital reform and hospital group management by acquiring the sponsorship rights of, among others, Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital through a series of acquisitions. As at 31 May 2016, the carrying amounts of sponsor rights were approximately RMB844.6 million. Based on the assessment of the Target Group, the useful life of such sponsorship rights is indefinite and there had been no impairment loss recognised during the Period Under Review.

(3) Interests in a joint venture

The Target Company holds a joint venture interest in its 51%-owned CR Wugang, the sponsor for Wugang Hospital Group. CR Hospital Investment, the Target Company's wholly-owned subsidiary, entered into a joint venture agreement with the joint venture partner on 19 February 2013 to form CR Wugang. Wugang Hospital Group was non-legal institutions for the three years ended 31 December 2015. On 2 February 2016, Wugang Hospital Group became a legal institution. CR Wugang injected RMB10.0 million to Wugang Hospital Group as working capital. As at 31 May 2016, the carrying value of the joint venture investment in Wugang was approximately RMB190.9 million.

(4) Cash and cash equivalents

The Target Group had maintained an aggregated cash and cash equivalents and certificate of deposit balance of approximately RMB415.9 million as at 31 December 2015. Since then and as a result of the disposal of Million Ease from the Target Group, the Target Group's aggregated cash and cash equivalents and certificate of deposit balance as at 31 May 2016 was approximately RMB23.8 million. Cash and cash equivalents and certificate of deposit carried interest at market rates which range from 0.35% to 2.52% per annum for the Period Under Review.

(5) Receivables from/payables to the sponsored hospitals

The receivables due from the sponsored hospitals of approximately RMB71.8 million as at 31 May 2016 was mainly represented a three-year loan extended by the Target Company to Xukuang Hospital with a principal of approximately RMB51.5 million and bearing an interest of prevailing three-year bank loan interest rate plus 2%.

The payables to the sponsored hospitals of approximately RMB315.5 million as at 31 May 2016 mainly comprised of pooling of funds from the sponsored hospitals for centralised treasury purpose, of which approximately RMB55.5 million were unsecured, interest bearing at 0.35% per annum and repayable on demand, approximately RMB260.0 million were unsecured, no interest bearing and repayable on demand.

(6) Amounts due to related parties

The amounts due to related parties as at 31 May 2016 amounted to approximately RMB3.5 million. As at 31 December 2015, 2014 and 2013, the Target Group had amounts due to related parties of approximately RMB1,361.4 million, RMB988.8 million and RMB632.6 million respectively, the majority of which were represented shareholder loans from the Seller and its related parties. The significant reduction in amount due to related parties between 31 December 2015 and 31 May 2016 was as a result of the Target Company issued and allotted 49,999 of its shares to the Seller on 31 May 2016 at a subscription price of approximately RMB1.1 billion, which was satisfied by capitalisation of the amounts due to the Seller.

(7) Share premium

As discussed above, the share premium of the Target Company as at 31 May 2016 increased by approximately RMB1.1 billion as a result of the capitalisation of amounts due to the Seller of the same amount.

(8) Non-controlling interest

For the three years ended 31 December 2015, 2014 and 2013, the non-controlling interest of the Target Company was mainly represented by the non-controlling equity interest of 34% held by the Kunming Bureau of Health, the joint sponsor of Kunming Children's Hospital. As part of the Reorganisation and the disposal of Million Ease from the Target Group, such balance was removed as evidenced from the nil balance as at 31 May 2016.

4. Industry overview

(a) Chinese healthcare services industry

The rapid economic development and increasing pace of urbanisation in the PRC over the past three decades led to a growing demand for healthcare services industry. Also, as the growing middle-class of the PRC are becoming more sophisticated in their healthcare knowledge, whose demand for medical services is expected to become more diversified and complex. Patients will be more concerned with privacy and will be more willing to pay for better services and high-tech care, driving the growth of premium healthcare.

According to the National Bureau of Statistics of China, there were approximately 222.0 million of citizens aged 60 or above as at 31 December 2015, representing approximately 14.9% of the total population in China and approximately 4.7% year-on-year increase compared to the number as at 31 December 2014. The elderly, who have a higher incidence of illness, often require longer and more complicated and recurrent medical services compared to the younger generations.

Furthermore, the development of the Chinese insurance sector by the PRC government has a positive influence on the healthcare services industry. Basic medical insurance has been a major policy focus over the last 10 years, and has been gradually expanding in depth of coverage. The National Development and Reform Commission reports that the three basic medical insurance systems covering urban workers (UEBMI), urban residents (URBMI) and the rural population (NRCMS) continue to cover 95% of the population.

According to an industry report issued by Deloitte[4] in 2015 named "China's Healthcare Provider Market – Riding the Waves of Reform" (the "**Deloitte Healthcare Industry Report**"), which contains information sourced from government authorities and renowned research institutes including the World Bank, National Bureau of Statistics of China and National Health and Family Planning Commission of China, healthcare expenditure in China in 2013 reached approximately RMB3.2 trillion, maintaining a CAGR of approximately 17.2% over the past 9 years. On the other hand, healthcare expenditure accounted for approximately 5.6% of China's gross domestic product, which lagged behind the high-income countries' average of approximately 7.7%.

According to the Deloitte Healthcare Industry Report, the PRC health policy is undergoing extensive reform. The PRC government has been focusing its efforts on ensuring the availability of basic medical services for the whole population, while encouraging private capital investment to improve service quality and meet the public's diverse and complex needs. Deepening reform efforts are bringing new opportunities to

4 Deloitte is an established multinational professional services firm providing audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries.

invest in the healthcare market in the PRC and bring sea change to the Chinese healthcare landscape. As identified by the Deloitte Healthcare Industry Report, private hospitals, which remain a minor player within the healthcare system, are in a phase of rapid growth attributed to the powerful policy support in pace. By leveraging the power of both industrial and institutional capital, private hospitals are expected to realise accelerating integration and market expansion, and improving management capabilities, technical expertise, service quality and scale-oriented operation.

According to 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)》) (the "**Outline**") issued by the State Council of the PRC in March 2015, a national healthcare network system has been developed which comprises hospitals operated by the local government authorities, local public hygiene institutions and specialised public hygiene institutions. However, the Outline pointed out that due to 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. The Outline further emphasised 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.

To tackle such weaknesses and cope with the rising demand for quality healthcare services, the Outline set out several quantitative objectives for national healthcare system development in areas such as healthcare resources allocation, multi-disciplinary and multi-level medical healthcare institutions, healthcare talents development and integration of healthcare network. For example, the Outline specified the number of beds in healthcare institutions to be maintained at 6 units per thousand residents in 2020 compared to approximately 4.55 units in 2013 and the number of beds in healthcare institutions in privately-invested hospitals to be no less than 1.5 units per thousand residents compared with 0.52 units per thousand in 2013. Given such requirements, it is expected that more investment will be mobilised to capture the growth and income potential.

(b) Private hospital investment

According to the Deloitte Healthcare Industry Report, private hospitals in China have enjoyed rapid growth in recent years. By June 2014, there were 11,737 private hospitals in China recording a CAGR of approximately 16% from 2008 to 2013. Private hospitals' share of the total number of hospitals has risen from approximately 27% in 2008 to approximately 47% in June 2014. Private hospitals are also delivering more services in proportion to their growth. During the first half of 2014, the number of visits to private hospitals reached approximately 145.8 million and the number of discharged patients reached approximately 8.7 million, representing a year-on-year growth of approximately 14% and 19% respectively compared with the same period last year. Although private hospitals account for nearly half the total in number, they are generally smaller in scale and less frequently visited by patients. According to the State Council's 12th Five-Year Plan, it proposed that private hospital service volume should comprise 20% of the total hospital service volume by 2015.

In order to 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, the PRC 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 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 favourable 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. All these measures create room for the promotion and opportunities for the development of the diversified public hospital reforming model of the Group. With the supportive government policies above, it is expected that more private-public partnership models, including but not limited to the Group's IOT Model, will take a more prominent role in the healthcare services industry.

Based on the factors mentioned above, the prospect of the healthcare services industry is generally optimistic and it is an opportunity for existing industry participants to tap into the potential brought about by the market reform. Still, it should be noted that any material shifts in China's regulatory regime for the healthcare services industry, particularly shifts in public medical insurance programs or healthcare reform policies, could pose a risk to the business prospect of the healthcare services industry.

5. Reasons for and benefits of the Acquisition

As mentioned in the Chairman's statement in the 2015 Annual Report, with an objective to lay down a solid foundation for the Group's development into a leading large-scale healthcare group in Asia and to create long-term stable returns for the Shareholders, the Group is looking to leverage on favorable external conditions offered by the healthcare reform in China to proactively expand the scale of the Group's hospital network by utilising both internal and external resources.

We note that under the management discussion and analysis section in the 2015 Annual Report, the Group prides itself for having proactively expanded the scale of hospital management network in the Beijing-Tianjin-Hebei region in 2015. During 2015, the Group's scale has grown substantially with beds in operation increased from 3,382 to 5,780, representing an increase of approximately 70.9% as compared to that of 2014, and the number of patients treated increased from 3,935,000 to 5,577,000, representing an increase of approximately 41.7% compared to the prior year.

The Company also announced on 3 May 2016 regarding, among others, the signing of the CITIC Term Sheet to acquire certain hospital assets from CITIC Group with the consideration of approximately HK$1,240 million (subject to adjustment). With strategic considerations, the Group proposed to acquire certain Grade III hospitals with approximately 700 beds in operation from CITIC Group. The completion of such proposed acquisition is expected to further add scale and breath of the Group's operations.

Against the above background, we note that the Directors consider the Acquisition a valuable opportunity for the Company to significantly and quickly expand its hospital network beyond the Group's current coverage in the Beijing-Tianjin-Hebei region but to a nation-wide coverage across the PRC. The Subject Institutions will become the regional centers of the Group, based on which a national medical and healthcare resources platform would be established. These immediate benefits align with the Group's long established development strategy and will also enhance the Group's brand.

The Group also treasures the opportunity, through the Acquisition, to work together with the Seller, being one of the large state-owned enterprises in the Chinese healthcare industry, whom will become a controlling shareholder of the Company upon Completion. The Company considers that the cooperation is of critical value for the integration of the resources of the Group and China Resources Group, which will further advance the expansion of the Group's hospital network into a leading player in the healthcare industry of the PRC.

The Enlarged Group will also establish a national healthcare platform to promote the sharing of resources among the member agencies and lower the procurement costs through economies of scale, by which the Enlarged Group's operation efficiencies will be increased. This will further optimise the Group's medical service business structure, enhance the quality of the Group's medical service as well as operation and management capabilities and provide stronger support for the Enlarged Group's long term development.

The Enlarged Group will focus on development of regional integrated delivery system and building the hierarchical medical system to optimise medical resources allocation through the synergies among the service networks of primary preventive care, acute care and post-operative rehabilitation. With the strategic expansion into industry chains, including elderly care and insurance, the Enlarged Group will explore the integration of healthcare with insurance and elderly care so as to become an important part of the national ecosystem of medical healthcare services supply.

Based on the above consideration, we are of the view that Acquisition is coherent with the Group's stated objective to expand the scale of the Group's hospital network by utilising both internal and external resources and that the collaboration with China Resources Group is expected to strengthen the Group's ability to take advantage in the healthcare reform in China and to become a leading player of the healthcare industry of the PRC.

6. Principal terms of the Sale and Purchase Agreement

Date

30 August 2016

Parties

(1) the Company

(2) the Purchaser (as the purchaser)

(3) the Seller (as the seller)

(a) Interests to be acquired under the Acquisition

The Purchaser has conditionally agreed to acquire from the Seller the Sale Shares with all rights attaching to them (including the right to receive all dividends, distributions or any return of capital declared, made or paid on or after the Completion Date). The Sale Shares represent the entire issued share capital of the Target Company, which owns the equity interests in one of the Subject Institution (i.e. 999 Clinic) and the sponsors of the other Subject Institutions.

(b) Consideration

The Consideration payable by the Company to the Seller pursuant to the Sale and Purchase Agreement is HK$3,721,824,669, which will be satisfied by the allotment and issue of 462,913,516 Consideration Shares at the Issue Price of HK$8.04 per Consideration Share to the Seller (or its wholly-owned subsidiary as the Seller may nominate) upon Completion. The Seller has nominated CRH Phoenix, its wholly-owned subsidiary, as the allottee and holder of the Consideration Shares. The Issue Price of HK$8.04 per Consideration Share and the number of Consideration Shares shall be adjusted accordingly in the event that the Shares are traded on ex-rights and ex-dividends basis.

As set out in the letter from the Board of the Circular, the Consideration and the Issue Price were arrived at after arm's length negotiations between the Company and the Seller prior to the signing of the Term Sheet, taking into account various factors including:

(i) the financial information of the Target Group as disclosed in Appendix II to the Circular, together with the unaudited pro forma financial information of the Target Group as disclosed in Appendix IV to the Circular and, in particular, unaudited pro forma net profit of the Target Group for the year ended 31 December 2015 in the amount of approximately RMB80.6 million;

(ii) the price-to-earnings multiples (the "**P/E Multiples**") of certain comparable companies and market transactions in the healthcare industry in Hong Kong and the PRC;

(iii) the current operation metrics and revenue level of the Subject Institutions;

(iv) the significant growth potential and business prospect of the Subject Institutions, which are expected to result in faster growth of the Group;

(v) the perceived strategic value of the Enlarged Group, being one of the largest medical healthcare groups in Asia measured by the number of beds in operation and patient visits;

(vi) the long-term benefits and the synergy that can be achieved as stated in the section headed "Reasons for and benefits of the Acquisition" in the letter from the Board of the Circular;

(vii) the growth potential of the Target Group which is driven by the population and the demography of the areas where the Subject Institutions are located, in particular, areas with relatively high aging population will have a higher demand for healthcare services and faster business expansion in this industry; and

(viii) the leading market position of the Target Group which is driven by market share and service standard, in particular, bigger market share and stronger service standard will lead to a better market position which will be reflected in the margin expansion.

Having taken into account (i) our analysis on the Consideration and the Issue Price as set out in the sections headed "7. Analysis of the Consideration" and "8. Consideration Shares issue price analysis" respectively in this letter below; (ii) the Subject Institutions, in general, have enjoyed a stable growing business operation during the recent past and had reasonable profitability based on our review of the operational and financial performances of the Subject Institutions as discussed in the section headed "3. Information on the Target Group and the Subject Institutions" in this letter above; (iii) the Acquisition and the proposed CITIC Acquisition, if materialise, would allow the Group to acquire the core healthcare assets of the two other healthcare groups and would result in the Enlarged Group becoming one of the largest healthcare services groups in Asia with approximately 12,600 hospital beds in total and over ten million annual patient visits as mentioned in the section headed "11. Financial and trading prospects of the Enlarged Group"; (iv) the Acquisition is coherent with the Group's stated objective to expand the scale of the Group's hospital network and that the collaboration with China Resources Group is expected to strengthen the Group's ability to take advantage in the healthcare reform in China and to become a leading player of the healthcare industry in the PRC as discussed in the section headed "5. Reasons for and benefits of the Acquisition" in this letter above; and (v) the general optimistic prospect of the healthcare services industry in the PRC as discussed in the section headed "4. Industry overview" in this letter above, we generally concur with the Directors' basis of determining the Consideration as mentioned in the letter from the Board of the Circular.

(c) Consideration Shares

The 462,913,516 Consideration Shares represent approximately 55.52% of the issued share capital of the Company as at the Latest Practicable Date and approximately 35.70% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Consideration Shares from the Latest Practicable Date and up to the Completion Date).

The Consideration Shares, when allotted and issued, will rank *pari passu* in all respects with all the Shares in issue as at the date of allotment and issue of the Consideration Shares, including the right to receive all dividends, distributions or any return of capital declared, made or paid by the Company on or after date of allotment and issue of the Consideration Shares. The Consideration Shares to be issued will be subject to a lock-up for a period of one year from the date of issue.

(d) Conditions precedent

Completion is conditional upon the satisfaction (or, if applicable, the waiver) of the following Conditions prior to the Long Stop Date:

(1) the entry into and performance of the Sale and Purchase Agreement and the transactions contemplated thereunder by the Purchaser and the Company, including but not limited to the purchase of the Sale Shares, the issue of the Consideration Shares and the grant of the Whitewash Waiver having been approved by the Independent Shareholders by way of poll at the EGM duly convened in accordance with applicable requirements under the Listing Rules, the Takeovers Code and the articles of association of the Company;

(2) the Whitewash Waiver having been granted by the Executive and not having been revoked or withdrawn;

(3) (if required) approval for the new listing application of the transaction contemplated under the Sale and Purchase Agreement having been granted by the Listing Committee of the Stock Exchange (if any additional conditions are imposed by the Stock Exchange, such additional conditions shall be acceptable to both the Seller and the Purchaser; and any conditions that are imposed based on the market practice are deemed to be acceptable to both the Seller and the Purchaser), and such approval not having been revoked or withdrawn;

(4) approval for the listing of, and permission to deal in, the Consideration Shares having been granted by the Stock Exchange and not having been revoked or withdrawn;

(5) fulfilment of filing procedures for state-owned assets valuation in relation to the sale of the Sale Shares having been completed by the Seller and that the Sale Shares can be sold at the value of the Consideration;

(6) no change, event or circumstance having occurred which has or may have a material adverse effect on the Target Group as a whole (save and except for matters disclosed in the applicable accounts);

(7) no change, event or circumstance having occurred which has or may have a material adverse effect on the Group as a whole;

(8) approval for the sale of Sale Shares having been granted by the Anti-Monopoly Bureau under the Ministry of Commerce of the PRC and such approval not having been revoked or withdrawn; and

(9) completion of the Reorganisation.

The Company and the Purchaser may at any time waive the Condition set out in sub-paragraphs (6) (with respect to the Target Group) above by notice in writing to the Seller, while the Seller may waive the Condition set out in sub-paragraph (7) (with respect to the Purchaser). Save for the aforementioned, the Whitewash Waiver, the Reorganisation and the other Conditions set out above are not capable of being waived.

If any of the Conditions set out above has not been fulfilled or waived (if applicable) on or before the Long Stop Date (i.e. 31 December 2016 or such other date as the Purchaser and the Seller may agree in writing), the Sale and Purchase Agreement shall terminate and the rights and obligations of the Seller and the Purchaser under the Sale and Purchase Agreement shall cease immediately, save in respect of antecedent breaches.

(e) Completion

Completion shall take place on the date falling ten Business Days after the day on which the last of the Conditions has been satisfied or (if applicable) waived or such other date as the Purchaser and the Seller may agree in writing.

Upon Completion, the Company will own the assets and equity interests of and/or the right to operate the Subject Institutions and the Seller will become a controlling shareholder of the Company (i.e. the Seller's shareholding in the Company will exceed 30%).

(f) Appointment of new Directors and change of name of the Company

Upon Completion, the Company shall (i) procure the Board to pass a resolution to appoint up to four persons nominated by the Seller to be the Directors (of whom two shall be executive Directors and two shall be non-executive Directors); and (ii) change the Company's name to China Resources Phoenix Healthcare Holdings Co. Ltd.* (華潤鳳凰醫療控股有限公司). A special resolution will be proposed at the EGM to effect such change of name conditional upon and with effect from Completion.

7. Analysis of the Consideration

(a) Comparable Transactions

The Target Group is engaged in the provision of general hospital services and hospital consultancy services in the PRC. The majority of its assets are associated with the sponsorship of the Subject Institutions. In order to assess the fairness of the Consideration, we have carried out an analysis based on comparable market transactions. In particular, we have identified and reviewed, to the best of our knowledge and ability, based on the Stock Exchange filing as well as data sourced from Mergermarket, the P/E Multiples and the price-to-book multiples (the "**P/B Multiples**") of the market transactions in respect of the acquisition of China-based hospital management companies (for the avoidance of doubt, nursing home and/or elderly care management companies were excluded) by companies listed on the Stock Exchange (the "**Comparable Transactions**") which were announced and completed since 2014 until the Latest Practicable Date. We consider the Comparable Transactions, based on the above criteria, exhaustive and serve as a fair and representative sample for the purpose of drawing a meaningful comparison to the Consideration. We also consider the period of selecting the Comparable Transactions (i.e. since beginning of 2014 until the Latest Practicable Date), a period that covered market transactions that took place around three years preceding the Latest Practicable Date, to be a more recent and reasonable sampling period to select Comparable Transactions in order to draw a meaningful comparison with the Consideration. Details of the Comparable Transaction are set out as below:

Date of announcement	**Company name (stock code)** *(Note 1)*	**Nature of transaction**	**Description of the target company/group**	**Price** *(RMB million)*	**P/E Multiple** *(times) (Note 2)*	**P/B Multiple** *(times) (Note 3)*
14 September 2016	Hua Xia Healthcare Holdings Limited ("**Hua Xia Healthcare**") (8143)	Acquisition	100% equity interest in Glowing Smart Investment Limited ("**Glowing Smart**") The principal business of Glowing Smart is investment holding. Glowing Smart owns 99.94% equity interest in 北京同濟醫院有限公司 (Beijing Tongji Hospital Co., Limited*) ("**Beijing Tongji Hospital**"), a composite hospital located at the Dongcheng District in the Beijing City in the PRC and is principally engaged in the provision of general hospital services, including but not limited to outpatient and hospitalisation, urological surgery, medical checkup and examination.	128.9 (RMB equivalence of approximately HK$149.5 million) *(Note 4)*	N/A *(Note 5)*	3.9 *(Note 4)*

Date of announcement	Company name (stock code) *(Note 1)*	Nature of transaction	Description of the target company/group	Price *(RMB million)*	P/E Multiple *(times) (Note 2)*	P/B Multiple *(times) (Note 3)*
28 December 2015	China Medical & HealthCare Group Limited ("**China Medical**") (383) (Formerly known as COL Capital Limited)	Acquisition and investment by capital injection	18.36% equity interest in Yangpu Zhaohe Industrial Co., Ltd* (洋浦兆合實業有限公司) ("**Yangpu Zhaohe**") The principal business of Yangpu Zhaohe is hospital and clinic management in the PRC. Yangpu Zhaohe owns 72.5% of the equity interest in Tongren Healthcare Industry Group Co., Ltd* (同仁醫療產業集團有限公司) ("**Tongren**") and has a shareholder loan of RMB100 million to Tongren which are the sole assets of Yangpu Zhaohe. The principal business of Tongren is investment in and management and operation of healthcare and hospital businesses, trading of medical equipment and related supplies, and property development in the PRC. Tongren Group owns three well-established operating integrated hospitals consisting of the Nanjing Tongren Hospital (南京同仁醫院) (Class III Integrated Hospital), the Kunming Tongren Hospital (昆明同仁醫院) (Class III Integrated Hospital) and Yunnan Xinxinhua Hospital (雲南新新華醫院) (Class II Integrated Hospital), offering a wide range of comprehensive hospital and healthcare services.	90.0	N/A *(Note 5)*	3.1

Date of announcement	Company name (stock code) *(Note 1)*	Nature of transaction	Description of the target company/group	Price *(RMB million)*	P/E Multiple *(times)* *(Note 2)*	P/B Multiple *(times)* *(Note 3)*
4 December 2015	Town Health International Medical Group Limited (3886)	Acquisition	60% equity interest in 南陽祥瑞管理諮詢有限公司 (Nanyang Xiangrui Hospital Management Advisory Co. Ltd.*) ("**Nanyang Xiangrui**") Nanyang Xiangrui is a company established in the PRC and is principally engaged in hospital management advisory services. Nanyang Xiangrui is the sole investor and promoter of a number of Chinese hospitals in Henan Province, the PRC.	548.9	N/A *(Note 6)*	2.8 *(Note 7)*
15 September 2015, 17 September 2015 and 13 October 2015	China Medical & HealthCare Group Limited (383) (Formerly known as COL Capital Limited)	Acquisition	39.48% equity interest in Lianyungang Jiatai Construction Co. Ltd.* (連雲港嘉泰建設工程有限公司) ("**Jiatai Construction**") Jiatai Construction, through its subsidiaries, engages in investment in and management and operation of healthcare and hospital businesses, trading of medical equipment and related supplies, and property development in the PRC. The target group owns three well-established operating integrated hospitals consisting of the Nanjing Tongren Hospital (南京同仁醫院) (Class III Integrated Hospital), the Kunming Tongren Hospital (昆明同仁醫院) (Class III Integrated Hospital) and Yunnan Xinxinhua Hospital (雲南新新華醫院) (Class II Integrated Hospital), offering a wide range of comprehensive hospital and healthcare services. The target group owns two pieces of vacant elderly care use land each located near the Nanjing Tongren Hospital and the Kunming Tongren Hospital respectively. The target group also engages in property development operation in Nanjing, the PRC and owns certain residential and commercial lands in Lianyungang, the PRC.	592.2	N/A *(Note 5)*	2.3

Date of announcement	Company name (stock code) *(Note 1)*	Nature of transaction	Description of the target company/group	Price *(RMB million)*	P/E Multiple *(times) (Note 2)*	P/B Multiple *(times) (Note 3)*
17 March 2015	Town Health International Medical Group Limited (3886)	Acquisition	49% equity interest in Huayao Medical Group Limited (華耀醫療集團有限公司) The target group is principally engaged in operating (i) a rehabilitation-oriented hospital in Hangzhou which mainly provides services relating to rehabilitation care, traditional Chinese orthopaedics and Western medical orthopaedics; and (ii) an outpatient medical clinic in Hangzhou which provides traditional Chinese medical care, Western internal medicine healthcare and quality dental care services.	151.3	65.2	7.7
7 November 2014	Golden Meditech Holdings Limited (801)	Acquisition	17.33% equity interest in GM Hospital Group Limited ("**GM Hospital**") The target group is principally engaged in investment in hospital ownership and management as well as hospital related industries in the PRC and Asia Pacific regions. The target group operates Shanghai East International Medical Center ("**SEIMC**") and 北京清河醫院有限公司 (Beijing Qinghe Hospital Company Limited*) ("**Qinghe Hospital**") and owns 56.00% in SEIMC and 82.73% in Qinghe Hospital.	140.1 (RMB equivalence of HK$162.5 million)	N/A *(Note 5)*	2.4

Date of announcement	Company name (stock code) *(Note 1)*	Nature of transaction	Description of the target company/group	Price *(RMB million)*	P/E Multiple *(times) (Note 2)*	P/B Multiple *(times) (Note 3)*
18 July 2014	Golden Meditech Holdings Limited (801)	Acquisition	30% equity interest in 北京國華傑地醫院管理有限公司 (Beijing Guohua Jiedi Hospital Management Company Limited*) ("**Beijing Guohua Jiedi**") The primary activity of Beijing Guohua Jiedi is investment holding, and through its subsidiary, Qinghe Hospital, engages in hospital management and related services.	132.8 (RMB equivalence of HK$154.0 million)	N/A *(Note 5)*	0.6
			Average		65.2	3.3
			Median		65.2	2.8
			Maximum		65.2	7.7
			Minimum		65.2	0.6
			The Acquisition		39.8 *(Note 8)*	3.6 *(Note 9)*

Source: Stock Exchange filings, Mergermarket (http://www.mergermarket.com/) and the respective companies' announcements.

Notes:

(1) Includes the listed company's subsidiaries.

(2) Based on the actual or implied valuation for the 100% equity interest in the target company divided by the latest published full year net profit attributable to the shareholders of the target company.

(3) Based on the actual or implied valuation for the 100% equity interest in the target company divided by the latest published NAV attributable to the shareholders of the target company.

(4) As at 31 July 2016, on a combined basis, only the financial information of Beijing Tongji Hospital was relevant for our analysis as the financial information of the holding companies of Beijing Tongji Hospital was nominal. The unaudited NAV of Beijing Tongji Hospital was approximately RMB12.8 million (equivalent to approximately HK$14.8 million), which included a shareholder's loan of approximately HK$23.5 million due to the vendor. As the consideration for the acquisition of approximately HK$149.5 million (equivalent to approximately RMB128.9 million) includes the acquisition of both the equity and the shareholder's loan, the relevant P/B Multiple has been computed based on the adjusted NAV (i.e. after adding the shareholder's loan to the unadjusted NAV) of Beijing Tongji Hospital of approximately HK$38.3 million.

(5) Each of these target companies recorded loss after taxation for the latest financial year.

(6) Nanyang Xiangrui was established in the PRC in October 2014 and did not record any profit or loss for the financial year ended 31 December 2014.

(7) Based on the implied valuation for the 100% equity interest in Nanyang Xiangrui of RMB914.8 million divided by the aggregate amount of (i) the unaudited NAV of Nanyang Xiangrui as at 30 September 2014 of approximately RMB60.3 million and (ii) the injected capital in the amount of approximately RMB264.8 million in Nanyang Xiangrui for approximately 28.94% equity interests in Nanyang Xiangrui.

(8) Based on the Consideration of approximately HK$3,721.8 million divided by the unaudited pro forma net profit attributable to the shareholders of the Target Company for the year ended 31 December 2015 as set out in the Target Group's unaudited pro forma financial statement disclosed in Appendix IV to the Circular of approximately RMB80.6 million (equivalent to approximately HK$93.5 million). We are of view that the unaudited pro forma net profit attributable to the shareholders of the Target Company for the year ended 31 December 2015 is more appropriate for our analysis given that it assumed the Acquisition (including among others, completion of the Reorganisation and the entering into of the Consultancy Services Contracts) had been completed on 1 January 2015 and therefore is more reflective of the economic reality of the Target Group going forward upon Completion.

(9) Based on the Consideration of approximately HK$3,721.8 million divided by the NAV attributable to the shareholders of the Target Company as at 31 May 2016 of approximately RMB899.1 million (equivalent to approximately HK$1,043.0 million).

As illustrated above, the P/E Multiples and the P/B Multiples of the Comparable Transactions are calculated based on the respective consideration and the latest published full year results and published NAV, respectively, of the target companies. Most of the target companies were loss-making in the latest published financial year with the exception of one and of which the P/E Multiple was approximately 65.2 times, which was above the implied P/E Multiple of the Acquisition of approximately 39.8 times. The P/B Multiples of the Comparable Transactions ranged from approximately 0.6 times to 7.7 times, with an average and a median of approximately 3.3 times and 2.8 times respectively. The implied P/B Multiple of the Acquisition of approximately 3.6 times falls within the range of the P/B Multiples of the Comparable Transactions and is slightly higher than the average P/B Multiples of the Comparable Transactions. Albeit the lack of P/E Multiples of the Comparable Transactions, we consider the above analysis relevant and meaningful for our purpose on the basis that there are seven market transactions identified based on the criteria, a sample we consider sufficient to form an observation and comparison with the Acquisition. In order to gain further evidence for our analysis, we have conducted additional analysis on the Comparable Companies (as defined below) as set out below to supplement our analysis above.

(b) Comparable Companies

As a cross-check, we have carried out additional analysis based on comparing relevant peer companies engaged in the same or similar lines of business as the Target Group.

In assessing the fairness of the Consideration, we have identified and reviewed, to the best of our knowledge and ability, the P/E Multiples and the P/B Multiples represented by the Comparable Companies (i) the shares of which are listed on the Stock Exchange (the "**HK Comparable Companies**"), Shanghai and Shenzhen stock exchanges (the "**PRC Comparable Companies**", together with the HK Comparable Companies, the "**Comparable Companies**"); and (ii) with over 50% of the revenue derived from the provision of medical services and/or consultancy services for hospitals and/or clinics (excluding those providing dental and oral care services) in the PRC. Set out below is the list of the HK Comparable Companies and the PRC Comparable Companies together with the relevant comparison of P/E Multiples and P/B Multiples. Due to the inherent valuation differences between the two markets, we have grouped the Comparable Companies into two categories, being (i) the HK Comparable Companies; and (ii) the PRC Comparable Companies, to draw comparison with the Consideration. The purpose of including the PRC Comparable Companies is because only two out of the four HK Comparable Companies are engaged in diversified hospital management, one of which is the Company, while the other two are engaged in specialty (i.e. obstetrics and gynecology and psychiatric healthcare) hospital and clinics management, we consider it worthwhile to include the PRC Comparable Companies that engage in diversified hospital management as well as other healthcare specialties to broaden the scope of comparison. Despite the Target Group is not a listed company, we are of the view that comparing the implied P/E Multiple and the implied P/B Multiple of the Acquisition with those of selected listed companies engaging in similar business activities resembles a reasonable proxy of valuation and it is also an industry practice to perform such comparison in assessing the relevant valuation. We consider the Comparable Companies, based on the above criteria, exhaustive and serve as a fair and representative sample for the purpose of drawing a meaningful comparison to the Consideration.

(i) The HK Comparable Companies

Name	Stock code	Exchange where the stock is listed	Principal business activities	Latest financial year end date	Market Capitalisation as at the Latest Practicable Date *(HK$' million)*	P/E Multiple *(times)*	P/B Multiple *(times)*
The Company	1515	Hong Kong	The Company is one of the largest private hospital groups in the PRC and there are 60 medical institutions with approximately 5,780 beds in operation in Beijing, Tianjin and Hebei owned or operated by the Group, including three Grade III hospitals, six Grade II hospitals and nine Grade I hospitals. The network hospitals and clinics of the Group offer healthcare services from community healthcare to primary preventive care and acute care.	31 December 2015	7,587.2 *(Note 2)*	39.2 *(Note 2)*	3.7 *(Note 2)*
China Medical	383	Hong Kong	China Medical is an investment holding company engaging in investment in and management and operation of healthcare and hospital businesses, aged care businesses, trading of medical equipment and related supplies, property investment and development, securities trading and investments, provision of financial services and strategic investment.	30 June 2016	5,430.0	N/A *(Note 5)*	2.7

Name	Stock code	Exchange where the stock is listed	Principal business activities	Latest financial year end date	Market Capitalisation as at the Latest Practicable Date	P/E Multiple	P/B Multiple
					(HK$' million)	*(times)*	*(times)*
Harmonicare Medical Holdings Limited ("**Harmonicare**")	1509	Hong Kong	Harmonicare is principally engaged in provision of specialised hospital services, especially in obstetrics and gynaecology and supply chain business in the PRC.	31 December 2015	3,534.2	28.7	2.2
Wenzhou Kangning Hospital Company Limited ("**Wenzhou Kangning**")	2120	Hong Kong	Wenzhou Kangning is the largest private psychiatric healthcare group in the PRC and operates and manages a network of healthcare facilities across various regions in China that primarily focus on providing psychiatric specialty care.	31 December 2015	2,888.7	44.7	2.6
					Average	37.5	2.8
					Median	39.2	2.7
					Maximum	44.7	3.7
					Minimum	28.7	2.2
The Acquisition						39.8 *(Note 3)*	3.6 *(Note 4)*

(ii) The PRC Comparable Companies

Name	Stock code	Exchange where the stock is listed	Principal business activities	Latest financial year end date	Market capitalisation as at the Latest Practicable Date *(HK$' million)*	P/E Multiple *(times)*	P/B Multiple *(times)*
Aier Eye Hospital Group Company Limited ("**Aier Eye**")	300015	Shenzhen	Aier Eye provides ophthalmological services including ophthalmological diagnosis and treatments.	31 December 2015	40,844.8	82.3	13.0
Hengkang Medical Group Company Limited ("**Hengkang**")	002219	Shanghai	Hengkang is principally engaged in the research, development, manufacture and sale of traditional Chinese medicines. Hengkang primarily provides analgesic and haemostatic drugs, cardiovascular drugs as well as drugs for urinary and reproductive systems. Hengkang also provides healthcare services through the acquisition of hospitals.	31 December 2015	27,752.4	73.9	6.2
					Mean	78.1	9.6
					Median	78.1	9.6
					Maximum	82.3	13.0
					Minimum	73.9	6.2
The Acquisition						39.8 *(Note 3)*	3.6 *(Note 4)*

Source: Bloomberg, the Stock Exchange filings and the respective companies' annual reports or results announcements

Notes:

1. Except for the Company, the market capitalisation and the P/B Multiples of the Comparable Companies are calculated based on the market capitalisation as at the Latest Practicable Date divided by the most recent consolidated NAV attributable to the shareholders to the Comparable Companies as shown in their respective latest published annual results announcements or annual reports.

2. The P/E Multiple and the P/B Multiple of the Company are calculated based on the market capitalisation of the Company as at 1 April 2016, being the last trading day immediately before the date of the Term Sheet (the "**TS Last Trading Day**"), divided by the audited consolidated profit after tax of the Company attributable to the shareholders for the year ended 31 December 2015 of approximately RMB167.0 million (equivalent to approximately HK$193.7 million) and the audited NAV attributable to the Shareholders as at 31 December 2015 of approximately RMB1,747.9 million (equivalent to approximately HK$2,027.6 million).

3. The implied P/E Multiple of the Acquisition of approximately 39.8 times is calculated based on the Consideration of approximately HK$3,721.8 million divided by the unaudited pro forma net profit attributable to the shareholders of the Target Group for the year ended 31 December 2015 of approximately RMB80.6 million (equivalent to approximately HK$93.5 million).

4. The implied P/B Multiple of the Acquisition of approximately 3.6 times is calculated based on the Consideration of approximately HK$3,721.8 million divided by the audited NAV of the Target Group as at 31 May 2016 of approximately RMB899.1 million (equivalent to approximately HK$1,043.0 million).

5. China Medical recorded loss attributable to the shareholders of China Medical for the year ended 30 June 2016, rendering the P/E Multiple not meaningful.

Based on the above, the implied P/E Multiple and implied P/B Multiple of the Acquisition are approximately 39.8 times and 3.6 times respectively.

The P/E Multiples of the HK Comparable Companies ranged from approximately 28.7 times to approximately 44.7 times with an average and a median of approximately 37.5 times and 39.2 times respectively. The P/B Multiples of the HK Comparable Companies ranged from approximately 2.2 times to approximately 3.7 times with an average and a median of approximately 2.8 times and 2.7 times respectively. The implied P/E Multiple of the Acquisition is close to the average and median of that of the HK Comparable Companies. The implied P/B Multiple of the Acquisition is, however, higher than the average and median of that of the HK Comparable Companies.

The P/E Multiples of the PRC Comparable Companies ranged from approximately 73.9 times to approximately 82.3 times with an average and a median of approximately 78.1 times. The P/B Multiples of the PRC Comparable Companies ranged from approximately 6.2 times to approximately 13.0 times with an average and a median of approximately 9.6 times. Each of implied P/E Multiple and implied P/B Multiple of the Acquisition are well below the lower bounds of all the P/E Multiples and P/B Multiples of the PRC Comparable Companies.

Combining all the Comparable Companies, the P/E Multiples ranged from approximately 28.7 times to approximately 82.3 times and the P/B Multiples ranged from approximately 2.2 times to 13.0 times, with averages of the P/E Multiples and the P/B Multiples of approximately 53.8 times and approximately 5.1 times respectively. Each of the implied P/E Multiple and implied P/B Multiple of the Acquisition are below the average of the P/E Multiples and the P/B Multiples of the Comparable Companies.

8. Consideration Shares issue price analysis

(a) Comparison of market prices of the Shares

The Consideration Shares will be issued at the price of HK$8.04 per Consideration Share (subject to adjustment) (the "**Issue Price**"), which was determined after arm's length negotiation between the Company and the Seller prior to the signing of the Term Sheet. The Issue Price represents:

(i) a discount of approximately 41.1% to the closing price of the Shares as quoted on the Stock Exchange on the Latest Practicable Date of HK$13.66 per Share;

(ii) a discount of approximately 37.7% to the closing price of the Shares as quoted on the Stock Exchange on the last trading day before the date of the Sale and Purchase Agreement (the "**Last Trading Day**") of HK$12.90 per Share;

(iii) a discount of approximately 11.6% to the closing price of the Shares as quoted on the Stock Exchange on the TS Last Trading Day (i.e. 1 April 2016) of HK$9.10 per Share;

(iv) the average of the closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the TS Last Trading Day of HK$8.04 per Share;

(v) a premium of approximately 5.0% over the average closing price of the Shares of approximately HK$7.66 as quoted on the Stock Exchange for the ten consecutive trading days up to and including the TS Last Trading Day;

(vi) a premium of approximately 10.9% over the average closing price of the Shares of approximately HK$7.25 as quoted on the Stock Exchange for the last 30 days up to and including the TS Last Trading Day;

(vii) a premium of approximately 14.7% over the average closing price of the Shares of approximately HK$7.01 as quoted on the Stock Exchange for the last 60 days up to and including the TS Last Trading Day;

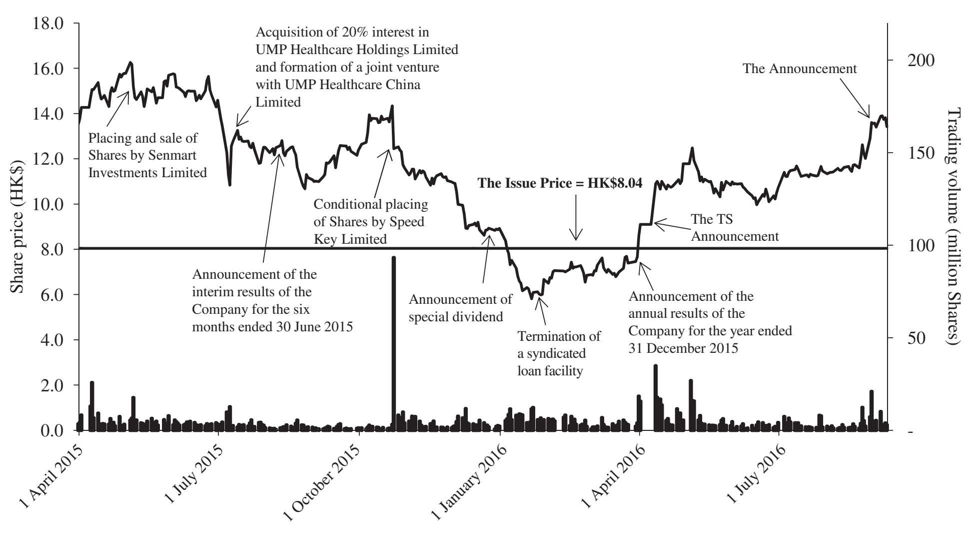
(viii) a premium of approximately 1.26% over the average closing price of the Shares of approximately HK$7.94 as quoted on the Stock Exchange for the last 90 days up to and including the TS Last Trading Day; and

(ix) a premium of approximately 205.7% over the Group's NAV per Share attributable to the Shareholders as at 30 June 2016 of approximately HK$2.63.

In drawing a meaningful conclusion with respect to the above Share price comparison with the Issue Price, Independent Shareholders should be mindful that the Share prices after the TS Last Trading Day are not useful in gauging the attractiveness of the Issue Price with historical Share prices as the inside information with respect to the Acquisition was disclosed in the announcement of the Company dated 8 April 2016 in relation to, among others, the Term Sheet. Share prices thereafter, including those of the Share prices as at the Last Trading Day and the Latest Practicable Date, tend to have built in capital expectation of the benefits to the Company expected to accrue from the Acquisition. In fact, the recent spike in Share prices after the TS Last Trading Day, rising from HK$9.10 as at TS Last Trading Day to HK$13.66 as at the Latest Practicable Date, may due to the market is in favour of the Acquisition so that the Share price has anticipated the favourable outcomes to be brought about by the Acquisition.

(b) Historical Share price performance

Set out below is the movement of the closing prices and trading volume of the Shares from 1 April 2015, being approximately one year prior to the publication of the announcement of the signing of the Term Sheet by the Company on 8 April 2016 (the "**TS Announcement**"), to and including the Latest Practicable Date (the "**Share Price Review Period**"). As set out in the discussion below, the Company announced a number of developments during the Share Price Review Period which we consider to be crucial in shaping the market price of the Shares.



Source: Bloomberg and the website of the Stock Exchange

Following the placing of Shares which represented approximately 14.83% of the Company's then issued Shares by Senmart Investments Limited, a then substantial shareholder of the Company on 6 May 2015, the Share price experienced a gradual downward moving trend. From 4 May 2015 to 30 September 2015, the closing price of the Shares recorded an approximately 23.8% decrease.

The Share price experienced a notable slide after the Company announced on 23 October 2015 the conditional placing of Shares which represented approximately 8.22% of the Company's then issued Shares by Speed Key Limited, a substantial shareholder of the Company which is wholly owned by Mr. Xu Baorui, the father of Ms. Xu Jie, an executive Director and the chairman of the Company. Although the Company announced the declaration of special dividend of HK$0.12 per Share on 17 December 2015, the Share price continued its slide and reached its trough at HK$5.81 per Share on 21 January 2016. The next day the Company announced the termination of US Dollar-denominated syndicated loan facility and a one-off non-recurring cost of approximately RMB30 million that was expected to hit the financial results of the Company for the year ended 31 December 2015. Share price recovered well after the event and rose further following the announcement of the Company's annual results for the year ended 31 December 2015 in March 2016.

During the period from the beginning of 2016 to the TS Last Trading Day, 57 days out of 60 trading days Shares closed at or below HK$8.04. The average closing price for the aforesaid period was approximately HK$7.01, representing a discount of approximately 12.8% to the Issue Price of HK$8.04. Given that the Share prices from the beginning of the Share Price Review Period to 31 December 2015 have already reflected the impact of major announcements published by the Company prior to 2016, we consider the Share prices during the period from the beginning of 2016 to the TS Last Trading Day to be the more relevant to gauging the market valuation of the Company when assessing the Issue Price. The Shares closed between HK$9.97 and HK$13.90 after the publication of the TS Announcement and until the Latest Practicable Date.

(c) Comparison of the Issue Price with the valuation multiples of the HK Comparable Companies

The Group is mainly engaged in general hospital services, hospital management services, and supply chain businesses in Beijing, the PRC. Apart from the Share price analysis above, in assessing the fairness and reasonableness of the Issue Price, we have also attempted to compare the valuation multiples represented by the Issue Price with the HK Comparable Companies (excluding the Company) whose principal activities are similar to those of the Group. The purpose of this analysis is to understand whether the Issue Price, which can be quantified into valuation multiples that represent how the Company perceived its own valuation when setting the Issue Price (as opposed to setting the Consideration, which is a matter associated with the valuation of the Target Group), is comparable against the valuation multiples of the peer companies operated in similar lines of business as the Company. In this exercise, we consider that it is more relevant and appropriate to compare the Issue Price, being the Company's own valuation measure, with those valuation multiples of the HK Comparable Companies (excluding the Company) as (i) similar to the HK Comparable Companies (excluding the Company), the Company is listed on the Stock Exchange; and (ii) capital value expectation of the Hong Kong market is the more relevant consideration as the issue of Consideration Shares are conducted in the Hong Kong market instead of the PRC market. Lastly but not least, for the purpose of this analysis, we have specifically removed the Company from the HK Comparable Companies, as the Company as represented by the Issue Price is the subject matter being compared so as to avoid double counting.

Name	Stock code	Exchange where the stock is listed	Principal business activities	Latest financial year end date	Market capitalisation as at the Latest Practicable Date *(HK$' million)*	P/E Multiple *(times)*	P/B Multiple *(times)*
China Medical	383	Hong Kong	China Medical is an investment holding company engaging in investment in and management and operation of healthcare and hospital businesses, aged care businesses, trading of medical equipment and related supplies, property investment and development, securities trading and investments, provision of financial services and strategic investment.	30 June 2016	5,430.0	N/A	2.7
Harmonicare	1509	Hong Kong	Harmonicare is principally engaged in provision of specialised hospital services, especially in obstetrics and gynaecology and supply chain business in the PRC.	31 December 2015	3,534.2	28.7	2.2

Name	Stock code	Exchange where the stock is listed	Principal business activities	Latest financial year end date	Market capitalisation as at the Latest Practicable Date	P/E Multiple	P/B Multiple
					(HK$' million)	*(times)*	*(times)*
Wenzhou Kangning	2120	Hong Kong	Wenzhou Kangning is the largest private psychiatric healthcare group in the PRC and operates and manages a network of healthcare facilities across various regions in China that primarily focus on providing psychiatric specialty care.	31 December 2015	2,888.7	44.7	2.6
					Average	36.7	2.5
					Median	36.7	2.6
					Maximum	44.7	2.7
					Minimum	28.7	2.2
					The Issue Price	34.7	3.3

Source: Bloomberg, the Stock Exchange filings and the respective companies' annual reports or results announcements

Note: The market capitalisation and the P/B Multiples of the HK Comparable Companies (excluding the Company) are calculated based on the market capitalisation as at the Latest Practicable Date divided by the most recent consolidated NAV attributable to the shareholders to the HK Comparable Companies (excluding the Company) as shown in their respective latest published annual results announcements or annual reports.

The implied P/E Multiple of the Issue Price is calculated based on the Issue Price of HK$8.04 divided by the Company's earnings per Share of RMB0.20 (equivalent to approximately HK$0.232) for the year ended 31 December 2015, being approximately 34.7 times, which is slightly below the average and the median of approximately 36.7 times of the P/E Multiples of the HK Comparable Companies (excluding the Company). It is within the range of that of the HK Comparable Companies (excluding the Company) of between approximately 28.7 and 44.7 times.

The implied P/B Multiple of the Issue Price is calculated based on the Issue Price of HK$8.04 per Consideration Share divided by the Company's NAV per Share of RMB2.10 (equivalent to approximately HK$2.44) as at 31 December 2015, being approximately 3.3 times, which is above both the average and median of approximately 2.5 and 2.6 times respectively and also above the upper bound of the range of the P/B Multiples of the HK Comparable Companies (excluding the Company) of approximately 2.7 times.

Having taken into account (i) the Issue Price consistently represents a premium over the average closing prices of the Shares for each of the last 10, 30, 60 and 90 consecutive trading days up to and including the TS Last Trading Day; (ii) during the period from the beginning of 2016 to the TS Last Trading Day, Shares closed at or below HK$8.04 in 57 days out of 60 trading days; (iii) despite the implied P/E Multiple of the Issue Price of approximately 34.7 times being slightly lower than the average and median of approximately 36.7 times of the P/E Multiples of the HK Comparable Companies (excluding the Company), the implied P/B Multiple of the Issue Price of approximately 3.3 times is higher than the average and the median and upper bound of that of the HK Comparable Companies (excluding the Company) of approximately 2.5 times, 2.6 times and 2.7 times respectively, we concur with the Directors' view that the Issue Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

9. Financial effects of the Acquisition

(a) Earnings

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the consolidated financial statements of the Group.

The net profit of the Group attributable to the Shareholders was approximately RMB167.0 million for the year ended 31 December 2015 and, based on the pro forma financial information as set out in appendix IV to the Circular, the unaudited pro forma net profit of the Target Group attributable to its shareholders (excluding the non-controlling interests) was approximately RMB80.6 million for the same year. Based on the above and assuming the Acquisition was completed on 1 January 2015, the net profit attributable to the Shareholders of the Enlarged Group for the year ended 31 December 2015 would have increased to approximately RMB247.6 million, before taking into account impairment of goodwill, if any, and the estimated Acquisition related professional and other expenditures.

On a per Share basis, the pro forma earnings per Share of the Group for the year ended 31 December 2015 would have slightly decreased from approximately RMB0.20 (based on 833,763,000 Shares in issue as at 31 December 2015) to approximately RMB0.19 (based on 833,763,000 Shares in issue as at 31 December 2015 plus 462,913,516 Consideration Shares), assuming the Acquisition was completed on 1 January 2015.

As discussed in the section headed "5. Reasons for and benefits of the Acquisition" in this letter above, it is expected that the Acquisition will promote the sharing of resources among the member agencies and lower the procurement costs through economies of scale and the Enlarged Group's operation efficiencies will also be increased. Furthermore, the Enlarged Group will also seek for business development opportunities through the synergies among the service networks of primary preventive care, acute care and post-operative rehabilitation. These business initiatives may further enhance the earnings growth of the Enlarged Group in the future.

Last but not least, as set out in the paragraph headed "(c) Information on the Subject Institutions" in the section headed "3. Information on the Target Group and the Subject Institutions" in this letter above, there have been continuous growth in general in the Subject Institutions, in terms of number of patient visit and average spending per patient visit in the past few years. Based on track record of the Subject Institutions and given the relative positive prospects of the healthcare industry in the PRC and the Consultancy Services Contracts with the hospitals had been entered prior to Completion, the potential of earnings growth of the Enlarged Group may further improve in the future.

(b) NAV attributable to the Shareholders

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and, accordingly, all assets and liabilities of the Target Group will be consolidated into those of the Group.

Based on the pro forma financial information as set out in Appendix III to the Circular and as if the Acquisition took place on 30 June 2016, the pro forma NAV of the Enlarged Group attributable to the Shareholders would increase from approximately RMB1,892.1 million by approximately RMB3,161.0 million to approximately RMB5,053.1 million. The increase was mainly due to the issue of the Consideration Shares, after taking into account the impairment charge of goodwill generated from the Acquisition. On a per Share basis, the pro forma NAV attributable to the Shareholders per Share of the Enlarged Group as at 30 June 2016 would have enhanced from approximately RMB2.27 (based on 833,763,000 Shares in issue as at 30 June 2016) to approximately RMB3.90 (based on 833,763,000 Shares in issue as at 30 June 2016 plus 462,913,516 Consideration Shares).

The actual impact on the NAV of the Enlarged Group will be subject to change as such amount will be calculated based on carrying values of assets and liabilities of the Target Group as of the date on which Completion shall take place.

(c) Gearing

As at 30 June 2016, the Group's gearing ratio, being total interest-bearing liabilities divided by total assets, was nil since the Group carried no interest-bearing liabilities. After taking into account the interest bearing payables to the Hospitals of approximately HK$55.5 million by the Target Group and based on the pro forma financial information as set out in Appendix III to the Circular and as if the Acquisition was completed on 30 June 2016, the Enlarged Group's pro forma gearing ratio would slightly increase to 0.9%, which remain a relatively low level.

(d) Liquidity

The net working capital, being the current assets less current liabilities, of the Group was approximately RMB1,036.1 million as at 30 June 2016. Based on the pro forma financial information as set out in appendix III to the Circular and as if the Acquisition was completed on 30 June 2016, the Enlarged Group's pro forma net working capital would reduce to approximately RMB710.7 million, mainly as a result of the inclusion of net current liability position of the Target Group of approximately RMB305.4 million. Nevertheless, the Enlarged Group still command a pro forma positive net working capital position and had a cash and bank balances of approximately RMB532.1 million.

10. Shareholding structure of the Company

Details of the shareholding structure of the Company as at the Latest Practicable Date and immediately after Completion (assuming there is no change in the issued share capital of the Company other than the issue of the Consideration Shares from the Latest Practicable Date up to the Completion Date) are set out below:

Name of the Shareholder	**As at the Latest Practicable Date**		**Immediately after Completion**	
	Number of Shares	*Approximate percentage of shareholding*	*Number of Shares*	*Approximate percentage of shareholding*
Seller (through CRH Phoenix)	–	0%	462,913,516	35.70%
Ms. Xu Jie and parties acting in concert with her[1]	208,860,000	25.05%	208,860,000	16.11%
Mr. Liang Hongze[2]	26,860,912	3.22%	26,860,912	2.07%
Mr. Jiang Tianfan[3]	10,551,648	1.27%	10,551,648	0.82%
Other Directors[4]	6,677,580	0.80%	6,677,580	0.51%
Other public Shareholders	580,812,860	69.66%	580,812,860	44.79%
Total	833,763,000	100%	1,296,676,516	100%

Notes:

1. Ms. Xu Jie, who is an executive Director and the chairman of the Company and is interested in 13,868,000 Shares, Ms. Xu Xiaojie, who is the daughter of Ms. Xu Jie and is interested in 13,590,640 Shares, and Speed Key Limited, which is wholly owned by Xu Baorui, the father of Ms. Xu, and is interested in 181,401,360 Shares.

2. Mr. Liang Hongze is an executive Director and the chief executive officer of the Company. 26,705,912 of these Shares are held through a wholly-owned company of Mr. Liang, Xin Yue Development Limited and 155,000 of these Shares are held by Mr. Liang personally.

3. Mr. Jiang Tianfan is an executive Director and the chief financial officer of the Company. 10,401,648 of these Shares are held through a wholly-owned company of Mr. Jiang, True Glory Global Limited and 150,000 of these Shares are held by Mr. Jiang personally.

4. Including Mr. Zhang Xiandan, Mr. Xu Zechang, Mr. Shan Baojie and Mr. Cheng Libing.

As shown in the table above, the shareholding of the existing other public Shareholders in the Company will decrease from approximately 69.66% to approximately 44.79% immediately after Completion (representing a dilution by approximately 24.87%). The Seller will become the controlling Shareholder and Speed Key, the existing single largest Shareholder, will continue to be a substantial Shareholder upon Completion. Although the shareholding interest of the existing other public Shareholders will be diluted, having taken into account (i) the benefits which can bring forth by the Acquisition; (ii) the fairness and reasonableness of the Consideration; (iii) the fairness and reasonableness of the Issue Price; and (iv) the strengthening of the capital base of the Group, we are of the opinion that the dilution effect on shareholding of the existing other public Shareholders to be acceptable.

11. The Whitewash Waiver

Upon Completion, the Seller (through CRH Phoenix) will hold approximately 35.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Consideration Shares from the Latest Practicable Date and up to the Completion Date). Under Rule 26.1 of the Takeovers Code, the Seller (through CRH Phoenix) would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares other than those already owned or agreed to be acquired by the Seller and parties acting in concert with it, unless the Whitewash Waiver is obtained from the Executive. In this regard, the Seller has applied to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll.

Independent Shareholders should note that the Acquisition is conditional on, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the Whitewash Waiver by the Independent Shareholders at the EGM. Such condition precedent cannot be waived under the terms of the Sale and Purchase Agreement. If the Whitewash Waiver is not granted by the Executive or the Whitewash Waiver is not approved by the Independent Shareholders, the Sale and Purchase Agreement will lapse and the Acquisition will not proceed. Based on the principal factors and reasons as set forth above, we do not see the merit to be gained by the Independent Shareholders for not voting in favour of the resolution to approve the Whitewash Waiver. Failure to approve the resolution in relation to the Whitewash Waiver would cause the Sale and Purchase Agreement to lapse.

12. The Continuing Connected Transactions

(a) The CR PMM Framework Agreement

In contemplation of Completion and to comply with the applicable connected transaction requirements under the Listing Rules in relation to the supply of pharmaceuticals, medical device and medical consumables by CR Holdings to the Enlarged Group and its sponsored hospitals (including the Subject Institutions), the Company and CR Holdings entered into the CR PMM Framework Agreement on 5 October 2016, the details of which are set out below.

Date

5 October 2016

Parties

The Company and CR Holdings

Term

The term of the CR PMM Framework Agreement is from the date of Completion or the date on which the approval of the CR PMM Framework Agreement by the Independent Shareholders has been obtained (whichever is the later) to 31 December 2018, subject to renewal for another three years by mutual consent and negotiation between the parties. The Company may terminate the CR PMM Framework Agreement by a written notice of at least 30 days to CR Holdings.

Subject matter

Pursuant to the CR PMM Framework Agreement, CR Holdings may, through its subsidiaries, supply pharmaceuticals, medical device and medical consumables to the Enlarged Group and its sponsored hospitals (including the Subject Institutions) from time to time. The Enlarged Group and its sponsored hospitals may place purchase orders for pharmaceuticals, medical device and medical consumables with CR Holdings or its subsidiaries from time to time and CR Holdings or its subsidiaries may sell the products to the Enlarged Group and its sponsored hospitals at a price in accordance with the agreed pricing policy. The details of each purchase order, including price, payment terms and delivery arrangement, are to be separately agreed in accordance with the principles laid down in the CR PMM Framework Agreement.

Pricing policy

The price of pharmaceuticals, medical device and medical consumables under the CR PMM Framework Agreement shall be determined in accordance with the applicable prescribed price or guided price of those products fixed by the PRC regulators, if applicable. If there is no such prescribed price or guided price for the particular product, the price shall be determined based on arm's length negotiation between the parties and with reference to the then prevailing market price as evidenced by the invoices provided by CR Holdings or its subsidiaries for their supply of the relevant product to no less than three hospitals of similar grade.

Other than the pricing methodology set out above, the Group and the Subject Institutions may also introduce an open tendering process to ensure fairness of terms. In such scenario, certain designated personnel will be appointed to survey the price of designated pharmaceutical and medical products and ensure the tender pricing meets all such standards.

From time to time, sales agents are required to produce pricing guides as part of their pitching. With such pricing information and the accumulated market experience from the long operation track record of the Group's hospitals and the Subject Institutions, the Company is always able to stay aware of the fair market terms for different supplies of pharmaceutical, medical device and medical consumables.

(b) Reasons for and benefits of the entering into the Continuing Connected Transactions

The underlying rationale for the proposed Continuing Connected Transactions is mainly driven by commercial attractiveness of the terms offered by CR Holdings. In particular, the cooperation with CR Holdings, being the second largest pharmaceutical distributor in China, will secure the supply of the pharmaceuticals, medical device and medical consumables at the terms better than existing pricing and credit terms available to the Company and Subject Institutions by other existing suppliers. The CR PMM Framework Agreement will also enable the Enlarged Group and its sponsored hospitals to coordinate and manage the procurement of the pharmaceuticals, medical device and medical consumables (the "**Procurement**") in an efficient and standardised manner by consolidating the number of its suppliers in order to leverage on the economies of scale from larger orders that is typically available with a more centralised procuring system. Further details of the reasons for the Continuing Connected Transactions are set out in the section headed "Continuing Connected Transaction" in the letter from the Board of the Circular.

We have reviewed the CR PMM Framework Agreement and note that the pricing of pharmaceuticals, medical device and medical consumables are determined based on the basis as mentioned above. Having considered (i) the pricing of the pharmaceuticals, medical device and medical consumables will be determined in accordance with the applicable prescribed price or guided price of those products fixed by the PRC regulators; (ii) the pricing of pharmaceuticals, medical device and medical consumables without prescribed price or guided price fixed by the relevant government authorities will be determined based on the then prevailing market price and arm's length negotiation between the parties; and (iii) the pricing policy as mentioned above, we consider the terms of the CR PMM Framework Agreement to be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned.

(c) Proposed caps

Set out below are the historical transaction amounts in relation to the Procurement by Wugang Hospital Group, Huaikuang Hospital Group, the Group and the remaining Subject Institutions from CR Holdings and its subsidiaries for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

Historical transaction amounts

	For the year ended 31 December 2013 *(RMB)*	**For the year ended 31 December 2014** *(RMB)*	**For the year ended 31 December 2015** *(RMB)*	**For the six months ended 30 June 2016** *(RMB)*
Wugang Hospital Group	30 million	74 million	73 million	29 million
Huaikuang Hospital Group	2 million	2 million	3 million	3 million
The Group and the remaining Subject Institutions	12 million	19 million	18 million	7 million
Total	44 million	95 million	94 million	39 million

Proposed caps

The table below sets out the proposed caps under the CR PMM Framework Agreement for the period from 1 November 2016 or the Completion Date, whichever is the earlier, to 31 December 2016 and the two years ending 31 December 2017 and 2018 (the "**Cap Period**"):

	For the period from 1 November 2016 or the Completion Date, whichever is the earlier, to 31 December 2016 *(RMB)*	**For the year ending 31 December 2017** *(RMB)*	**For the year ending 31 December 2018** *(RMB)*
Wugang Hospital Group	23 million	202 million	216 million
Huaikuang Hospital Group	36 million	247 million	247 million
The Group and the remaining Subject Institutions	7.5 million	60 million	75.5 million
Total	66.5 million	509 million	538.5 million

Basis of determination

The Group

As stated in the letter from the Board, in determining the above proposed caps, the Company has determined (i) the Group's historical costs of the Procurement; (ii) the anticipated price movements of the typical medical/pharmaceutical supplies required by the Group; (iii) an average growth rate of 15% per year for the procurement requirement of the Group, as estimated by the Company on a conservative basis; and (iv) a moderate increase by approximately 1% to 2% in the Group's total procurement from CR Holdings and its subsidiaries.

The Subject Institutions (other than Wugang Hospital Group and Huaikuang Hospital Group)

With regard to the annual caps proposed for the Subject Institutions (other than Wugang Hospital Group and Huaikuang Hospital Group), a conservative average growth rate of 2% to 5% per year is applied for the procurement requirement of such

Subject Institutions. The increase in the procurement from CR Holdings and its subsidiary is primarily driven by the adoption of a centralised procurement approach by such Subject Institutions.

Wugang Hospital Group

As stated in the letter from the Board, CR Holdings (through its subsidiary) won the tender and entered into a centralised procurement arrangement with Wugang Hospital Group, pursuant to which CR Holdings will be Wugang Hospital Group's key supplier and Wugang Hospital Group may allocate around 70% to 75% of the total Procurement to CR Holdings and its subsidiaries.

Huaikuang Hospital Group

Huaikuang Hospital Group has adopted a centralised procurement approach since 2008. In September 2016, Huaikuang Hospital Group entered into an exclusive pharmaceutical supply agreement with CR Holdings (through its subsidiary) upon finding CR Holdings to be more competitive than its previous key supplier. Pursuant to the pharmaceutical supply agreement, Huaikuang Hospital Group will purchase all its needs for pharmaceutical supplies from CR Holdings and its subsidiaries and Huaikuang Hospital Group has retained the flexibility to switch supplier at the end of the current term (which is three years ending September 2016, 2017 and 2018) in the event any other supplier is to offer more competitive terms than CR Holdings.

Further details of the basis of the determination of the proposed caps are set out in the section headed "Continuing Connected Transaction" in the letter from the Board of the Circular.

Independent Shareholders should note that for the analysis of the proposed caps, both the management of the Group and the management of the Target Group were involved in the process of estimating the proposed caps. The total amounts of the historical transactions and the proposed caps for the Procurement were splitted between (i) Wugang Hospital Group and Huaikuang Hospital Group; and (ii) the Group and the remaining Subject Institutions. The majority of the projected increase in the proposed caps of the Procurement by the Subject Institutions was attributable to the expected centralised procurement to be conducted by Wugang Hospital Group and Huaikuang Hospital Group. Against this background and based on the above factors, we have reviewed the proposed caps by way the following, in order to assess the fairness and reasonableness of the proposed caps:

(i) The historical and projected total transaction amounts in relation to the Procurement by Wugang Hospital Group, Huaikuang Hospital Group and the Group and the remaining Subject Institutions

As discussed above, the focus of our analysis is centered around the historical and projected procurement activities of Wugang Hospital Group and Huaikuang Hospital Group.

(A) Wugang Hospital Group and Huaikuang Hospital Group

As stated in the letter from the Board, the historical total transaction amount in relation to total Procurement by Wugang Hospital Group from all of its vendors in the three years ended 31 December 2013, 2014 and 2015 were approximately RMB283 million, RMB296 million and RMB274 million respectively. Procurement activities of Wugang Hospital Group had been stable and with no growth in activities recorded during this period.

As shown in the projection provided by the management of the Target Group, the projected total transaction amount in relation to the Procurement of Wugang Hospital Group from all of its vendors for the three years ending 31 December 2016, 2017 and 2018 will be approximately RMB254 million, RMB288 million and RMB292 million respectively with an estimated CAGR of approximately 7.2% between 2016 and 2018. We consider the moderate growth projection to be acceptable as it does not deviate too much from the stable procurement activities of Wugang Hospital Group recorded in the period between 2013 and 2015.

The historical total transaction amount in relation to total Procurement by Huaikuang Hospital Group from all of its vendors for the three years ended 31 December 2013, 2014 and 2015 were approximately RMB278 million, RMB307 million and RMB284 million respectively. Huaikuang Hospital Group had recorded a slight growth pattern in line with growth in number patients' visits during the period with a CAGR of approximately 1.1% between 2013 and 2015.

The projected total transaction amount in relation to the Procurement of Huaikuang Hospital Group from all of its vendors for the three years ending 31 December 2016, 2017 and 2018 will be approximately RMB319 million, RMB325 million and RMB315 million respectively with projected procurement activities remaining flat for the period between 2016 and 2018. We consider the projection to be reasonable compared to the historical low CAGR between 2013 and 2015.

(B) The Group and the remaining Subject Institutions

As advised by the management of the Group, the historical total transaction amount in relation to total Procurement by the Group and the remaining Subject Institutions from all vendors in the three years ended 31 December 2013, 2014 and 2015 were approximately RMB872 million, RMB1,287 million, RMB1,499 million respectively with a CAGR of approximately 31.1% between 2013 and 2015.

As shown in the projection provided by the management of the Group, which accounts for the majority of the proposed cap for the Group and the remaining Subject Institutions, the projected total transaction amount in relation to the Procurement by the Group from all vendors for the three years ending 31 December 2016, 2017 and 2018 will be approximately RMB1,336 million, RMB1,536 million and RMB1,767 million respectively with an estimated CAGR of approximately 15.0% between 2016 and 2018. We consider the projection to be conservative compared to the historical CAGR of approximately 31.1% between 2013 and 2015.

(ii) The expected increase in the percentages of the procurement from CR Holdings and its subsidiaries for the Cap Period

As mentioned above, the majority of the projected increase in the proposed caps of the Procurement to be conducted by the Subject Institutions is attributable to the expected centralised procurement to be conducted by Wugang Hospital Group and Huaikuang Hospital Group from CR Holdings and its subsidiaries. More specifically, the proposed caps with respect to procurement to be conducted by each of Wugang Hospital Group and Huaikuang Hospital Group with CR Holdings and its subsidiaries for the two months ending 31 December 2016 and two years ending 31 December 2017 and 2018 will be approximately RMB23 million, RMB202 million and RMB216 million and approximately RMB36 million, RMB247 million and RMB247 million respectively.

(A) Wugang Hospital Group

For Wugang Hospital Group, the projected increase in the procurement of pharmaceuticals, medical device and medical consumables from CR Holdings and its subsidiaries during the Cap Period is because of the entering into of a centralised procurement arrangement between Wugang Hospital Group and a subsidiary of CR Holdings and two other independent third party vendors in August 2016 whereby Wugang Hospital Group agreed to centralise procurement in partnership with the aforesaid subsidiary of CR Holdings and these two other independent third party vendors. In doing so, it is expected that certain Procurement, once conducted with other existing suppliers of Wugang Hospital Group, be replaced and to be supplied by the aforesaid subsidiary of CR Holdings.

We have obtained and reviewed the centralised procurement implementation plan approved by the management of Wugang Hospital Group in July 2016. We note that, pursuant to such implementation plan, Wugang Hospital Group would reduce the number of suppliers of pharmaceuticals, medical device and medical consumables from the existing 40 to 3 upon the implementation of the centralised procurement. Among the three suppliers, one of them will be the lead supplier providing approximately 70% to 75% of the total Procurement and the other two will be the ancillary suppliers providing the remaining approximately 25% of the total Procurement. The subsidiary of CR Holdings was one of the three winners of the centralised procurement tender of Wugang Hospital Group. Wugang Hospital Group does not have any obligation to purchase a minimum amount from the subsidiary of CR Holdings. Based on the above and having considered the possibility of the subsidiary of CR Holdings becoming the lead supplier, we consider it reasonable to allocate up to 75% of the projected Procurement of Wugang Hospital Group in the Cap Period to the subsidiary of CR Holdings for the purpose of determining the proposed caps.

We have obtained the centralised procurement arrangement approved by the management of Wugang Hospital Group and noted that Wugang Hospital Group appointed a tendering agency company specialising in tendering pharmaceutical products for hospitals, which is third party independent to Wugang Hospital Group, to conduct the tendering process in August 2016. A selection committee, comprising 5 medical professionals randomly selected by the tendering agency company, recommended the selected suppliers for centralised procurement for Wugang Hospital Group. Wugang Hospital Group then entered into the centralised procurement arrangement with the subsidiary of CR Holdings. Having considered the above and the pharmaceuticals, medical device and medical consumables supplied under the centralised procurement arrangement will be determined in accordance with the applicable prescribed price or guided price fixed by PRC regulators and the pricing policy described above, we consider the centralised procurement from CR Holdings and its subsidiaries will be in normal commercial terms and the purchase terms will be fair and reasonable and in the interests of the Enlarged Group and Shareholders as a whole.

Given such arrangement, we consider the aforesaid proposed caps with respect to the Procurement to be conducted by Wugang Hospital Group with a subsidiary of CR Holdings to be the lead vendor, which would amount to approximately 46.0%, 68.0% and 72.0% of the total Procurement by Wugang Hospital Group for the two months ending 31 December 2016 and two years ending 31 December 2017 and 2018 respectively, to be reasonable. When compared to the total estimated

Procurement by the Enlarged Group, the aforesaid proposed caps account for approximately 5.2%, 7.9% and 7.7% of the total Procurement by the Enlarged Group for the two months ending 31 December 2016 and two years ending 31 December 2017 and 2018 respectively.

(B) Huaikuang Hospital Group

For Huaikuang Hospital Group, the projected increase in the Procurement from CR Holdings and its subsidiaries during the Cap Period is because of the entering into a pharmaceutical supply agreement with CR Holdings (through its subsidiary) in September 2016, which is similar to the centralised procurement arrangement between Wugang Hospital Group and subsidiary of CR Holdings as mentioned above. The proposed caps with respect to the Procurement to be conducted by Huaikuang Hospital Group with a subsidiary of CR Holdings to be the lead vendor will amount to approximately 69.8%, 73.8% and 76.2% of the total Procurement by Huaikuang Hospital Group for the two months ending 31 December 2016 and two years ending 31 December 2017 and 2018 respectively. When compared to the total estimated Procurement by the Enlarged Group, the aforesaid proposed caps account for approximately 8.7%, 9.6% and 8.8% of the total Procurement by the Enlarged Group for the two months ending 31 December 2016 and two years ending 31 December 2017 and 2018 respectively.

We were advised by the management of the Target Group that Huaikuang Hospital Group has implemented centralised procurement since 2013 and it has been Huaikuang Hospital Group's normal practice to conduct Procurement mainly with two vendors on yearly contracts and the associated procurement activities with these two vendors would usually account for more than 80% of the Huaikuang Hospital Group's total Procurement. Upon the pharmaceutical supply agreement with CR Holdings (through its subsidiary) in September 2016 becoming effective, existing vendors of Huaikuang Hospital Group will be replaced by the foresaid subsidiary of CR Holdings. Given the above and the similar arrangements noted in Wugang Hospital Group, we are of the view that the aforesaid proposed caps and the estimated percentage of the Procurement from the subsidiary of CR Holdings to be conducted by Huaikuang Hospital Group to be reasonable.

(C) The Group and the remaining Subject Institutions

As mentioned in the letter from the Board, the Group and the remaining Subject Institutions have decided to increase the percentage of their Procurement from CR Holdings and its subsidiaries which coincides with the stated objective of the CR PMM Framework Agreement to enable the Enlarged Group and its sponsored hospitals to coordinate and manage the Procurement in an efficient and standardised manner, in particular having regard to the stable and long term procurement arrangement between CR Holdings and the Group and the Subject Institutions. In past, the historical total transaction amount in relation to the Procurement by the Group from CR Holdings in the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 were approximately RMB10.1 million, RMB17.3 million, RMB14.8 million and RMB5.6 million respectively, each accounted for approximately 1.4%, 1.7%, 1.2% and 1.0% respectively of the total Procurement amount conducted by the Group during the relevant period. For the purpose of estimating the proposed caps for the Cap Period, the management of the Group has decided to lift the portion of the Procurement by the Group from CR Holdings to 2.5%, 3.0% and 3.5% for the two months ending 31 December 2016 and two years ending 31 December 2017 and 2018 respectively.

Independent Shareholders should note that previously certain products of CR Holdings and its subsidiaries were procured by the Group through a third party middleman supplier, which the Group had long-term supply arrangements with the quality of which met the Group's requirements. Following Completion, the Group will replace this existing supplier and procure such products directly from CR Holdings and its subsidiaries. Based on the statistics provided by the management of the Group, the amount of the Procurement made to this third party middleman supplier which later on sell to the Group for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 were approximately RMB27.1 million, RMB9.0 million, RMB13.0 million and RMB8.2 million respectively, each accounted for approximately 3.9%, 0.9%, 1.1% and 1.4% respectively of the total Procurement amount conducted by the Group during the relevant period. Therefore, when combined with the Group's own historical procurement made directly with CR Holdings, the total procurement (both directly and indirectly through a third party middleman supplier) accounted for approximately 5.3%, 2.6%, 2.3% and 2.4% respectively of the total Procurement amount conducted by the Group during the relevant period. We consider the estimate of the proposed caps for the two months ending 31 December 2016 and two years ending 31 December 2017 and 2018 to be acceptable given the percentage of the Procurement implied by the proposed caps are within the range of the historical aggregate annual Procurement (both directly and indirectly through a third party middleman supplier) percentages, i.e. ranging from 2.3% to 5.3%.

Having considered the bases on which the proposed caps were determined as described above, we are of the view that the proposed caps are fair and reasonable as far as the Independent Shareholders are concerned. Furthermore, as the total proposed caps of the Continuing Connected Transactions account for not more than approximately one-fifth of the total Procurement by the Enlarged Group for the two months ending 31 December 2016 and two years ending 31 December 2017 and 2018, we are of the view the Continuing Connected Transactions would not cast supplier reliance issue to the Enlarged Group upon Completion.

DISCUSSION AND ANALYSIS

Listed on the Stock Exchange since 2013, the Group is mainly engaged in general hospital services, hospital management services, and supply chain businesses. The Group is one of the largest private hospital groups in the PRC and it invested and operated 57 medical institutions in Beijing and Hebei, including 3 Grade III hospitals, 6 Grade II hospitals, 9 Grade I hospitals and 39 community healthcare centers, with around 5,867 beds in operation.

The Group recorded consecutive growth in revenue in both 2014 and 2015 driven by the success of operating and selling pharmaceuticals, medical devices and medical consumables to the Group's own Jian Gong Hospital as well as other managed IOT hospitals and clinics. The profitability of the Group was mainly driven by the increase in: (i) the number of patients visits; (ii) the average spending of patients; and (iii) the number of hospitals managed by the Group. Given the business model of the Group, the Acquisition appears to offer an attractive expansion opportunity to broaden the Group's operational coverage and to include more hospitals into the Group's network.

The Target Company owns 100% equity interests in 999 Clinic, CR Hospital Holding, which is the sponsor for Huaikuang Hospital Group and Xukuang Hospital, and Shenzhen Yukangrun, which is the sponsor for Brain Hospital, and 51% equity interest in CR Wugang, which is the sponsor for Wugang Hospital Group. The Subject Institutions comprise 44 medical institutions, all of which are medical insurance designated medical institutions. As of 31 December 2015, the Subject Institutions had 5,809 beds in operation in total, with approximately 2.39 million outpatient visits and approximately 154,000 inpatient visits in 2015.

To facilitate the Acquisition, the Target Group had undergone the Reorganisation which enables the Target Group to group together all the Subject Institutions and to streamline the operations of the Target Group. Among others, the Reorganisation involves the entering into of the Consultancy Services Contracts between CR Hospital Investment and each of Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital. Pursuant to the Consultancy Services

Contracts, CR Hospital Investment provides consultancy services to the relevant Subject Institutions, to ensure that a standardised process is implemented throughout these hospitals which utilises the platform and resources of CR Hospital Investment and improves these hospitals' management and services quality for a service fee. On a pro forma basis as if the Consultancy Services Contracts had been entered into on 1 January 2015, the Target Group would have received the service fees of approximately RMB126.4 million and RMB50.9 million for the year ended 31 December 2015 and five months ended 31 May 2016 respectively. As such, on a pro forma basis as if the Acquisition (including among others, completion of the Reorganisation and the entering into of the Consultancy Services Contracts) had been completed on 1 January 2015, the Target Group would have recorded unaudited pro forma net profits attributable to the shareholder of the Target Company of approximately RMB80.6 million and RMB46.4 million for the year ended 31 December 2015 and the five months ended 31 May 2016 respectively.

The Acquisition allows the Group to expand its geographical reach quickly beyond the current focused coverage in the Beijing-Tianjin-Hebei region but to a nationwide coverage in several key areas across the PRC. The Subject Institutions will become the regional centers of the Group, based on which a cross-regional medical and healthcare resources platform will be established. These immediate benefits align with the Group's long established development strategy and will also enhance the Group's brand. Furthermore, the cooperation with the Seller is of critical value for the integration of the resources of the Group. Combining China Resources Group's extensive resources and diversified business structures in the medical healthcare industry and the Group's experience and expertise in public hospital reform and hospital group management, the Group aims to become a leading player of the healthcare service industry in the PRC. In addition, the transaction will establish a cross-regional healthcare platform to promote the sharing of resources among the member agencies, lower the procurement costs through economies of scale and improve the operation efficiencies. The Enlarged Group will also focus on development of regional integrated delivery system and building the hierarchical medical system.

The Consideration payable by the Company to the Seller is approximately HK$3,721.8 million, which will be satisfied by the allotment and issue of Consideration Shares at the Issue Price of HK$8.04 per Consideration Share to the Seller (or its wholly-owned subsidiary as the Seller may nominate) upon Completion. We note that the implied P/E Multiple of the Acquisition of 39.8 times is above the P/E Multiple of the only Comparable Transaction of approximately 65.2 times. We also note that the implied P/B Multiple of the Acquisition of approximately 3.6 times, although is slightly higher than the average P/B Multiples of the Comparable Transactions of approximately 3.3 times, is still within the range of 0.6 times and 7.7 times. Furthermore, we consider that implied P/E Multiple and implied P/B Multiple of the Acquisition of approximately 39.8 times and 3.6 times respectively compare favourably against the average of the P/E Multiples and the P/B Multiples of the Comparable Companies of approximately 53.8 times and approximately 5.1 times respectively.

We also consider the Issue Price of HK$8.04 to be acceptable as (i) it consistently represents a premium over the average closing prices of the Shares for each of the last 10, 30, 60 and 90 consecutive trading days up to and including the TS Last Trading Day; (ii) during the period from the beginning of 2016 to the TS Last Trading Day, Share closed at or below HK$8.04 in 57 days out of 60 trading days; (iii) despite the implied P/E Multiple of the Issue Price of approximately 34.7 times is slightly lower than the average and median of approximately 36.7 times of the P/E Multiples of the HK Comparable Companies (excluding the Company), the implied P/B Multiple of the Issue Price of approximately 3.3 times is higher than the average and the median and upper bound of that of the HK Comparable Companies (excluding the Company) of approximately 2.5 times, 2.6 times and 2.7 times respectively.

The financial effects are generally positive. The net profit attributable to the Shareholders for the year ended 31 December 2015 would have increased by approximately 48.3% while the NAV attributable to the Shareholders as at 31 December 2015 would have enhanced by as much as 167.1% as if the Acquisition took place on 1 January 2015 and 30 June 2016 respectively. On a per Share basis, the pro forma earnings per Share for the year ended 31 December 2015 would have decreased slightly while the pro forma NAV per Share as at 31 December 2015 will increase by approximately 71.8%. The Acquisition is also not expected to bring about any significant negative impacts on the gearing and working capital positions of the Group.

The shareholding of the existing other public Shareholders in the Company will decrease from approximately 69.66% to approximately 44.79% immediately after Completion (without the CITIC Acquisition) (representing a dilution by approximately 24.87%). Although the shareholding interest of the existing other public Shareholders will be diluted, having taken into account the aforesaid factors, we consider the dilution effects on shareholding of the existing other public Shareholders to be acceptable.

Based on the principal factors and reasons as set out above, we consider it reasonable for the Company to carry out the Acquisition at the Consideration. Having taken into account that (i) the Issue Price is acceptable; (ii) the cash balance of approximately RMB528.3 million of the Group as at 30 June 2016 falls short of the Consideration of approximately HK$3,721.8 million (equivalent to approximately RMB3,208.4 million); and (iii) the issue of the Consideration Shares will avoid immediate cash outlay (either from internal resources and/or external borrowings) and hence prevent weakening the working capital position and the gearing of the Group, we are of the view that the issue of the Consideration Shares resulting in the dilution of shareholding of the Independent Shareholders is acceptable. Last but not least, the issue of the Consideration Shares would align the interests of the Shareholders and the Seller and hence facilitate the realisation of the intended synergies and commercial benefits, which will benefit to the Company and the Shareholders as a whole.

In the event that the Acquisition and the Whitewash Waiver are not approved by the Independent Shareholders at the EGM, the Sale and Purchase Agreement will lapse. In such circumstances, the Independent Shareholders will be unable to benefit from the Acquisition as discussed above. Based on the principal factors and reasons as set forth above, we do not see the merit to be gained by the Independent Shareholders not voting in favour of the resolution to approve the Acquisition and the Whitewash Waiver.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Acquisition and the Continuing Connected Transactions to be in the ordinary and usual course of business of the Company. We also consider the terms of the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions (including the proposed caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition, the Whitewash Waiver and the Continuing Connected Transactions (including the proposed caps).

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Kenneth Chow	**Danny Cheng**
Managing Director	*Director*

Mr. Kenneth Chow is a licensed person registered with the SFC and a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in corporate finance industry.

Mr. Danny Cheng is a licensed person registered with the SFC and a responsible officer of Somerley to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

Financial information on the Group for each of the three financial years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.phg.com.cn):

- annual report of the Company for the year ended 31 December 2013 published on 29 April 2014 (pages 50 to 112);
- annual report of the Company for the year ended 31 December 2014 published on 29 April 2015 (pages 56 to 119);
- annual report of the Company for the year ended 31 December 2015 published on 28 April 2016 (pages 61 to 135); and
- interim report of the Company for the six months ended 30 June 2016 published on 19 September 2016 (pages 19 to 42).

The Group had no items which are exceptional or extraordinary because of size, nature, or incidence for each of the three financial years ended 31 December 2015.

2. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 as extracted from the annual reports of the Company for the three years ended 31 December 2015 and the interim report of the Company for the six months ended 30 June 2016 respectively. Deloitte Touche Tohmatsu, the Company's auditors, has issued audit report with unqualified audit opinion for each of the three financial years ended 31 December 2015.

	For the year ended 31 December			For the six months ended 30 June
	2015	**2014**	**2013**	**2016**
	RMB$'000	*RMB$'000*	*RMB$'000*	*RMB$'000*
Revenue	1,372,267	1,206,265	887,354	705,200
Cost of sales and services	(1,042,686)	(908,562)	(674,660)	(523,126)
Gross profit	329,581	297,703	212,694	182,074
Other income	99,090	94,255	71,133	42,912
Other gains and losses	1,394	12,037	(6,990)	(1,984)
Selling and distribution expenses	(10,605)	(8,214)	(8,351)	(10,376)
Administrative expenses	(139,316)	(77,371)	(65,782)	(53,575)
Finance costs	(27,375)	(944)	(35,184)	–
Other expenses	(3,000)	(707)	(24,511)	(1,130)
Share of profit of an associate	1,008	–	–	(8)
Share of loss of a joint venture	(2,809)	–	–	(3,451)
Profit before tax	247,968	316,759	143,009	154,462
Income tax expense	(75,554)	(77,230)	(46,865)	(19,537)
Profit for the year	172,414	239,529	96,144	134,925
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	96,144	134,925
Profit for the year attributable to:				
Equity holders of the Company	167,045	230,051	89,992	130,312
Non-controlling interests	5,369	9,478	6,152	4,613
	172,414	239,529	96,144	134,925
Total comprehensive income attributable to:				
Equity holders of the Company	173,804	230,051	89,992	130,312
Non-controlling interests	5,369	9,478	6,152	4,613
	179,173	239,529	96,144	134,925
Earnings per share				
– basic (RMB yuan per share)	0.20	0.28	0.16	0.16
– diluted (RMB yuan per share)	0.20	N/A	0.16	0.16

Other expenses

For the year ended 31 December 2013, the listing expenses incurred related to the global offering is RMB22,078,000.

Other gains and losses

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.

3. AUDITED FINANCIAL INFORMATION OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2015

The following is the full text of the audited financial statements of the Group for the year ended 31 December 2015 as extracted from the annual report of the Company for the year ended 31 December 2015:

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
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

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

	Note	2015 RMB'000	2014 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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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

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.

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

Segment revenue, results, assets and liabilities

	General hospital services	Hospital management services	Supply chain business	Total
	RMB'000	*RMB'000*	*RMB'000*	*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)

	General hospital services RMB'000	Hospital management services RMB'000	Supply chain business RMB'000	Total RMB'000
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
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

	General hospital services RMB'000	Hospital management services RMB'000	Supply chain business RMB'000	Total RMB'000
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.

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 RMB154,995,000 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

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	**Supply chain business**	**Total**
	RMB'000	*RMB'000*	*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

(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 *RMB'000*	2014 *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 *RMB'000*	2014 *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

(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.

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.

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 *RMB'000*	2014 *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.

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	**2014**
	RMB'000	*RMB'000*
Medical disputes expenditure	933	603
Donation	2,030	–
Others	37	104
	3,000	707

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

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	2014
	RMB'000	*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

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	Salaries and allowances	Retirement benefit scheme contributions	Equity-settled share-based payment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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

	For the year ended December 31, 2014			
	Directors' fee	Salaries and allowances	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*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.

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

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.

16. DIVIDENDS

	For the year ended December 31, 2015	2014
	RMB'000	*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.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Medical equipment	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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).

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 service ability 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.

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.

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.

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 RMB88,258,000.

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.

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

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

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 USD0.01 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)

	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)

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

25. TRADE RECEIVABLES

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

	As at December 31,	
	2015	**2014**
	RMB'000	*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	2014
	RMB'000	*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.

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.

28. CERTIFICATE OF DEPOSIT AND CASH AND CASH EQUIVALENTS

	As at December 31,	
	2015	**2014**
	RMB'000	*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	**2014**
	RMB'000	*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	**2014**
	RMB'000	*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

30. OTHER PAYABLES

	As at December 31, 2015 RMB'000	2014 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 RMB'000	2014 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.

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)).

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.

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**	**Grant price**	**Grant date**
					HK$	*HK$*	
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.

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

34. CAPITAL

Ordinary shares of HK$0.00025 each	**Number of shares**	**Share capital**	**Share capital**
		HK$'000	*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 Highest	Price per share Lowest	Aggregate consideration paid
		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.

35. OPERATING LEASES

The Group as lessee

	As at December 31, 2015	As at December 31, 2014
	RMB'000	*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	As at December 31, 2014
	RMB'000	*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.

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

	As at December 31,	
Trade in nature	**2015**	**2014**
	RMB'000	*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	**2014**
	RMB'000	*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.

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

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.

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

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.

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.

	On demand or within one month	**1-3 months**	**3 months to 1 year**	**1-5 years**	**>5 years**	**Total undiscounted cash flows**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	1-3 months	3 months to 1 year	1-5 years	>5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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.

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 09, 2004	RMB4,000,000	100.00	100.00	Supply chain business

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 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 08, 2013	RMB500,000	100.00	100.00	Supply chain business
Unison Champ Limited ("Unison Champ")	The BVI January 07, 2013	USD1	100.00	100.00	Investment holding
Pinyu	The BVI January 03, 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 03, 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.

42. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

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

		At December 31,	
		2015	**2014**
	Notes	*RMB'000*	*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.

(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

4. INDEBTEDNESS STATEMENT

As at the close of business of 31 August 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the Target Group had outstanding borrowings of approximately RMB397.0 million, including amounts due to the hospitals sponsored by the Target Group of RMB396.5 million, which were unsecured and unguaranteed; and amounts due to related parties of the Target Group of RMB0.5 million, which were unsecured and unguaranteed.

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 patients and/or their families. Provision for medical dispute claims is made based on the status of potential and active claims outstanding at the end of each reporting period, and takes into consideration the assessment and analysis of external lawyer and the total claim exposure. As of 31 August 2016, based on the best estimate of the Directors, the Group has made provision of RMB0.5 million for the Group's medical disputes. Except for such medical disputes, as of 31 August 2016, being the latest practicable date for the purpose of the indebtedness statement, the Group and the Target Group did not have any material contingent liabilities.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, and normal accounts payable in the ordinary course of business of the Enlarged Group, the Enlarged Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, bank loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptable credits, mortgages, charges, guarantees or other material contingent liabilities as at the close of business on 31 August 2016.

5. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into account the internal resources, including the facilities available to the Target Group and the effects of Completion, the Enlarged Group has sufficient working capital for its present requirements for at least twelve months from the date of publication of this circular.

6. EMPLOYEE AND REMUNERATION POLICY

As at June 30, 2016, the Group had a total of 909 full time employees. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis, together with reference to the profitability of the Group, prevailing remuneration benchmarks in the industry, and market conditions within the general framework of the Group's remuneration system. The remuneration of the Directors are reviewed by the remuneration committee of the Board and approved by the Board, according to the relevant Director's experience, responsibility, workload and the time devoted to the Group, the Company's operating results and comparable market statistics.

The Group has adopted a share option scheme pursuant to a resolution passed by our Shareholders on September 30, 2013 (the "Share Option Scheme") to provide an incentive or reward to eligible participants for their contribution or potential contribution to the Company and/or any of its subsidiaries. A share award scheme of the Company was 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 (the "Share Award Scheme") as a mean 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 ten years commencing from July 7, 2014 on which the Board adopted the Share Award Scheme and is administrated by the Board and the trustee of the Share Award Scheme.

The Board will conduct review on a regular basis on the efficiency of the Group's risk management and internal control systems on different aspects of the Group and has also estimated the resources and budgets for training programmes. The Board also reviewed the qualifications and experience of the staff members regularly and the Company will arrange for training to its staff as and when necessary.

7. GEARING RATIO

As at June 30, 2016, on the basis of total interest-bearing liabilities divided by total assets, the Group's gearing ratio was nil.

8. DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended June 30, 2016.

For the year ended December 31, 2015, the Board recommended the distribution of a final dividend of HK$11.9 cents per share. Based on the number of Shares as of December 31, 2015, the total dividend was approximately HK$99.2 million. On December 17, 2015, the Company declared a 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.

For the year ended December 31, 2014, the Directors originally recommended to declare a final dividend of HK$0.17 per share. However, on May 13, 2015, the Board resolved to revise the proposed final dividend for the year ended December 31, 2014 to HK$0.05 per Share with the total dividend of approximately RMB32,904,000, instead of HK$0.17 per Share.

For the year ended December 31, 2013, the Directors recommended to declare a final dividend of HK$6.7 cents per Share. Based on the number of issued Shares as at December 31, 2013, this represented a total distribution of approximately HK$55.9 million.

9. MATERIAL CHANGE

The Directors confirm that, as at the Latest Practicable Date, there has been no material change to the financial or trading position or outlook of the Group since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Group were made up.

10. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there has been no material adverse change in the financial and trading position of the Group since 31 December 2015 (the date to which the latest published audited consolidated financial statements of the Group were made up) up to and including the Latest Practicable Date.

11. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

As mentioned in the interim report issued by the Company for the interim period ended June 30, 2016, the Group has been intensively exploring opportunities for development under the macro environment of comprehensive and deepening reform of the PRC healthcare system, seizing the opportunity of national reform and healthcare reform, proactively expanding the scale of medical institution network, while focusing on the Group's human resources development, medical practice technological level improvement and medical infrastructure construction in the medical institution network. The Group was able to continuously enhance the overall quality of healthcare services and operational efficiency with great success.

During the interim period ended 30 June 2016, both the business and finance of the Group reaped rapid growth. The rapid development of the Group's current business established a solid foundation for the regional and national expansion of future healthcare services network. The Acquisition and the proposed CITIC Acquisition would allow the Group to form strategic alliances with two large and well-established state-owned enterprises in the healthcare industry in the PRC.

The Acquisition and the proposed CITIC Acquisition would allow the Group to acquire the core healthcare assets of these two healthcare groups, and to introduce the two healthcare groups as long-term strategic shareholders of the Company. Upon completion of the

Acquisition and the CITIC Acquisition, it is expected that the Group will own a total of 109 medical institutions, which include 9 Grade III medical institutions, 12 Grade II medical institutions, 34 Grade I medical institutions, 51 community healthcare centres, and 3 elderly care institutions, and will become one of the largest healthcare services groups in Asia with approximately 12,600 hospital beds in total and over ten million annual patient visits. The in-depth cooperation between the Group and these two healthcare groups is a key milestone for the Group on the path of healthcare system reform, and a strategical transformation of the Group from a private institution to a public-private-partnership mixed-ownership institution, which will bring broader development for the Group, and will demonstrate the strong confidence of the cooperating parties towards the development prospects of the PRC healthcare services industry.

As mentioned in the section headed "Reason for and benefits of the Acquisition", the Acquisition represents a valuable opportunity for the Company to significantly and quickly expand its hospital network. The Group's current hospital network focuses on Beijing and Hebei only and the Acquisition will significantly expand the geographical coverage of the Group's hospital network to cover more key districts of the PRC. The Subject Institutions will become the regional centers of the Group, based on which a national medical and healthcare resources platform would be established. These immediate benefits align with the Group's long established development strategy and will also boost up the Group's brand.

Upon Completion, the Target Company will become a subsidiary of the Company and the financial results of the Target Group will be consolidated in the consolidated financial statements of the Group. After Completion, it is expected that the revenue of the Enlarged Group will continue to be derived from the hospital and clinic network through the following three ways: (i) general hospital services, (ii) hospital management and consultancy services, and (iii) supply chain business in which the Group primarily supplies pharmaceuticals, medical devices and medical consumables, and ancillary services mainly to the Group's in-network hospitals and clinics. After completion of the Acquisition and the CITIC Acquisition, the Group will fully integrate various resources of the strategic shareholders to create synergies between the healthcare industry resources of the state-owned strategic shareholders and the Group's valuable experience of reforming and operating hospitals, actively promote resources-sharing within the medical institution network, and fully enhance the operational management efficiency of the Group through scale economic benefit, with the aim to achieve strong alliance and complementary effects between the cooperating parties, and jointly promote the acceleration of the expansion of the Group's healthcare services network scale, thereby developing into a frontrunner with international influence in the PRC healthcare services industry.

Based on the above, the Directors consider that the Target Group will generate a stable and recurring income stream to the Enlarged Group, enable the Enlarged Group to strengthen its asset base and provide capital appreciation potential to the Enlarged Group.

In light of above, the Directors are optimistic about the prospects of the full spectrum healthcare services offered by the Enlarged Group.

1. ACCOUNTANTS' REPORT OF THE TARGET GROUP

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7 October 2016

The Directors
Phoenix Healthcare Group Co. Ltd

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") for each of the three years ended 31 December 2015 and the five months ended 31 May 2016 (the "Relevant Periods") relating to Ample Mighty Limited ("Ample Mighty") and its subsidiaries (hereinafter collectively referred to as the "Target Group") which are proposed to be acquired by Phoenix Healthcare Group Co. Ltd (the "Company") for inclusion in the circular dated 7 October 2016 (the "Circular") constituting a major and connected transaction under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Pursuant to the sale and purchase agreement dated 30 August 2016 (the "Sale and Purchase Agreement") entered into, among others, China Resources Healthcare Group Limited ("CR Healthcare") as the seller and the Company as the purchaser, the Company has conditionally agreed to acquire via Pinyu Limited, a wholly-owned subsidiary of the Company, 100% equity interests in the Target Group from the seller by way of the allotment and issuance 462,913,516 ordinary shares at the issue price of Hong Kong Dollar ("HKD") 8.04 per share to seller upon the completion, as described more fully in the section headed "Letter from the Board".

Ample Mighty was incorporated in the British Virgin Islands (the "BVI") as a company limited by shares under the BVI Business Companies Act on 28 October 2011. Ample Mighty is a direct wholly owned subsidiary of CR Healthcare.

As at the date of this report, Ample Mighty has the direct and indirect interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid ordinary share capital/ registered capital	Equity interest attributable to the Target Group 31 December 2013 %	31 December 2014 %	31 December 2015 %	31 May 2016 %	Date of this report %	Principal activities
China Resources Hospital Investment Limited *(Note i)* ("CR Investment") (華潤醫院投資管理有限公司)	Hong Kong 28 Oct 2011	HKD1	100	100	100	100	100	Investment holding
Million Ease Limited *(Notes i and ii)* ("Million Ease") (安萬有限公司)	BVI 28 Oct 2011	United States Dollar ("USD") 1	100	100	100	–	–	Investment holding
China Resources Hospital (Kunming) Holding Limited *(Notes i and ii)* ("CR Hospital Kunming") (華潤醫院(昆明) 控股有限公司)	Hong Kong 28 Oct 2011	HKD1	100	100	100	–	–	Investment holding
China Resources Kunming Children's Hospital Management Co., Ltd. *(Notes i, ii, iii and viii)* ("CR Kunming Management") (華潤昆明兒童醫院管理有限公司)	The People's Republic of China (The "PRC") 7 Sep 2012	Renminbi ("RMB") 946,387,539	66	66	66	–	–	Investment holding
Yunnan Huakun Pharmaceutical Co., Ltd. *(Notes i, ii, iv and viii)* ("Yunnan Huakun") (雲南華昆醫藥有限公司)	The PRC 31 Oct 2003	RMB1,000,000	N/A	N/A	N/A	–	–	Supply of pharmaceuticals and medical devices business
Shenzhen Yukangrun Hospital Management Co., Ltd. *(Notes i, v and viii)* ("Shenzhen Yukangrun") (深圳市裕康潤醫院管理有限公司)	The PRC 21 Jan 2016	RMB10,000	N/A	N/A	N/A	100	100	Investment holding
China Resources Hospital Investment (China) Co., Ltd. *(Notes i and viii)* ("CR Hospital Investment") (華潤醫院投資(中國)有限公司)	The PRC 23 Oct 2012	USD40,000,000	100	100	100	100	100	Provision of hospital consultancy service
China Resources Hospital Management Co., Ltd. *(Notes i and viii)* ("CR Hospital Management") (華潤醫院管理有限公司)	The PRC 9 May 2014	USD2,000,000	N/A	100	100	100	100	Provision of hospital consultancy service
China Resources Hospital Holding Company *(Notes i, vi and viii)* ("CR Hospital Holding") (華潤醫院控股有限公司)	The PRC 20 Jul 2012	RMB52,000,000	100	100	100	100	100	Provision of hospital consultancy service
999 Medical Clinic (Shenzhen) Co., Ltd. *(Notes i and viii)* ("999 Clinic Limited") (三九醫療門診部(深圳)有限責任公司)	The PRC 25 Nov 2015	RMB4,000,000	N/A	N/A	100	100	100	Provision of hospital service
China Resources Health Technology (Beijing) Co., Ltd. *(Notes i, vii and viii)* ("CR Health Technology") (華潤健康科技(北京)有限公司)	The PRC 18 Nov 2013	USD300,000	100	100	100	100	–	Provision of consultancy service

Notes:

i. These companies were established as limited liability companies.

ii. Million Ease held the direct and indirect equity interests in CR Hospital Kunming, CR Kunming Management and Yunnan Huakun. On 31 May 2016, Million Ease was disposed out of the Target Group together with its subsidiaries, CR Hospital Kunming, CR Kunming Management and Yunnan Huakun, at a consideration of USD1. Details please refer to Note 35 to the Financial Information.

iii. In 2012, CR Kunming Management was established by CR Hospital Kunming and Kunming Health Bureau (昆明市衛生局), which held 66% and 34% of the equity interest in CR Kunming Management, respectively.

iv. On 1 April 2016, CR Kunming Management acquired 100% equity interest in Yunnan Huakun from an independent third party at a consideration of RMB95,000. Details please refer to Note 34(ii) to the Financial Information.

v. On 26 May 2016, CR Hospital Holding acquired 100% equity interest in Shenzhen Yukangrun from China Resources Company Limited ("CR Company") at a consideration of RMB320,010,000. Shenzhen Yukangrun holds the sponsorship right in Guangdong 999 Brain Hospital ("Brain Hospital") and the acquisition is accounted for as acquisition of assets. RMB60 million of the consideration has been capitalised as the shareholder loans and RMB260 million has been transferred from the amount due to CR Company to amount due to Brain Hospital.

vi. On 21 July 2014, CR Hospital Management acquired 100% equity interest in CR Hospital Holding from China Resources Leasing Co., Ltd. at a consideration of RMB51,638,000 and accounted for as a business combination under common control.

vii. On 11 April 2016, pursuant to the resolution of shareholder, 100% equity interest in CR Health Technology was transferred to China Resources Medical Company Limited at a consideration of HKD1. The equity interest transfer was approved by Beijing Chaoyang Municipal Commission of Commerce on 2 June 2016. Details please refer to Note 27 to the Financial Information.

viii. The English name is for identification only. The official names of the companies are in Chinese.

The financial year end date of the companies now comprising the Target Group is December 31.

No statutory financial statements have been prepared for Ample Mighty and Million Ease since their respective dates of incorporation, as there is no statutory audit requirements in the BVI.

The statutory financial statements of other entities comprising the Target Group for each of the three years ended 31 December 2015, or since the respective dates of their incorporation/establishment, where there is a shorter period which were audited by auditors as follows:

	Statutory auditors for the year ended 31 December		
Name of subsidiaries	**2013**	**2014**	**2015**
Entities incorporated in Hong Kong			
CR Investment	Note (a)	Note (a)	Note (a)
CR Hospital Kunming	Note (a)	Note (a)	Note (a)
Entities established in the PRC			
CR Kunming Management	Note (b)	Note (b)	Note (b)
CR Hospital Investment	Note (b)	Note (b)	Note (b)
CR Hospital Management	N/A	Note (b)	Note (b)
CR Hospital Holding	Note (c)	Note (b)	Note (b)
CR Health Technology	Note (b)	Note (b)	Note (b)
999 Clinic Limited	N/A	N/A	Note (d)

Notes:

(a) Statutory financial statements for the years ended 31 December 2013 and 2014 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and audited by Deloitte Touche Tohmatsu. The statutory audited financial statements for the year ended 31 December 2015 have not yet been issued as at the date of this report.

(b) Statutory financial statements for the years ended 31 December 2013 and/or 2014 were prepared in accordance with relevant accounting principles and regulations applicable to entities established in the PRC ("PRC GAAP") and audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP Beijing Branch. The statutory audited financial statements for the year ended 31 December 2015 have not yet been issued as at the date of this report.

(c) Statutory financial statements for the year ended 31 December 2013 were prepared in accordance with PRC GAAP and were audited by PricewaterhouseCoopers Zhong Tian LLP.

(d) No audited financial statements have been prepared for the company, as there is no statutory audit requirement for PRC domestic limited liability company.

For the purpose of this report, the directors of Ample Mighty have prepared the consolidated financial statements of the Target Group for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") (the "Underlying Financial Statements"). We have carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

We have examined the Underlying Financial Statements for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA and carried out such procedures as we considered necessary on the Underlying Financial Statements for inclusion of their financial information in this Circular.

The Financial Information as set out in this report has been prepared from the Underlying Financial Statements. No adjustment was considered necessary by the directors of the Company to the Underlying Financial Statements in preparing the report for inclusion in the Circular.

The Underlying Financial Statements is the responsibility of the directors of Ample Mighty. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Group as at 31 December 2013, 2014 and 2015 and 31 May 2016, and of its consolidated results and consolidated cash flows of the Target Group for the Relevant Periods.

The comparative consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Target Group for the five months ended 31 May 2015 together with the notes thereon (the "May 2015 Financial Information") have been extracted from the Target Group's unaudited consolidated financial information for the same period, which was prepared by the directors of Ample Mighty and solely for the purpose of this report. We have reviewed the May 2015 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the May 2015 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the May 2015 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the May 2015 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the year ended 31 December			For the five months ended 31 May	
	Notes	**2013**	**2014**	**2015**	**2015**	**2016**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	*5*	–	442	12,166	4,420	18,336
Cost of sales and services		–	(418)	(17,836)	(4,540)	(5,194)
Gross profit		–	24	(5,670)	(120)	13,142
Other income	*8*	4,182	5,165	31,181	12,085	2,763
Other gains and losses	*9*	2,621	(1,061)	(15,399)	–	2,169
Administrative expenses		(44,560)	(72,436)	(68,211)	(17,810)	(22,011)
Finance costs	*10*	–	(2,704)	(17,470)	(4,350)	(9,963)
Other expenses	*11*	(46,664)	(31,498)	(31,611)	(12,077)	(13,935)
Share of (loss) profit of a joint venture	*21*	(7,249)	(18,329)	(6,580)	(2,297)	2,206
Loss before tax	*12*	(91,670)	(120,839)	(113,760)	(24,569)	(25,629)
Income tax credit (expense)	*13*	394	–	(1,430)	358	35,277
(Loss)/profit and total comprehensive income for the year/period		(91,276)	(120,839)	(115,190)	(24,211)	9,648
(Loss)/profit and total comprehensive income for the year/period attributable to:						
Equity holders of Ample Mighty		(75,293)	(109,844)	(110,617)	(23,510)	14,432
Non-controlling interests		(15,983)	(10,995)	(4,573)	(701)	(4,784)
		(91,276)	(120,839)	(115,190)	(24,211)	9,648

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December			As at 31 May
		2013	2014	2015	2016
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*17*	544,122	615,099	609,708	71,251
Intangible assets	*18*	990	135,005	300,697	849,294
Lease prepayments for land use right	*19*	62,174	62,174	62,174	–
Goodwill	*20*	–	14,974	14,974	14,974
Receivables from a hospital	*7*	–	52,005	55,798	56,950
Interests in a joint venture	*21*	213,602	195,273	188,693	190,899
Amount due from a related party	*36*	–	–	–	700
Deferred tax assets	*22*	394	394	–	35,036
		821,282	1,074,924	1,232,044	1,219,104
Current assets					
Inventories	*23*	–	222	200	196
Receivables from hospitals sponsored or joint sponsored by the Target Group (the "Hospitals")	*7*	787	–	23,839	14,871
Trade receivables	*24*	–	390	357	475
Prepayments and other receivables	*25*	2,776	2,137	7,964	1,777
Amounts due from related parties	*36*	49,167	20,280	22,035	1,929
Certificate of deposit	*26*	–	–	217,000	–
Cash and cash equivalents	*26*	375,042	339,661	198,885	23,795
		427,772	362,690	470,280	43,043
Assets classified as held for sale	*27*	–	–	–	2,272
		427,772	362,690	470,280	45,315
Current liabilities					
Trade payables	*28*	–	740	602	482
Other payables and accruals	*29*	22,015	40,746	45,880	28,944
Amounts due to related parties	*36*	632,557	814,552	1,103,445	3,511
Payables to the Hospitals	*7*	312,058	281,629	282,832	315,484
Tax payables		–	–	1,895	–
		966,630	1,137,667	1,434,654	348,421
Liabilities associated with assets classified as held for sale	*27*	–	–	–	2,329
		966,630	1,137,667	1,434,654	350,750
Net current liabilities		(538,858)	(774,977)	(964,374)	(305,435)
Total assets less current liabilities		282,424	299,947	267,670	913,669

	Notes	As at 31 December 2013 RMB'000	2014 RMB'000	2015 RMB'000	As at 31 May 2016 RMB'000
Non-current liabilities					
Amounts due to a related party	36	–	174,227	257,999	–
Deferred tax liability	22	–	15,773	14,914	14,556
		–	190,000	272,913	14,556
Net assets (liabilities)		282,424	109,947	(5,243)	899,113
Capital and reserves					
Capital	31	–	–	–	329
Share premium		–	–	–	1,109,304
Reserves		(23,357)	(184,839)	(301,116)	(210,520)
Equity attributable to					
Equity holders of Ample Mighty		(23,357)	(184,839)	(301,116)	899,113
Non-controlling interest		305,781	294,786	295,873	–
Total equity		282,424	109,947	(5,243)	899,113

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attribute to equity holders of Ample Mighty						
	Capital	Share premium	Other reserve *(note i)*	Accumulated losses	Total	Attribute to non-controlling interest	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2013	–	–	51,638	298	51,936	321,764	373,700
Loss and total comprehensive expense for the year	–	–	–	(75,293)	(75,293)	(15,983)	(91,276)
Balance at 31 December 2013	–	–	51,638	(74,995)	(23,357)	305,781	282,424
Loss and total comprehensive expense for the year	–	–	–	(109,844)	(109,844)	(10,995)	(120,839)
Consideration payable/paid for acquisition of a subsidiary under common control	–	–	(51,638)	–	(51,638)	–	(51,638)
Balance at 31 December 2014	–	–	–	(184,839)	(184,839)	294,786	109,947
Loss and total comprehensive expense for the year	–	–	–	(110,617)	(110,617)	(4,573)	(115,190)
Diluted impact on capital injection *(Note ii)*	–	–	–	(5,660)	(5,660)	5,660	–
Balance at 31 December 2015	–	–	–	(301,116)	(301,116)	295,873	(5,243)
Profit (loss) and total comprehensive income (expense) for the period	–	–	–	14,432	14,432	(4,784)	9,648
Capital injection by the shareholder of Ample Mighty *(Note 31)*	329	1,109,304	–	–	1,109,633	–	1,109,633
Disposal of Million Ease as part of the reorganization *(Note iii)*	–	–	76,164	–	76,164	(291,089)	(214,925)
Balance at 31 May 2016	329	1,109,304	76,164	(286,684)	899,113	–	899,113

	Attribute to equity holders of Ample Mighty					Attribute to non-controlling interest	Total
	Capital	Share premium	Other reserve	Accumulated losses	Total		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the five months ended 31 May 2015 (Unaudited)							
Balance at 31 December 2014	–	–	–	(184,839)	(184,839)	294,786	109,947
Loss and total comprehensive income for the period	–	–	–	(23,510)	(23,510)	(701)	(24,211)
Balance at 31 May 2015 (Unaudited)	–	–	–	(208,349)	(208,349)	294,085	85,736

Notes:

i. The other reserve as at 1 January 2013 and 31 December 2013 represented the registered capital and accumulated losses of CR Hospital Holding, which was owned by China Resources Leasing Co., Ltd. then. Ample Mighty and China Resources Leasing Co., Ltd. are wholly-owned subsidiaries of CR Healthcare. The reduction of the other reserve during the Relevant Periods represented the consideration payable/paid for the acquisition of the 100% equity interest in CR Hospital Holding, which is accounted for as deemed distribution to the shareholder of CR Hospital Holding as a result of the business combination under common control. Amount of RMB30,000,000 of the consideration was paid in 2014.

ii. The amount represented the diluted equity impact attributed to the non-controlling shareholder of Ample Mighty, which was arising from the capital injection in CR Kunming Management by CR Hospital Kunming.

iii. Pursuant to the Sale and Purchase Agreement, the Target Group has carried out the reorganization, which was fully disclosed in the Note 1 to the Financial Information and the Circular. The Target Group transferred its equity interest in Million Ease to CR Healthcare. The gain on disposal was credit to reserves as deemed contribution from shareholders. Further details are disclosed in Note 35 to the Financial Information.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			For the five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Loss before tax	(91,670)	(120,839)	(113,760)	(24,569)	(25,629)
Adjustments for:					
Share of loss (profit) of a joint venture	7,249	18,329	6,580	2,297	(2,206)
Gain on acquisition of a subsidiary	–	–	–	–	(128)
Impairment loss on other receivables	–	333	–	–	–
Depreciation of property, plant and equipment	45,663	32,139	36,417	14,177	15,318
Amortization of intangible assets	23	516	2,331	762	1,744
Interest income on bank deposit	(3,102)	(4,620)	(4,238)	(2,555)	(1,002)
Interest income from certificates of deposit	–	–	(2,189)	–	(606)
Investment income from financial products	(1,080)	–	(305)	–	–
Interest income from loan to Xuzhou Mining Hospital ("Xukuang Hospital")	–	(545)	(3,793)	(1,004)	(1,152)
Finance costs	–	2,704	17,470	4,350	9,963
Loss (gain) on disposal of property, plant and equipment, net	–	–	–	(1)	330
Foreign exchange loss (gain)	(2,621)	772	15,412	1	(2,370)
Operating cash flows before movements in working capital	(45,538)	(71,211)	(46,075)	(6,542)	(5,738)
Movements in working capital					
Decrease in inventories	–	–	22	56	4
Decrease (increase) in receivables from the Hospitals	–	–	(23,839)	(2,376)	(13,740)
Decrease (increase) in trade receivables	–	75	33	(304)	(77)
Decrease (increase) in prepayment and other receivables	(2,406)	349	(4,060)	(1,650)	(175)
Decrease (increase) in amounts due from related parties	–	(75)	(91)	(31)	116
Increase (decrease) in trade payables	–	(288)	(138)	(205)	680
Increase in other payables	11,057	12,426	7,757	3,273	2,523
Increase (decrease) in amounts due to related parties	2,451	3,472	(1,086)	(1,498)	(834)
Interest received	3,102	4,620	4,238	2,555	1,002
Cash used in operations	(31,334)	(50,632)	(63,239)	(6,722)	(16,239)
Income taxes paid	–	–	–	–	(2,012)
NET CASH USED IN OPERATING ACTIVITIES	(31,334)	(50,632)	(63,239)	(6,722)	(18,251)
Cash flows from investing activities					
Purchase of financial products	(268,000)	–	(100,000)	–	–
Proceeds from disposal of financial products	269,080	–	100,305	–	–
Investment in a joint venture *(Note 21)*	(220,851)	–	–	–	–
Acquisition of a business *(Note 34 i)*	–	1,412	–	–	–
Acquisition of the equity interest in CR Kunming Management *(Note 34 ii)*	–	–	–	–	147
Proceeds on disposal of certificate of deposit	–	–	67,421	–	219,374
Purchase of certificate of deposit	–	–	(284,000)	–	–
Purchases of property, plant and equipment	(8,462)	(38,868)	(38,719)	(21,571)	(16,051)

	Year ended 31 December			For the five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Acquisition of the sponsorship right of Huaibei Miner General Hospital Group ("Huaikuang Hospital Group") *(Note 18)*	–	–	(153,145)	(152,000)	(241,096)
Loan to Xukuang Hospital *(Note 7)*	–	(51,460)	–	–	–
Advance to the Hospitals	(787)	–	–	–	(121)
Repayment from the Hospitals	–	787	–	–	–
Advance to related parties	(49,167)	(834)	(1,664)	(448)	(2,676)
Repayment from a related party	–	30,000	–	–	–
Proceeds from disposal of property, plant and equipment	–	–	63	1	–
Cash outflow on disposal of Million Ease as part of the reorganisation *(Note 35)*	–	–	–	–	(278,362)
NET CASH USED IN INVESTING ACTIVITIES	(278,187)	(58,963)	(409,739)	(174,018)	(318,785)
Cash flows from financing activities					
Advance from related parties	252,121	151,710	341,774	340,733	349,500
Advance from the Hospitals	–	–	241,857	99,931	–
Repayments to a related party	(38,100)	(17,045)	–	–	–
Repayments to the Hospitals	–	–	–	–	(186,852)
Repayments to Kunming Children's Hospital	–	(30,429)	(241,133)	–	–
Consideration paid for acquisition of CR Hospital Holding under common control	–	(30,000)	–	–	–
Repayments to the non-controlling shareholder of CR Kunming Management	–	–	(10,860)	(10,860)	–
NET CASH FROM FINANCING ACTIVITIES	214,021	74,236	331,638	429,804	162,648
Net (decrease) increase in cash and cash equivalents	(95,500)	(35,359)	(141,340)	249,064	(174,388)
Cash and cash equivalents at the beginning of the year/period	470,547	375,042	339,661	339,661	198,885
Effect of foreign exchange rate changes	(5)	(22)	564	23	86
Cash and cash equivalents at the end of the year/period	375,042	339,661	198,885	588,748	24,583
Represented by:					
Bank balances and cash	375,042	339,661	198,885	588,748	23,795
Bank balances and cash reclassified as held for sale	–	–	–	–	788
Cash and cash equivalents at the end of the year/period	375,042	339,661	198,885	588,748	24,583

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Ample Mighty was incorporated in the BVI as a company limited by shares under the BVI Business Companies Act on 28 October 2011. Its registered office is P.O.BOX 957, Offshore Incorporations Centre, Road Town, Tortola, BVI, and its principal place of business is located in the PRC. Ample Mighty is an investment holding company and its subsidiaries are principally engaged in provision of hospital consultancy services and general hospital services in the PRC since 2012.

The parent company of Ample Mighty is CR Healthcare. The intermediate holding company is CR Company. The ultimate holding company is China Resources National Corporation ("CR National"), a state-owned enterprise established in the PRC.

The Financial Information is presented in RMB, which is the same as the functional currency of Ample Mighty.

During the Relevant Periods, the management of Ample Mighty devoted themselves on extensive resources and diversified business structures in the medical healthcare industry and enhance the experience in public hospital reform and hospital group management. As such, the Target Group acquired the sponsorship right of Xukuang Hospital, Huaikuang Hospital Group, Brain Hospital and Kunming Children's Hospital through serials of acquisition and investment. The Target Group explored to establish a healthcare business platform to promote the sharing of resources, optimize the medical service business structure, enhance the quality of the medical service as well as operation and management capabilities and provide stronger support among the hospitals, by way of entering into a consultancy service contract with each of the hospitals, which the Target Group owns and invests the rights as such along with the sponsorship right.

For the purpose of the proposed transaction between the Company and CR Healthcare, the Target Group has carried out the reorganization (the "Reorganization") involving the following steps:

(1) As the precedent condition to completion the proposed transaction with the Company, the Target Group entered into a consultancy service contract with each of Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital in May 2016. Details please refer to Note 5.

(2) The management of CR Healthcare is in the process of negotiating with Kunming Health Bureau (昆明市衛生局), which is the joint sponsor ("聯合舉辦人") of Kunming Children's Hospital, the cooperation and future plan of the hospital. On 31 May 2016, the Target Group transferred the 100% equity interest in Million Ease to CR Healthcare at a consideration of USD1. Details please refer to Note 35.

(3) In February 2013, Wuhan Iron and Steel (Group) Corporation (武漢鋼鐵(集團)公司) ("Wugang Group") and CR Hospital Investment established China Resources Wugang (Hubei) Hospital Management Co., Ltd. ("CR Wugang"), which is the sponsor of China Resources Wugang General Hospital, Wuhan Iron and Steel (Group) Corporation No.2 staff Hospital and their subsidiary institutions (hereinafter collectively referred as "Wugang Hospital Group"). As the date of the report, the management of CR Healthcare still negotiates with Wugang Group the cooperation and future plan of the hospital. On 2 February 2016, CR Wugang transferred the net assets to Wugang Hospital Group which were previously injected by Wugang Group. Details please refer to Note 21.

(4) On 11 April 2016, pursuant to the resolution of shareholder, 100% equity interest in CR Health Technology was transferred to China Resources Medical Company Limited at a consideration of HKD1. Details please refer to Note 27.

(5) The Target Group acquired 100% equity interest in Shenzhen Yukangrun, the sponsor of Brain Hospital, at a consideration of RMB300,010,000 in May 2016. After the acquisition, the Target Group became the sponsor of the Brain Hospital.

(6) On 31 May 2016, Ample Mighty issued and allotted 49,999 shares to CR Healthcare at a subscription price of RMB1,109,633,000, which was satisfied by capitalisation of the amounts due to CR Healthcare. Details please refer to Note 31.

2. APPLICATION OF IFRSs

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target Group has adopted all the IFRSs which are effective for the Target Group's financial periods beginning on 1 January 2016 consistently throughout the Relevant Periods.

At the date of this report, the following new and amendments to IFRSs have been issued which are not yet effective. The Target Group has not early adopted these IFRSs.

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
Amendments to IFRS 2	Classification and Measurement of Share-based payment Transactions[1]
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1 January 2017

Except as described below, the directors of Ample Mighty anticipate that the application of the new and amendments to IFRSs will have no material impact on the Financial Information.

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 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.

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 Target Group's financial assets measured at amortised costs, the directors of Ample Mighty anticipate that the adoption of IFRS 9 in the future may not have other significant impact on amounts reported in respect of the Target Group's financial assets and financial liabilities based on an analysis of the Target Group's financial instruments as at 31 May 2016.

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 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 of Ample Mighty anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Target Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the directors of Ample Mighty 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 IAS 17.

As disclosed in Note 32, total operating lease commitments for the Target Group as at 31 December 2013, 2014, 2015 and 31 May 2016 amounted to RMB10,868,000, RMB24,472,000 RMB19,682,000 and RMB11,481,000, respectively, the directors of Ample Mighty do not expect the applicable of IFRS 16 would result in significant impact on the Target Group's results but it is expected that these lease commitments will be required to be recognised in the consolidated statements of financial position as right-of-use assets and lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis. 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 Target Group takes into accounts the characteristics of the asset or liability at the measurement date. Fair value for measurement and/or disclosure purpose in the Financial Information 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 Lease and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Financial Information incorporates the financial statements of the Target Group. Control is achieved when Target Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

Profit or loss and each item of other comprehensive income are attributed to the owners of Ample Mighty and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of Ample Mighty 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 those used by other members of the Target Group.

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

Business combination

Acquisitions of businesses other than those under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred to the Target Group, liabilities incurred by the Target Group to the former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRSs.

Merger accounting for business combination involving entities under common control

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Target Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investment in a joint venture

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 joint ventures are incorporated in the Financial Information using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statements of financial position at cost and adjusted thereafter to recognise the Target Group's share of the profit or loss and other comprehensive income of the joint venture. When the Target Group's share of losses of a joint venture exceeds the Target Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Target Group's net investment in the joint venture), the Target Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Target Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Target 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 Target 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.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Target Group's investment in a joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets 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.

The Target Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a partial interest in the associate is included in the determination of the gain or loss on disposal of the joint venture.

When a group entity transacts with a joint venture of the Target Group, profits and losses resulting from the transactions with the joint venture are recognised in the Financial Information only to the extent of interests in the joint venture that are not related to the Target Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Target Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

Revenue recognition

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

Service income including consultancy service income and general hospital service income. 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 Target 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 Target 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.

The Target Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

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 Target Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Target Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Target 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 Target 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 prepayment for land use right "in the consolidated statements of financial position and not amortised with the indefinite useful life. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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 each 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.

Retirement benefit costs

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

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/period. Taxable profit differs from 'loss before tax' as reported in the consolidated statements 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 Target Group's current liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases 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 utilized. 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. In addition, deferred tax liabilities are not recognised of the temporary difference arises from the initial recognition of goodwill.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, 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 Target Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate 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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

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

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.

Construction in progress is carried at cost, less any recognised impairment loss. 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.

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 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.

Intangible asset with indefinite useful life is not amortized and carried at cost less any subsequent accumulated impairment losses.

Lease payments for land use right

Lease payments for land use right represent the Target Group's prepaid lease payments for leasehold interest in land. The Target Group assesses the classification of the leased land as a finance lease or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of the leased land have been transferred to the Target Group. Based on such assessment, the Target Group's land use rights are accounted for as operating lease. Land use right are stated at cost less subsequent accumulated impairment losses, if necessary. Lease payments for land use right with indefinite useful life is not amortized.

Impairment on tangible and intangible assets other than goodwill

At the end of each reporting period, the Target Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Target 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.

Intangible assets with indefinite lives is tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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 as income immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are calculated using the first-in first-out method. Net realizable 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 instrument.

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

Financial assets

The Target Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each 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;
- breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

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 Target 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.

For financial assets carried at amortized cost, 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 and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When 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.

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 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.

Derecognition of financial assets

The Target 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 party.

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.

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 the Target Group after deducting all of its liabilities. Equity instruments issued by Ample Mighty are recognised at the proceeds received, net of direct issue costs.

Financial liabilities and equity instruments

Financial liabilities

The Target Group's financial liabilities (including trade payables, other payables and amounts due to related parties) are subsequently measured at amortized cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortized 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 basis.

Derecognition of financial liabilities

The Target Group derecognises financial liabilities when, and only when, the Target 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.

In the application of the Target Group's accounting policies, the directors of Ample Mighty 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimates, that the management of the Target Group have made in the process of applying the Target 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 the sponsorship rights and consultancy agreements

The Target Group acquire the sponsorship rights from other parties and became the sponsor of certain not-for-profit hospitals. The Target Group also entered into a series of consultancy agreements with those not-for-profit hospitals which the Target Group agrees to provide consultancy services to the hospitals and receive performance-based consultancy fees.

The management assessed whether or not the Target Group has control over these not-for-profit hospitals through the sponsorship rights and consultancy agreements based on whether the Target Group has the practical ability to direct the 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 Target Group does not obtain the decision making power under these bodies and committees to direct the relevant activities of the hospitals, so the Target Group does not control and thus does not consolidate those hospitals. Instead, these consultancy agreements are considered to generate consultancy service income.

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.

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimate of the recoverable amount of the cash-generating unit to which goodwill has been allocated. The recoverable amount is determined by the fair value less costs of disposal. Where the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. As at 31 December 2013, 2014, 2015 and 31 May 2016, the carrying amount of goodwill is RMB nil, RMB14,974,000, RMB14,974,000 and RMB14,974,000. Details of the recoverable amount calculation are disclosed in Note 20.

Estimated useful lives and impairment of property, plant and equipment

The directors of Ample Mighty estimate the useful lives, residual values and the depreciation method in determining the related depreciation charges for property, plant and equipment. This estimate is based on the experience of the Target Group on the actual useful lives of property, plant and equipment of similar nature and functions. The directors of Ample Mighty will increase the depreciation charge where useful lives are estimated to be shorter than original expected or will write off or write down the carrying value of the items which are technically obsolete or non-strategic assets that have been abandoned. Actual economic useful lives may differ from estimated economic useful lives. Periodic review could result in a change in depreciation period and therefore depreciation charge in the future periods.

In addition, the directors of Ample Mighty assess impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. When the recoverable amounts 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 31 December 2013, 2014, 2015 and 31 May 2016, the carrying amounts of property, plant and equipment are approximately RMB544,122,000, RMB615,099,000, RMB609,708,000 and RMB71,251,000 respectively. Details of the useful lives of property, plant and equipment are disclosed in Note 17.

Estimated useful lives and impairment of sponsorship right

The directors of Ample Mighty estimate the useful lives of the sponsorship right of the hospitals are indefinite. This estimate is based on an analysis of all of the relevant factors, such as the expected useful life of similar nature and functions, the period of control over the right and legal or similar limits on the use of the rights, and the useful life is dependent on the useful life of other assets of the hospitals. Based on this analysis, the directors of Ample Mighty consider there is no foreseeable limit to the period over which the right is expected to generate net cash inflows for the Target Group.

The carrying amounts of the sponsorship right are reviewed to assess whether their recoverable amounts have declined below their carrying amounts annually. The recoverable amount is determined based on the value in use of the cash-generating units to which assets have been allocated. The value in use calculation requires the Target Group to estimate the future cash flows expected to arise from the cash-generating unit, which has been taken into account of the estimation of expected future cash flow of consultancy services contracts, and a suitable discount rate in order to calculate the present value. Where the recoverable amount is less than its carrying amount, an impairment loss is recognized to write the assets down to its recoverable amount.

As at 31 December 2013, 2014, 2015 and 31 May 2016, the carrying amounts of sponsorship right are RMB nil, RMB122,355,000, RMB283,500,000 and RMB844,596,000. Details of the recoverable amounts calculation are disclosed in Note 18.

Estimated useful lives and impairment of lease prepayments for land use right

The directors of Ample Mighty estimate the useful life of lease prepayments for land use right is indefinite. This estimate is based on an analysis of all of the relevant factors, such as the expected useful life of similar nature and functions, the period of control over the right and legal or similar limits on the use of the right. Based on this analysis, the directors of Ample Mighty consider there is no foreseeable limit to the period over which the right is expected to generate net cash inflows for the Target Group.

The carrying amount of the lease prepayments for land use right is reviewed to assess whether their recoverable amount has declined below its carrying amount annually. The recoverable amount is determined based on the fair value less costs of disposal. The fair value of the lease prepayments for land use right is usually taken into account of the price of the similar assets that would be received to sell or paid to transfer a liability in an orderly transaction in a comparable market at the end of each report date. Where the recoverable amount is less than its carrying amount, an impairment loss is recognized to write the assets down to its recoverable amount.

As at 31 December 2013, 2014, 2015 and 31 May 2016, the carrying amount of lease prepayments for land use right with infinite useful life is RMB62,174,000, RMB62,174,000, RMB62,174,000 and RMB nil, respectively. Details of the recoverable amount calculation are disclosed in Note 19.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable temporary difference and taxable profit will be available against which the losses can be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the timing and level of future taxable profits together with future tax planning strategies. As at 31 December 2013, 2014, 2015, and 31 May 2016 the carrying amount of deferred tax assets are approximately RMB394,000, RMB394,000, RMB nil and RMB35,036,000, respectively. Further details are disclosed in Note 22.

Impairment of amounts due from related parties and the receivables from the Hospitals

In determining whether there is objective evidence of impairment loss, the directors of Ample Mighty take into consideration of the financial strength and the credit history of related parties and the Hospitals. 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. The directors of Ample Mighty reassess the adequacy of impairment on a regular basis. Where the actual cash flows are less than expected, material impairment loss may arise. The carrying amount of amounts due from related parties and the receivables from the Hospitals are disclosed in Notes 36 and 7, respectively.

5. REVENUE

During the Relevant Periods, the Target Group's revenue represents income from hospital consultancy services and general hospital services, net of discount and sales related taxes, are as follows:

	For the year ended 31 December			For the five months ended 31 May	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
General hospital services	–	–	6,483	2,251	2,927
Consultancy services *(Notes i and ii)*	–	442	5,683	2,169	15,409
	–	442	12,166	4,420	18,336

Notes:

i. In September 2015, CR Hospital Investment entered into a service contract with Xukuang Hospital which has been terminated and replaced by a new consultancy service contract in late December 2015.

ii. The consultancy services income for the five months ended 31 May 2016 mainly represent the income generated from the consultancy service contracts. CR Hospital Investment entered into a consultancy services contract with each of Huaikuang Hospital Group and Brain Hospital, which took effect as from 1 May 2016, and a consultancy services contract with Xukuang Hospital, which took effect from 24 December 2015. All the consultancy services contracts have an initial term of 20 years and are on largely the same terms and conditions, save for contracting parties and effective dates.

Pursuant to the consultancy services contracts, the Target Group provides consultancy services to the aforesaid hospitals to utilize the platform and resources of the Target Group, improve the hospitals' management and services quality, permit the hospitals to use the brand names of CR Healthcare to leverage on the Target Group's brand value, provide support to the hospitals and assist them to improve and standardise the service quality, the information systems, the logistics management and other aspects of their operations. The Target Group also provides its consultancy services to these hospitals in relation to areas such as human resources, organizational structure, operation performance, training and cost management including assisting them to recruit the necessary experts and specialists. In return, CR Hospital Investment charges Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital service fees based on certain percentage of their revenue and net profit.

6. SEGMENT INFORMATION

The directors of the Ample Mighty are identified as the chief operating decision maker (the "CODM") of the Target 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 consultancy services segment and general hospital services segment respectively for segment reporting purpose after taking into account that those operating companies are operating in similar business model with similar target customers, similar methods used to provide their service and under the same regulatory environment. The Target Group's reportable segments for segment reporting purposes are as follows:

(i) Consultancy services

Revenue is mainly derived from hospital consultancy services under the consultancy services contracts and received from each of Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital.

(ii) General hospital services

Revenue is derived from hospital medical services.

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

	Consultancy services *RMB'000*	**General hospital services** *RMB'000*	**Total** *RMB'000*
For the year ended 31 December 2013			
External revenue	–	–	–
Inter-segment revenue	–	–	–
Segment revenue	–	–	–
Eliminations			–
Revenue			–
Segment results	(42,004)	–	(42,004)
Share of loss of a joint venture			(7,249)
Unallocated expenses			(42,417)
Loss before tax			(91,670)

	Consultancy services *RMB'000*	**General hospital services** *RMB'000*	**Total** *RMB'000*
As at 31 December 2013			
Segment assets	55,809	–	55,809
Interests in a joint venture			213,602
Unallocated assets			979,643
Consolidated assets			1,249,054
Segment liabilities	29,985	–	29,985
Unallocated liabilities			936,645
Consolidated liabilities			966,630
Other segment information			
Amounts included in the measure of segment profit or loss or segment assets:			
Addition to non-current assets	669	–	669
Depreciation and amortization	24	–	24
Interest income	571	–	571

	Consultancy services RMB'000	General hospital services RMB'000	Total RMB'000
For the year ended 31 December 2014			
External revenue	442	–	442
Inter-segment revenue	–	–	–
Segment revenue	442	–	442
Eliminations			–
Revenue			442
Segment results	(69,376)	–	(69,376)
Share of loss of a joint venture			(18,329)
Unallocated expenses			(33,134)
Loss before tax			(120,839)

	Consultancy services RMB'000	General hospital services RMB'000	Total RMB'000
As at 31 December 2014			
Segment assets	232,652	73,665	306,317
Interests in a joint venture			195,273
Elimination of inter-segment receivables			(1,467)
Unallocated assets			937,491
Consolidated assets			1,437,614
Segment liabilities	384,686	3,694	388,380
Elimination of inter-segment payables			(1,467)
Unallocated liabilities			940,754
Consolidated liabilities			1,327,667
Other segment information			
Amounts included in the measure of segment profit or loss or segment assets:			
Addition to non-current assets	136,750	79,581	216,331
Depreciation and amortization	1,257	–	1,257
Interest income	145	–	145
Finance cost	2,704	–	2,704

	Consultancy services *RMB'000*	General hospital services *RMB'000*	Total *RMB'000*
For the year ended 31 December 2015			
External revenue	5,683	6,483	12,166
Inter-segment revenue	–	–	–
Segment revenue	5,683	6,483	12,166
Eliminations			–
Revenue			12,166
Segment results	(75,528)	(4,476)	(80,004)
Share of loss of a joint venture			(6,580)
Unallocated expenses			(27,176)
Loss before tax			(113,760)

	Consultancy services *RMB'000*	General hospital services *RMB'000*	Total *RMB'000*
As at 31 December 2015			
Segment assets	505,558	69,120	574,678
Interests in a joint venture			188,693
Elimination of inter-segment receivables			(2,118)
Unallocated assets			941,071
Consolidated assets			1,702,324
Segment liabilities	733,088	3,625	736,713
Elimination of inter-segment payables			(2,118)
Unallocated liabilities			972,972
Consolidated liabilities			1,707,567
Other segment information			
Amounts included in the measure of segment profit or loss or segment assets:			
Addition to non-current assets	163,394	(113)	163,281
Depreciation and amortization	3,149	3,993	7,142
Interest income	617	2	619
Finance cost	17,470	–	17,470
Income tax credit	–	(859)	(859)

	Consultancy services RMB'000 (Unaudited)	General hospital services RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
For the five months ended 31 May 2015			
External revenue	2,169	2,251	4,420
Inter-segment revenue	–	–	–
Segment revenue	2,169	2,251	4,420
Eliminations			–
Revenue			4,420
Segment results	(18,182)	(2,025)	(20,207)
Share of loss of a joint venture			(2,297)
Unallocated expenses			(2,065)
Loss before tax			(24,569)
Other segment information			
Amounts included in the measure of segment profit or loss or segment assets:			
Addition to non-current assets	157,295	8	157,303
Depreciation and amortization	1,197	1,665	2,862
Gain on disposal of property, plant and equipment, net	–	1	1
Interest income	24	1	25
Finance cost	4,350	–	4,350
Income tax credit	–	(358)	(358)

	Consultancy services RMB'000	General hospital services RMB'000	Total RMB'000
For the five months ended 31 May 2016			
External revenue	15,409	2,927	18,336
Inter-segment revenue	–	–	–
Segment revenue	15,409	2,927	18,336
Eliminations			–
Revenue			18,336
Segment results	(13,676)	(2,676)	(16,352)
Share of profit of a joint venture			2,206
Unallocated expenses			(11,483)
Loss before tax			(25,629)

	Consultancy services *RMB'000*	General hospital services *RMB'000*	Total *RMB'000*
As at 31 May 2016			
Segment assets	995,954	68,847	1,064,801
Interests in a joint venture			190,899
Elimination of inter-segment receivables			(6,955)
Unallocated assets			15,674
Consolidated assets			1,264,419
Segment liabilities	350,932	5,968	356,900
Elimination of inter-segment payables			(6,955)
Unallocated liabilities			15,361
Consolidated liabilities			365,306
Other segment information			
Amounts included in the measure of segment profit or loss or segment assets:			
Addition to non-current assets	559,899	(766)	559,133
Depreciation and amortization	1,533	1,661	3,194
Loss on disposal of property, plant and equipment, net	–	330	330
Interest income	341	–	341
Finance cost	9,919	44	9,963
Income tax expense (credit)	(35,036)	(358)	(35,394)

Note:

Non-current assets consist of property, plant and equipment, intangible assets and lease prepayments for land use right.

Segment revenue reported above represents revenue generated from external segment customers.

The accounting policies of the operating segments are the same as the Target Group's accounting policies described in Note 3. Segment results represent the profit before tax earned by each segment, without allocation of share of losses (profits) of a joint venture, administrative expenses and other items 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 other than goodwill, interest in a joint venture, the assets attributable to Million Ease and its subsidiaries, and the amount due from parent company are allocated to operating segments and all liabilities other than deferred tax liabilities, the liabilities attributable to Million Ease and its subsidiaries and the amount due to parent company are allocated to operating segments.

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

Geographical information

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

Information about major customers

Only one major customer which revenue contributed 45% and 48% of the total revenue of the Target Group for the year ended 31 December 2015 and the five months ended 31 May 2015 (unaudited), respectively.

Each of the top three customers contributed 14% to 40% of the total revenue of the Target Group for the five months ended 31 May 2016.

7. TRANSACTIONS WITH THE HOSPITALS

As disclosed in Note 1, the Target Group acquired the sponsorship right of Xukuang Hospital, Huaikuang Hospital Group, Brain Hospital and Kunming Children's Hospital through serials of acquisition and investment. As disclosed in Note 5, the Target Group entered into a consultancy service contract with the each of the Hospitals to provide certain consultancy service. In return, consultancy service fee is charged to the Hospitals.

(i) The amount of consultancy services received/receivable by the Target Group from the Hospitals during the Relevant Periods are as follows:

	For the year ended 31 December			For the five months ended 31 May	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Consultancy services income	–	–	5,411	2,127	15,391

(ii) The amount receivables of consultancy services fee from the Hospitals at the end of each reporting period are as follow:

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	2,006	14,750

The Target Group allows a credit period of 30 or 90 days for the hospital consultancy services. The following is an aged analysis of receivables from the Hospitals which are trade in nature based on the month end date of the service rendered at the end of each reporting period:

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	–	–	2,006	14,750

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

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Xukuang Hospital *(Note a)*	–	122,355	122,355	122,355
Huaikuang Hospital Group *(Note b)*	–	–	161,145	402,241
Brain Hospital *(Note c)*	–	–	–	320,000
	–	122,355	283,500	844,596

Notes:

a. Xukuang Hospital is a not-for-profit hospital organised in Jiangsu Province, the PRC. In December 2014, CR Hospital Holding acquired its sponsorship right from CR Company at a consideration payable of RMB122,355,000, which was determined at the carrying amount of the net assets of Xukuang Hospital. The payable was included in the amounts of the shareholder loans which were capitalised on 31 May 2016.

b. Huaikuang Hospital Group is a not-for-profit hospital organised in Jiangsu Province, the PRC. CR Hospital Holding acquired its sponsorship right in stage from an independent third party and the employees of Huaikuang Hospital Group at a total consideration of RMB402,241,000 which was determined by an independent valuation. The acquisition of 100% sponsorship right was completed in 2016.

c. Brain Hospital is a not-for-profit hospital organised in Guangdong Province, the PRC. In May 2016, CR Hospital Holding acquired the sponsorship right of Brain Hospital from CR Company through the acquisition of Shenzhen Yukangrun at a consideration of RMB320,000,000 which was determined by an independent valuation.

(iv) Other than the consultancy services provided to the Hospitals, the Target Group has the following transactions or outstanding balances with the Hospitals during the Relevant Periods:

Rental income

	For the year ended 31 December			For the five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Kunming Children's Hospital	–	–	21,833	9,097	–

Receivables from the Hospitals

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Kunming Children's Hospital *(Note a)*	–	–	21,833	–
Kunming Children's Hospital *(Note b)*	787	–	–	–
Brain Hospital *(Note b)*	–	–	–	121
	787	–	–	121
Xukuang Hospital *(Note c)*	–	52,005	55,798	56,950
	787	52,005	77,631	57,071

Notes:

a. The balance represents the rental income receivable which were generated from leasing the property, plant and property operated by Kunming Children's Hospital. Details are set out in Note 17.

b. The balances are non-trade in nature, unsecured, no interest bearing and repayable on demand.

c. In November 2014, CR Hospital Investment and Xukuang Hospital entered into a three-year loan agreement. Pursuant to the agreement, the principal is RMB51,460,000 which bears the prevailing three-year bank loan interest rate plus 2%. The interest will be paid on its maturity. For the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016, the interest income earned was RMB Nil, RMB545,000, RMB3,793,000, RMB1,004,000 (unaudited) and RMB1,152,000, respectively.

Payables to the Hospitals

Loans from the Hospitals

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Xukuang Hospital	–	–	22,542	21,575
Brain Hospital	–	–	66,792	33,909
Kunming Children's Hospital	–	–	153,002	–
	–	–	242,336	55,484

During the year ended 31 December 2015 and the five months ended 31 May 2016, the Target Group borrowed several loans from the Hospitals, which are unsecured, interest bearing at 0.35% per annum and repayable on demand. The total interest expenses on the loans from the Hospitals for the year ended 31 December 2015 and the five months ended 31 May 2016 were RMB479,000 and RMB63,000, respectively.

Amounts due to the Hospitals

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Kunming Children's Hospital	312,058	281,629	40,496	–
Brain Hospital	–	–	–	260,000
	312,058	281,629	40,496	260,000

The balances are non-trade in nature, unsecured, no interest bearing and repayable on demand.

8. OTHER INCOME

	For the year ended 31 December			For the five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest income on					
Bank deposit	3,102	4,620	4,238	2,555	1,002
Certificate of deposit	–	–	2,189	–	606
Receivables from Xukuang Hospital	–	545	3,793	1,004	1,152
Investment income on financial products	1,080	–	305	–	–
Rental income	–	–	20,616	8,486	3
Others	–	–	40	40	–
	4,182	5,165	31,181	12,085	2,763

9. OTHER GAINS AND LOSSES

	For the year ended 31 December			For the five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Foreign exchange	2,621	(772)	(15,412)	(1)	2,370
Impairment losses on other receivables	–	(333)	–	–	–
Loss on disposal of property, plant and equipment, net	–	–	–	1	(330)
Gain on acquisition of Yunnan Huakun *(Note 34 ii)*	–	–	–	–	128
Others	–	44	13	–	1
	2,621	(1,061)	(15,399)	–	2,169

10. FINANCE COSTS

	For the year ended 31 December			For the five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interests on amounts due to a related party	–	2,704	16,991	4,350	9,900
Interests on payables to the Hospitals	–	–	479	–	63
	–	2,704	17,470	4,350	9,963

11. OTHER EXPENSES

	For the year ended 31 December			For the five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Depreciation and amortisation *(Note)*	45,662	31,398	30,268	11,520	13,869
Donation	1,000	–	–	–	–
Penalty expenditure	2	–	2	–	–
Rental expense	–	–	1,337	557	–
Other	–	100	4	–	66
	46,664	31,498	31,611	12,077	13,935

Note:

As disclosed in Notes 17 and 18, certain property, plant and equipment and certain intangible assets owned by CR Kunming Management were operated by Kunming Children's Hospital for general hospital service during the Relevant Periods. The depreciation and amortisation of the assets are classified as the other operating expense.

12. LOSS BEFORE TAX

The Target Group's profit before tax for the year/period has been arrived at after charging:

	For the year ended 31 December			For the five months ended 31 May	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cost of sales and services *(Note)*	–	418	17,836	4,540	5,194
Depreciation of property, plant and equipment	45,663	32,139	36,417	14,177	15,318
Amortization of intangible assets	23	516	2,331	762	1,744
Staff cost					
Salaries and other allowance	22,028	38,210	38,480	11,204	12,284
Retirement benefit contribution	1,393	2,534	2,726	719	1,148
	23,421	40,744	41,206	11,923	13,432

Note:

In order to enter into the consultancy service contracts with Huaikuang Hospital Group and Brain Hospital, the Target Group had provided the relevant hospital operation services to these two hospitals from 2015. Thus, the cost had been incurred before the existence of the consultancy service contracts.

13. INCOME TAX EXPENSE

	For the year ended 31 December			For the five months ended 31 May	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Enterprise income tax ("EIT")					
Current tax in the PRC	–	–	1,895	–	–
Deferred tax *(Note 22)*	(394)	–	(465)	(358)	(35,394)
Under provision in respect of prior periods/years	–	–	–	–	117
Total income tax (credit) expense recognised in profit or loss	(394)	–	1,430	(358)	(35,277)

No provision for Hong Kong Profit Tax has been made as the Target Group did not have assessable profit subject to Hong Kong Profit Tax during the Relevant Periods.

Under the Law of the PRC on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the statutory EIT rate of all the PRC subsidiaries in the Target Group is 25% during the Relevant Periods.

The tax charge for the Relevant Periods can be reconciled to the loss before tax per the statements of profit or loss and other comprehensive income as follows:

	For the year ended 31 December			For the five months ended 31 May	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Loss before tax	(91,670)	(120,839)	(113,760)	(24,569)	(25,629)
Tax at PRC enterprise income tax rate of 25%	(22,918)	(30,210)	(28,440)	(6,142)	(6,407)
Tax effect of share of loss (profit) of a joint venture	1,812	4,582	1,645	574	(552)
Tax effect of expenses not deductible for tax purpose	11,961	7,850	6,190	67	2,964
Tax effect of income not taxable for tax purpose	(1,256)	–	–	(6)	(1,424)
Under provision in respect of prior years	–	–	–	–	117
Tax effect of deductible temporary differences not recognised	1,877	2,264	2,313	1,813	(1,181)
Tax effect of tax loss not recognised	8,130	15,514	19,722	3,336	3,172
Recognition of deferred tax assets for tax loss previously not recognised	–	–	–	–	(31,966)
Income tax (credit) expense	(394)	–	1,430	(358)	(35,277)

14. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE

The directors of Ample Mighty believe the presentation of the information of directors' and the chief executives' remuneration of the Target Group is not relevant for the purpose of this report.

15. EARNINGS PER SHARE

No earnings per share information is presented as such information is not meaningful having regard to the purpose of this report.

16. DIVIDENDS

No dividends was declared or paid by Ample Mighty or the Target Group during the Relevant Periods.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and 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 1 January 2013	–	–	–	–	–	–	–
Capital injection by the non-controlling shareholder of CR Kunming management	497,000	–	82,943	1,013	1,380	–	582,336
Additions	–	–	6,639	–	810	–	7,449
At 31 December 2013	497,000	–	89,582	1,013	2,190	–	589,785
Additions	5,810	2,174	12,064	2,250	6,059	3,440	31,797
Acquired on business combination *(Note 34 i)*	69,150	–	1,556	75	538	–	71,319
At 31 December 2014	571,960	2,174	103,202	3,338	8,787	3,440	692,901
Additions	4,916	–	15,513	608	2,046	8,006	31,089
Transfer	2,161	–	120	–	2,820	(5,101)	–
Disposals	–	(63)	(65)	–	(65)	–	(193)
At 31 December 2015	579,037	2,111	118,770	3,946	13,588	6,345	723,797
Additions	–	–	4,200	–	1,036	4,922	10,158
Disposals	–	–	(764)	–	(13)	–	(777)
Disposal of Million Ease as a part of the reorganization *(Note 35)*	(509,887)	–	(121,461)	(2,026)	(8,190)	(11,267)	(652,831)
Classified as held for sale	–	–	–	–	(163)	–	(163)
At 31 May 2016	69,150	2,111	745	1,920	6,258	–	80,184
ACCUMULATED DEPRECIATION							
At 1 January 2013	–	–	–	–	–	–	–
Charge for the year	(12,191)	–	(31,524)	(150)	(1,798)	–	(45,663)
At 31 December 2013	(12,191)	–	(31,524)	(150)	(1,798)	–	(45,663)
Charge for the year	(12,854)	(236)	(16,874)	(349)	(1,826)	–	(32,139)
At 31 December 2014	(25,045)	(236)	(48,398)	(499)	(3,624)	–	(77,802)
Charge for the year	(16,604)	(868)	(15,636)	(428)	(2,881)	–	(36,417)
Eliminated on disposals	–	–	65	–	65	–	130
At 31 December 2015	(41,649)	(1,104)	(63,969)	(927)	(6,440)	–	(114,089)
Charge for the period	(7,373)	(293)	(6,162)	(200)	(1,290)	–	(15,318)
Eliminated on disposals	–	–	444	–	3	–	447
Disposal of Million Ease as a part of the reorganization *(Note 35)*	43,899	–	69,799	550	5,698	–	119,946
Classified as held for sale	–	–	–	–	81	–	81
At 31 May 2016	(5,123)	(1,397)	112	(577)	(1,948)	–	(8,933)
CARRYING AMOUNT							
At 31 December 2013	484,809	–	58,058	863	392	–	544,122
At 31 December 2014	546,915	1,938	54,804	2,839	5,163	3,440	615,099
At 31 December 2015	537,388	1,007	54,801	3,019	7,148	6,345	609,708
At 31 May 2016	64,027	714	857	1,343	4,310	–	71,251

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 as follows:

Leasehold land and buildings	30 and 50 years
Leasehold improvement	Over the shorter of the lease term and estimated useful lives up to 10 years
Medical equipment	5-10 years
Motor vehicles	5-10 years
Office equipment	1-5 years

In 2013, Kunming Health Bureau (昆明市衛生局), which is the joint sponsor of Kunming Children's Hospital injected certain property, plant and equipment as the share capital into CR Kunming Management. The aforesaid property, plant and equipment has been operated by Kunming Children's Hospital for the general hospital service during the Relevant Periods. As at each of the reporting period end, the carrying amount of the property, plant and equipment was RMB543,864,000, RMB534,451,000, RMB529,121,000 and RMB nil, respectively. The directors of Ample Mighty assesses the impairment indicator of the assets whenever events or changes in circumstances indicate that the carrying amount of the property, plant and equipment may not be recoverable. Impairment assessment is performed on the cash-generated unit to which the assets belongs. CR Kunming Management suffered an operating loss during the Relevant Periods which is considered by the directors of Ample Mighty as an impairment indicator. The recoverable amount is determined by the fair value less costs of disposal. The fair value of the property, plant and equipment is usually taken into account of the price of the similar assets that would be received to sell or paid to transfer a liability in an orderly transaction in the comparable market at each end of the report date. The fair value of the property, plant and equipment was valued by an independent valuer. There is no impairment loss recognized during the Relevant Periods.

As at 31 December 2013, 2014, 2015 and 31 May 2016, the costs of the property, plants and equipment, which have been fully depreciated but still in use are approximately RMB19,097,000, RMB25,010,000 RMB35,066,000 and RMB38,164,000, respectively.

As at 31 December 2013, 2014, 2015 and 31 May 2016, the carrying amounts of property, plants and equipment without the property certificates were approximately RMB484,810,000, RMB479,101,000, RMB418,297,000 and RMB1,029,000, respectively.

18. INTANGIBLE ASSETS

	Software	Sponsorship right	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At 1 January 2013	–	–	–
Additions	1,013	–	1,013
At 31 December 2013	1,013	–	1,013
Additions	12,176	122,355	134,531
At 31 December 2014	13,189	122,355	135,544
Additions	6,878	161,145	168,023
At 31 December 2015	20,067	283,500	303,567
Additions	1,539	561,096	562,635
Disposal of Million Ease as a part of the reorganization *(Note 35)*	(14,181)	–	(14,181)
Classified as held for sale	(1,053)	–	(1,053)
At 31 May 2016	6,372	844,596	850,968

	Software	Sponsorship right	Total
	RMB'000	*RMB'000*	*RMB'000*
Accumulated amortization			
At 1 January 2013	–	–	–
Charged for the year	(23)	–	(23)
At 31 December 2013	(23)	–	(23)
Charged for the year	(516)	–	(516)
At 31 December 2014	(539)	–	(539)
Charged for the year	(2,331)	–	(2,331)
At 31 December 2015	(2,870)	–	(2,870)
Charged for the period	(1,744)	–	(1,744)
Disposal of Million Ease as a part of the reorganization *(Note 35)*	2,589	–	2,589
Classified as held for sale	351	–	351
At 31 May 2016	(1,674)	–	(1,674)
Carrying amount			
At 31 December 2013	990	–	990
At 31 December 2014	12,650	122,355	135,005
At 31 December 2015	17,197	283,500	300,697
At 31 May 2016	4,698	844,596	849,294

The following useful lives are used in the calculation of amortization.

Software	3-5 years
Sponsorship right	Indefinite useful life

Note:

The directors of Ample Mighty consider there is no foreseeable limit to the period over which the sponsorship rights is expected to generate net cash inflows for the Target Group. The useful life of sponsorship right is indefinite based on an analysis of the factors, such as the expected useful life of similar nature and functions and the period of control over the right and legal or similar limits on the use of the rights. The carrying amounts of the sponsorship right are reviewed to assess whether their recoverable amounts have declined below their carrying amounts annually. The recoverable amount is determined based on the value in use of the cash-generating units to which assets have been allocated. The value in use calculation requires the Target Group to estimate the future cash flows expected to arise from the cash-generating unit, which has been taken into account of the estimation of expected future cash flow of consultancy services contracts and a suitable discount rate in order to calculate the present value. There is no impairment loss recognised during the Relevant Periods.

19. LEASE PREPAYMENTS FOR LAND USE RIGHT

	Lease prepayment
	RMB'000
Cost	
At 1 January 2013	–
Additions *(Note)*	62,174
At 31 December 2013, 2014 and 2015	62,174
Disposal of Million Ease as a part of the reorganization *(Note 35)*	(62,174)
At 31 May 2016	–
Carrying amounts	
At 31 December 2013, 2014 and 2015	62,174
At 31 May 2016	–

Note:

In 2013, the land use right was injected by the non-controlling shareholder of CR Kunming Management, Kunming Health Bureau (昆明市衛生局). The land use right certificate has not been transferred to the Target Group during the Relevant Periods.

The land use right has indefinite useful life because there is no foreseeable limit to the period over which the right is expected to generate net cash inflows for the Target Group. The carrying amount of the lease prepayments for land use right is reviewed to assess whether their recoverable amounts have declined below their carrying amounts annually. The recoverable amount is determined based on the fair value less costs of disposal. The fair value of the lease prepayments for land use right is usually taken into account of the price of the similar assets that would be received to sell or paid to transfer a liability in an orderly transaction in a comparable market at the end of each report date. There is no impairment loss recognised during the Relevant Periods.

20. GOODWILL

	Goodwill
	RMB'000
Cost	
At 1 January 2013 and 31 December 2013	–
Acquired on an acquisition of a business *(Note 34 i)*	14,974
At 31 December 2014, 2015, and 31 May 2016	14,974
Carrying amounts	
At 31 January 2013 and 31 December 2013	–
At 31 December 2014, 2015 and 31 May 2016	14,974

The carrying amount of goodwill allocated to the cash-generating unit ("CGU") of 999 Clinic, represents the lowest level within the Target Group at which goodwill is monitored for internal management purpose. The recoverable amount of the CGUs is determined based on fair value less cost of disposal.

During the Relevant Periods, the directors of Ample Mighty determine that there is no impairment of its CGU containing goodwill and deferred tax liability because the recoverable amount of the CGU exceeds its carrying amount.

21. INTERESTS IN A JOINT VENTURE

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost of investment in a joint venture, unlisted	220,851	220,851	220,851	220,851
Share of post-acquisition profit (loss), net of dividends received	(7,249)	(25,578)	(32,158)	(29,952)
Carrying amount	213,602	195,273	188,693	190,899

As at 31 December 2013, 2014, 2015 and 31 May 2016, the Target Group had interest in the following a joint venture:

Name of entity	Form of business structure	Place of establishment	Principal place of operation	Registered capital	Proportion of ownership interest held by the Target Group				Proportion of voting rights held by the Target Group				Principal activities
					As at 31 December			As at 31 May	As at 31 December			As at 31 May	
					2013	2014	2015	2016	2013	2014	2015	2016	
				RMB'000									
CR Wugang	Limited liability company	PRC	Wuhan, PRC	656,656	51%	51%	51%	51%	51%	51%	51%	51%	General Hospital Services

Note:

On 19 February 2013, CR Hospital Investment entered into an agreement with Wugang Group to establish CR Wugang. Pursuant to the agreement, CR Hospital Investment and Wugang Group committed to inject cash and the net assets of Wugang Hospital Group into CR Wugang amounting to RMB334,895,000 and RMB321,762,000, respectively. The fair value of the net assets was valued by an independent valuer. On 30 June 2013, the first installment of cash injection amounting to RMB220,851,000 and the net assets of Wugang Hospital Group were injected. CR Wugang is engaged in provision for hospital consultancy service in Wuhan, Hubei Province. During the Relevant Periods, no consultancy service contract has been entered into between Wugang Hospital Group and the Target Group.

Wugang Hospital Group were a non-legal institution before 2 February 2016 and became a legal institution on that day. CR Wugang injected RMB10,000,000 to Wugang Hospital Group to acquire the sponsorship right in February 2016.

Although the Target Group holds 51% of the equity interest of CR Wugang and has the power to appoint three out of five directors of CR Wugang under the Articles of Association, decisions about the relevant activities require unanimous consent. As such the Target Group does not have right to direct the relevant activities of CR Wugang and accounted for interest in CR Wugang as a joint venture.

The financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016** *(Note)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets	291,980	431,957	436,667	363,909
Non-current assets	127,925	96,890	83,790	10,402
Current liabilities	1,078	145,959	150,471	–
Non-current liabilities	–	–	–	–
Net assets	418,827	382,888	369,986	374,311
Proportion of the Target Group's ownership interest in a joint venture	51%	51%	51%	51%
Carrying amount of the Target Group's interest in the joint venture	213,602	195,273	188,693	190,899

	For the year ended 31 December			For the five months ended 31 May	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	–	–	–	–	–
Profit (loss) and total comprehensive income for the year/period	(14,215)	(35,939)	(12,902)	(4,504)	4,325
Proportion of the Target Group's ownership interest in a joint venture	51%	51%	51%	51%	51%
The Target Group's share of profit (loss) of the joint venture	(7,249)	(18,329)	(6,580)	(2,297)	2,206

Note:

In February 2016, CR Wugang transferred the net assets to Wugang Hospital Group at a consideration of RMB174,184,000, which mainly included the net assets injected by Wugang Group. The consideration was determined at the carrying amount of the net assets as at 31 December 2015 and has yet to be settled at the date of the report.

22. DEFERRED TAXATION

The movements of the Target Group's deferred tax assets during the Relevant Periods are as follows:

	Unused tax losses
	RMB'000
At 1 January 2013	–
Credit to profit or loss	394
At 31 December 2013 and 2014	394
Charged to profit or loss	(394)
At 31 December 2015	–
Credit to profit or loss	35,036
At 31 May 2016	35,036

The movements of the Target Group's deferred tax liability during the Relevant Periods are as follows:

	Fair value adjustment on acquisition of business
	RMB'000
At 1 January 2013, 31 December 2013	–
Acquisition *(Note 34 i)*	(15,773)
At 31 December 2014	(15,773)
Credit to profit or loss	859
At 31 December 2015	(14,914)
Credit to profit or loss	358
At 31 May 2016	(14,556)

Deferred tax assets have not been recognised in respect of the following items:

	As at 31 December			**As at 31 May**
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deductible temporary differences	7,509	16,564	25,815	21,091
Tax losses	33,671	95,728	174,614	37,832

No deferred tax asset has been recognised in relation to those tax losses and deductible temporary differences due to the unpredictability of future profit streams of the relevant PRC subsidiaries and it is not probable that taxable profit will be available against which the tax losses can be utilized.

The tax losses will be expired as follow:

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2017	1,149	1,149	1,149	1,149
2018	32,522	32,522	32,522	1,685
2019	–	62,057	62,057	9,799
2020	–	–	78,886	18,120
2021	–	–	–	7,079
	33,671	95,728	174,614	37,832

23. INVENTORIES

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Pharmaceuticals and medical devices	–	219	178	175
Consumables	–	3	22	21
	–	222	200	196

24. TRADE RECEIVABLES

The Target Group allows a credit period of approximately 90 days for the general hospital service to the patients which are due from medical insurance program.

The following is an aged analysis of trade receivables presented based on the invoice date.

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	–	367	309	452
90 to 180 days	–	–	25	–
180 days to 365 days	–	11	–	–
Over 365 days	–	12	23	23
	–	390	357	475

For trade receivables disclosed below which are past due but not impaired, the directors of Ample Mighty access the credit quality of the medical insurance institutions by evaluating their historical credit records. Recoverability of the medical insurance institutions are evaluated by the directors of Ample Mighty regularly.

Aging of trade receivables that are past due but not impaired:

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
90 to 180 days	–	–	25	–
180 days to 365 days	–	11	–	–
Over 365 days	–	12	23	23
	–	23	48	23

The trade receivables that were past due but not impaired related to the amounts due from medical insurance institutions that have a good credit record with the Target Group. Based on past experience, the directors of Ample Mighty believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the institutions from the date that credit was initially granted up to the end of each reporting period.

25. PREPAYMENT AND OTHER RECEIVABLES

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advance to suppliers	2,728	498	25	46
Value added tax recoverable	–	1,050	5,600	929
Others	48	589	2,339	802
	2,776	2,137	7,964	1,777

26. CASH AND CASH EQUIVALENTS AND CERTIFICATE OF DEPOSIT

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents denominated in:				
– RMB	371,835	329,003	190,268	18,057
– USD	3,207	10,658	8,617	5,738
	375,042	339,661	198,885	23,795

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Certificate of deposit	–	–	217,000	–

Bank balances carried interest at market rates which range from 0.35% to 0.50% per annum for the Relevant Periods.

Certificate of deposit carried interest at market rates which range from 1.82% to 2.52% per annum for the Relevant Periods.

The bank balances denominated in RMB were deposited with banks in the PRC and the conversion of such balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

27. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

Pursuant to the shareholder resolution of CR Hospital Investment and the equity transfer agreement dated on 11 April 2016, the Target Group committed to dispose of 100% equity interest of CR Health Technology. The disposal transaction has been approved by the relevant government authority in June 2016.

As at 31 May 2016, the assets and liabilities associated with assets attributable to CR Health Technology have been classified as held for sale which are presented separately in the consolidated statement of financial position.

The major classes of assets and liabilities classified as held for sale are as follows:

	As at 31 May
	2016
	RMB'000
Assets	
Property, plant and equipment	82
Intangible assets	702
Amount due from a related party	700
Bank balances and cash	788
Total assets classified as held for sale	2,272
Liabilities	
Other payable	1,517
Amounts due to related parties	
Current	114
Non-current	698
Total liabilities classified as held for sale	2,329

28. TRADE PAYABLES

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	740	602	482

Trade payables are non-interest bearing and are normally granted on 60 days credit term. An aged analysis of the Target Group's trade payables, as at the end of each reporting period, based on the goods received date, is as follows:

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 60 days	–	545	569	426
60 to 180 days	–	154	–	–
180 days to 365 days	–	1	13	–
Over 365 days	–	40	20	56
	–	740	602	482

29. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Staff cost payables	7,263	16,259	18,881	15,721
Consideration payable for the sponsorship right acquisition of Huaikuang Hospital Group	–	–	8,000	8,000
Other PRC tax payables	505	1,701	4,435	42
Advance from suppliers	184	539	478	68
Payables for equipment	–	5,106	4,354	–
Payables to the non-controlling shareholder	10,860	10,860	–	–
Others	3,203	6,281	9,732	5,113
	22,015	40,746	45,880	28,944

30. NON-WHOLLY OWNED SUBSIDIARY

Details of non-wholly owned subsidiaries that have non-controlling interests:

The table below shows details of non-wholly owned subsidiaries of the Target Group that have non-controlling interests at the end of each reporting period:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests					Profit (loss) allocated to non-controlling interest					Accumulated non-controlling interest				
		As at 31 December			As at 31 May		For the year ended 31 December			For the five months ended 31 May		For the year ended 31 December			For the five months ended 31 May	
		2013	2014	2015	2015	2016	2013	2014	2015	2015	2016	2013	2014	2015	2015	2016
							RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
CR Kunming Management	PRC	34%	34%	34%	34%	N/A	(15,983)	(10,995)	(4,573)	(701)	(4,763)	305,781	294,786	295,873	294,085	N/A
Yunnan Huakun	PRC	N/A	N/A	N/A	N/A	N/A	–	–	–	–	(21)	–	–	–	–	N/A
Total							(15,983)	(10,995)	(4,573)	(701)	(4,784)	305,781	294,786	295,873	294,085	N/A

On 12 April 2012, CR Hospital Kunming entered into an agreement with Kunming Health Bureau to establish a sino-foreign enterprise, CR Kunming Management. Pursuant to the agreement, the Target Group and Kunming Health Bureau injected cash and the net assets of Kunming Children's Hospital representing 66% and 34% equity interest in CR Kunming Management, respectively. The fair value of the net assets of hospital was valued by an independent valuer. In 2013, CR Hospital Kunming became one of the two sponsors of Kunming Children's Hospital. During the Relevant Periods, no consultancy service contract has been entered into between Kunming Children's Hospital and the Target Group.

On 1 April 2016, CR Kunming Management acquired 100% equity interest in Yunnan Huakun from an independent third party at a consideration of RMB95,000. Yunnan Huakun derives revenue from sales of pharmaceuticals and medical devices and consumables to Kunming Children's Hospital. As disclosed in Note 1, Million Ease and its subsidiaries were spun out of the Target Group as a part of the Reorganization on 31 May 2016. Details are set out in Note 35.

The financial information in respect of subsidiaries that have non-controlling interests are set out below. The financial information below represents amount before intragroup eliminations.

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets	372,609	317,302	317,278	N/A
Non-current assets	607,034	605,215	608,853	N/A
Current liabilities	(324,904)	(300,117)	(55,918)	N/A
Equity attributable to Ample Mighty	348,958	327,614	580,000	N/A
Non-controlling interest *(Note)*	305,781	294,786	295,873	N/A

Note:

Kunming Health Bureau fully paid 34% of the registered capital in 2012. CR Hospital Kunming injected cash into CR Kunming Management by stage. In 2013 and 2015, CR Hospital Kunming injected 49% and 17% of the total registered capital of CR Kunming Management, respectively. According to the articles of association, although the registered capital has not been fully paid in 2013 and 2014, CR Hospital Kunming owns 66% of the voting right and 66% share of the reserve of the CR Kunming Management.

	For the year ended 31 December			For the five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	–	–	–	–	850
Expenses	(47,010)	(32,339)	(13,451)	(2,063)	(14,921)
Loss and total comprehensive expense for the year/period	(47,010)	(32,339)	(13,451)	(2,063)	(14,071)
Loss and total comprehensive expense attributable to owners of Ample Mighty	(31,027)	(21,344)	(8,878)	(1,362)	(9,287)
Loss and total comprehensive expense attributable to the non-controlling interests	(15,983)	(10,995)	(4,573)	(701)	(4,784)
Loss and total comprehensive expense for the year/period	(47,010)	(32,339)	(13,451)	(2,063)	(14,071)
Net cash outflow from operating activities	(1,643)	(521)	(9,233)	(29,097)	(3,711)
Net cash outflow from investing activities	(8,150)	(53,648)	(278,674)	(15,917)	(7,643)
Net cash inflow from financing activities	400	–	260,830	261,263	–
Net (outflow) inflow of cash	(9,393)	(54,169)	(27,077)	216,249	(11,354)

31. CAPITAL

	Number of shares	Nominal value per share *USD*	Share capital *USD*
Authorized			
On incorporation and 31 December 2013, 2014 and 2015 and 31 May 2016	50,000	1	50,000
Issued and fully paid			
On incorporation and 31 December 2013, 2014, and 2015	1	1	1
Newly issued *(Note)*	49,999		49,999
At May 31 2016	50,000		50,000

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Presented as	–	–	–	329

Note:

Pursuant to the resolution of board of directors on 31 May 2016, Ample Mighty issued and allotted 49,999 shares to CR Healthcare at a subscription price of RMB1,109,633,000, which was satisfied by capitalisation of the shareholder loans.

32. OPERATING LEASES

The Target Group as lessee

At the end of each reporting period, the Target Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Minimum lease payments under operating leases:				
Within one year	3,848	7,487	7,740	7,486
In the second to fifth year	–	13,401	5,529	2,339
	3,848	20,888	13,269	9,825

Operating lease payments commitments represent rentals payable by the Target Group for the premises leased for offices. These leases were negotiated for lease terms of one to three years. Monthly rental was fixed and none of the leases includes any contingent rentals and renewal options.

33. CAPITAL COMMITMENTS

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure contracted for but not provided in the Financial Information in respect of acquisition of property, plant and equipment	9,159	5,465	14,800	–

34. ACQUISITION OF BUSINESS/A SUBSIDIARY

i. Acquisition of business

To expand the business in general hospital services, CR Hospital Holding acquired 999 Clinic from an independent third party at a consideration of RMB69,174,000 on 29 December 2014. The acquisition has been accounted for using acquisition method. The amount of goodwill arising as a result of the acquisition was RMB14,974,000. The consideration paid for the business combination effectively included amounts in relation to the benefit of expected revenue growth of 999 Clinic. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

	Amount recognised at the date of acquisition
	RMB'000
Fair value of net identifiable assets of the business acquired	
Property, plant and equipment	71,319
Inventories	222
Trade receivables	465
Prepayments and other receivables	42
Amounts due from related parties	204
Bank balances and cash	1,412
Trade payables	(1,028)
Other payables	(2,672)
Tax liabilities	9
Deferred tax liability	(15,773)
Net assets acquired	54,200
Consideration transferred	69,174
Less: Net assets acquired	54,200
Goodwill arising on acquisition	14,974
Satisfied by:	
Cash	–
Consideration payable *(Note)*	69,174
	69,174
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	1,412
Less: Cash consideration paid	–
	1,412

Note: The consideration was settled by the parent company on behalf of the Target Group. The amount due to the parent company was subsequently capitalised as disclosed in Note 31.

The goodwill arising on the acquisition was not expect to be deductable for tax purpose.

Had the acquisition been completed on 1 January 2014, Target Group's revenue for the year would have been RMB6,483,000 and loss for the year would have been RMB1,059,000. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Target Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results.

ii. Acquisition of a subsidiary

To minimise the procurement cost of the pharmaceuticals and medical devices, CR Kunming Management acquired 100% equity interests of Yunnan Huakun from an independent third party at a consideration in RMB95,000 on 1 April 2016. The acquisition has been accounted for using acquisition method.

	Amount recognised at the date of acquisition *RMB'000*
Fair value of net identifiable assets of the subsidiary acquired	
Inventories	35
Trade receivables	649
Cash and bank balances	147
Other payables and accruals	(608)
Net assets acquired	223
Gains arising on acquisition:	
Consideration transferred	95
Less: Net assets acquired	223
Gains arising on acquisition	(128)
Satisfied by:	
Cash	–
Consideration payable	95
	95
Net cash outflow arising on acquisition:	
Bank balances and cash acquired	147
Less: Cash consideration paid	–
	147

Included in the loss for the period of the Target Group was RMB68,000 attributable to the additional business generated by Yunnan Huakun. Revenue for the period included RMB848,000 generated from Yunnan Huakun.

35. DISPOSAL OF SUBSIDIARIES

On 31 May 2016, the Target Group disposed of its equity interest in Million Ease, which hold equity interests in CR Hospital Kunming, CR Kunming Management and Yunnan Huakun, to CR Healthcare at a consideration of USD1.

	As at the date of disposal
	RMB'000
Net assets disposed	
Property, plant and equipment	532,885
Intangible assets	11,592
Lease prepayments for land use right	62,174
Inventories	35
Trade receivables	609
Receivables from Kunming Children's Hospital	22,829
Prepayments and other receivables	4,597
Bank balances and cash	278,362
Trade payables	(800)
Other payables and accruals	(13,054)
Payables to Kunming Children's Hospital	(40,747)
Amounts due to related parties	(643,557)
Net assets disposed of	214,925
Consideration	–
Less: Net assets	(214,925)
Add: Non-controlling interest	291,089
Gain on disposal credited to reserves as deemed contribution from shareholder	76,164
Net cash inflow on disposal of subsidiaries	
Consideration receivable	–
Cash and cash equivalents disposed of	278,362
	(278,362)

36. RELATED PARTY TRANSACTIONS

(a) Significant transactions with related parties

The Target Group entered into the following transactions with the entities controlled by CR National (the "fellow subsidiaries"), the parent company and the intermediate holding company during the Relevant Periods.

Provision of consultancy service

	For the year ended 31 December			**For the five months ended 31 May**	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Fellow subsidiaries	–	220	119	45	–

Provision of general hospital services

	For the year ended 31 December			For the five months ended 31 May	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Fellow subsidiaries	–	–	257	–	–

Services fee paid/payable

	For the year ended 31 December			For the five months ended 31 May	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
A fellow subsidiary	–	–	5,886	–	–

Interest paid/payable

	For the year ended 31 December			For the five months ended 31 May	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Intermediate holding company	–	2,704	16,991	4,350	9,900

Rental paid/payable

	For the year ended 31 December			For the five months ended 31 May	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Fellow subsidiaries	3,401	5,611	6,673	2,076	2,749

As lessee

At the end of the reporting period, the Target Group had commitments for future minimum lease payments with related parties under non-cancellable leases which fall due as follows:

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	3,848	6,468	6,721	6,721
In the second to fifth year inclusive	–	12,127	5,275	2,339
	3,848	18,595	11,996	9,060

(b) Related party balances

Amounts due from related parties

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade in nature				
Fellow subsidiaries	–	279	370	254

The Target Group allows a credit period of 30 to 90 days for the services. The following is an aged analysis of amounts due from the related parties which are trade in nature based on the invoice date at the end of each reporting period:

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	–	262	333	1
90 to 180 days	–	–	–	235
180 days to 365 days	–	17	20	1
Over 365 days	–	–	17	17
	–	279	370	254

The amount due from a related party disclosed above included amount (see below for aged analysis) that are past due at the end of the reporting period for which the Target Group has not recognised an allowance for doubtful debt because there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Aging of trade in nature receivables that are past due but not impaired:

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
90 to 180 days	–	–	–	235
180 days to 365 days	–	17	20	1
Over 365 days	–	–	17	17
	–	17	37	253

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-trade in nature				
Parent company	168	1,002	1,606	700
Fellow subsidiaries	48,999	18,999	20,059	1,675
	49,167	20,001	21,665	2,375

The amounts due from the related parties are unsecured, interest-free and recoverable within one year.

Amounts due to related parties

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	632,557	814,552	1,103,445	3,511
Non-current	–	174,227	257,999	–
	632,557	988,779	1,361,444	3,511

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade in nature				
Parent company	65	12	–	597
Fellow subsidiaries	2,386	5,911	4,837	2,593
	2,451	5,923	4,837	3,190

The above amounts due to related parties allows credit period of 90 days for purchasing pharmaceuticals and medical devices and the services rendered.

The following is an aged analysis of amounts due to the related parties which are trade in nature based on the invoice date at the end of each reporting period:

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 60 days	2,451	5,923	4,837	3,190

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-trade in nature				
Parent company *(Notes i and iii)*	611,701	624,860	902,119	198
Intermediate holding company *(Notes ii and iii)*	–	264,358	360,849	–
Fellow subsidiaries *(Notes i and iii)*	18,405	93,638	93,639	123
	630,106	982,856	1,356,607	321

Notes:

i. The amounts are unsecured, interest free and repayable on demand.

ii. During the Relevant Periods, the Target Group borrowed several new loans from the intermediate holding company for one or three years, which are unsecured, interest bearing at ranging from 3.92%-6% per annum.

iii. As disclosed in Note 31, a total amount of RMB1,109,633,000 included in the amounts due to related parties was capitalized as the share capital and share premium of Ample Mighty.

Included in amount due to related parties are the following carrying amounts denominated in a currency other than the functional currency of the Target Group.

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
USD	231,682	244,760	259,745	–
HKD	37	75	93	29
	231,719	244,835	259,838	29

(c) Transactions/balances with other PRC government controlled entities

In addition, the Target Group has entered into deposits transaction with certain banks which are government-related entities in its ordinary course of business. In view of the natures of the banking transaction, the directors of Ample Mighty are of the opinion that separate of disclosure would not be meaningful.

37. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Categories of the financial instruments

	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets:				
Loans and receivables (including bank balances and cash and certificate of deposit)	425,044	360,920	464,455	41,872
Financial liabilities:				
Amortized cost	958,678	1,293,395	1,666,964	332,590

Financial risk management objectives and policies

The Target Group's major financial instruments include trade receivables, other receivables, amounts due from related parties, receivables from the Hospitals, certificate of deposit, cash and cash equivalent, trade payables, other payables, payables to the Hospitals and amounts due to related parties. 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 directors of Ample Mighty manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Target Group's activities expose it primarily to the foreign currency risk and interest rate risk, which details are described as follows:

Currency risk

The Target Group undertakes certain financing transactions in foreign currencies, which expose the Target Group to foreign currency risk. The Target Group does not use any derivative contracts to hedge against its exposure to currency risk. The directors of Ample Mighty 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 Target Group's foreign currency denominated monetary assets and monetary liabilities as at the end of each reporting period are as follows:

	Liabilities			
	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
USD	231,682	244,760	259,745	–

	Assets			
	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
USD	3,207	10,658	8,617	5,738

The functional currency of the Target Group is RMB in which most of its transactions are denominated.

Sensitivity analysis

The Target Group is mainly exposed to the risk of fluctuations in the USD against RMB.

The following table details the Target Group's sensitivity to a 5% increase and decrease in RMB against USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the assessment of the directors of Ample Mighty 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 period end for a 5% change in foreign currency rates. A negative number below indicates a decrease in post-tax profit where RMB weakens 5% against the USD. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year/period, and the amounts below would be positive.

	USD			
	As at 31 December			As at 31 May
	2013	**2014**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit (loss) for the year/period	11,424	11,705	12,556	(287)

Interest rate risk

The Target Group are exposed to fair value interest rate risk in relation to variable-rate receivables form a hospital, variable-rate bank balances and variable-rate amount due to a related party. The Target Group does not have any interest rate hedging policy. However, the management monitors the related interest risk exposure should the need arise.

The Target Group is also exposed to cash flow interest rate risk in relation variable-rate receivables form a hospital, variable-rate bank balances and variable-rate amount due to a related party. It is the Target Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for variable-rate receivables form a hospital, variable-rate bank balances and variable-rate amount due to a related party. The analysis is prepared assuming that the amount of assets outstanding at the end of the reporting period were outstanding for the whole year/period. 50 basis point increase or decrease represent the management's assessment of the reasonable possible change in interest rates of receivables form a hospital, amount due to a related party, bank deposits, respectively.

If the interest rates had been 50 basis points higher/lower and all other variables were held constant, the potential effect on the Target group's post-tax profit for each of the year ended 31 December 2013, 2014 and 2015 and for five months ended 31 May 2016 would increase/(decrease) by approximately RMB1,406,000 RMB485,000, RMB(341,000) and RMB282,000, respectively.

Credit risk

The Target Group's maximum exposure to credit risk which will cause a financial loss to the Target 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 statements of financial position.

In order to minimise the credit risk, the directors of Ample Mighty have 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 directors of Ample Mighty review 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 directors of Ample Mighty consider that the Target Group's credit risk is significantly reduced.

The Target Group have 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.

The Target Group has concentration of credit risk in respect of the amounts due from related parties and receivables from the Hospitals which are set out in Notes 36 (b) and Note 7, respectively. The Target Group monitors the exposure to credit risk on an ongoing basis and credit evaluation is performed on each of the related parties and hospitals. In order to minimize the credit risk, the Target Group have reviewed the recoverability of the amounts due from the related parties and the receivables from the Hospitals to ensure that follow-up action is taken timely. Therefore the directors of Ample Mighty conclude the exposure to bad debt is not significant. Under such circumstances, the directors of Ample Mighty consider that the Target Group's credit risk is not significant.

Liquidity risk

In management of liquidity risk, the Target Group's management monitors and maintains a reasonable level of cash and cash equivalents which deemed adequate by the management to finance the Target Group's operations and mitigate the impacts of fluctuations in cash flows. The management relies on the cash generated from operating and financing activities as the main source of liquidity. As disclosed in Note 5, the Target Group has entered the hospital consultancy service contract with Huaikuang Hospital Group and Brain Hospital which has been taken effect from 1 May 2016. From then on, the consultancy service revenue generated from the consultancy service provided will flow into the Target Group. In addition, on 31 May 2016, Million Ease and its subsidiaries were spun off that would decrease the operating cost of the Target Group. The management considers the financial result and the operating cash inflow of the Target Group will be significantly improved. The management also reviewed the cash flow position of the Hospitals, and compared the cash position with their future operation plan. The management conclude that the amounts due to the Hospitals will be renewed/extent timely because the Hospitals generate sufficient cash inflow to maintain their own operation. Furthermore, China Resources (Holdings) Company Limited has undertaken to provide sufficient and continuous finance support to the Target Group. As such, the liquidity risk will be mitigated.

The following tables details the Target Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay.

	Interest rates	On demand or within one month	Over 1 month but within 3 months	3 months to 1 year	Over 1 year but within 3 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2013							
Financial liabilities							
Trade payables		–	–	–	–	–	–
Other payables		2	11,451	2,610	–	14,063	14,063
Amounts due to related parties		632,557	–	–	–	632,557	632,557
Amounts due to the Hospitals		312,058	–	–	–	312,058	312,058
		944,617	11,451	2,610	–	958,678	958,678

	Interest rates	On demand or within one month	Over 1 month but within 3 months	3 months to 1 year	Over 1 year but within 3 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2014							
Financial liabilities							
Trade payables		438	216	86	–	740	740
Other payables		404	16,695	5,148	–	22,247	22,247
Amounts due to related parties	5.04-6.00	728,758	3,415	103,918	194,296	1,030,387	988,779
Amounts due to the Hospitals		281,629	–	–	–	281,629	281,629
		1,011,229	20,326	109,152	194,296	1,335,003	1,293,395

	Interest rates	On demand or within one month	Over 1 month but within 3 months	3 months to 1 year	Over 1 year but within 3 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2015							
Financial liabilities							
Trade payables		391	201	10	–	602	602
Other payables		191	5,064	16,831	–	22,086	22,086
Amounts due to related parties	3.92-4.75	1,011,429	5,236	129,928	257,451	1,404,044	1,361,444
Amounts due to the Hospitals		282,832	–	–	–	282,832	282,832
		1,294,843	10,501	146,769	257,451	1,709,564	1,666,964

	Interest rates	On demand or within one month	Over 1 month but within 3 months	3 months to 1 year	Over 1 year but within 3 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 May 2016							
Financial liabilities							
Trade payables		362	111	9	–	482	482
Other payables		151	447	12,515	–	13,113	13,113
Amounts due to related parties		3,511	–	–	–	3,511	3,511
Amounts due to the Hospitals		315,484	–	–	–	315,484	315,484
		319,508	558	12,524	–	332,590	332,590

Fair value of financial instruments

The directors of Ample Mighty consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

38. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern, while to maximize the return to the owners of Ample Mighty through optimization of debt and equity balances. The Target Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Target Group consists of net debts (which include amount due to related parties, net of cash and cash equivalents) and equity attributable to owners of Ample Mighty, comprising paid-in capital, other reserves and accumulated loss.

The directors of Ample Mighty reviews the capital structure on an annual basis. As part of this review, the directors of Ample Mighty consider the cost of capital and the risks associated with each class of capital. Based on the recommendation of management, the Target Group will balance its overall capital structure through issue of new shares, issue of new debts as well as the redemption of existing debts.

39. RETIREMENT BENEFITS PLANS

The employees of the Target Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government in the PRC. The subsidiary are required to contribute a specified percentage of the payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Target Group with respect to the retirement benefit scheme is to make the specified contributions. Total cost charged to profits or loss of RMB1,357,000, RMB2,476,000, RMB2,589,000, RMB666,000 (unaudited) and RMB1,074,000 during the three years ended 31 December 2015 and the five months ended 31 May 2015 and 2016, respectively, represent contributions paid to the state-managed retirement benefit schemes by the Target Group in respect of the current period.

B. SUBSEQUENT EVENTS

There are no significant events after the Relevant Periods.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any of the companies now comprising the Target Group in respect of any period subsequent to 31 May 2016.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

The Target Company was incorporated on 28 October 2011 for investment holding purposes and is the holding company of the Target Group and holding the equity interest in 999 Clinic and the equity interest in the sponsors for the remaining Subject Institutions following the Reorganization. After Completion, the Target Company will become a wholly owned subsidiary of the Purchaser. The Target Group consists of the Target Company and its subsidiaries. The Target Group is engaged in the provision of general hospital services and hospital consultancy services in the PRC.

Business Review and Prospect

The following is the management discussion and analysis of the financial conditions and operating results of the Target Group for each of the financial years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016 (the "Reviewed Periods"). The following discussions and analysis should be read in conjunction with the audited consolidated financial statements of the Target Group for each of the financial years ended 31 December 2013, 2014 and 2015 and for the five months ended 31 May 2016 and the notes thereto as referred to in Appendix II to this circular.

The Target Group is expected to continue to provide general hospital services by 999 Clinic and expand its hospital consultancy services as part of the Enlarged Group. In particular, in terms of 999 Clinic, a for-profit medical institution wholly owned by CR Hospital Holding, after Completion, it will be operated in the same manner as Beijing Jian Gong Hospital Co., Ltd., an equity-owned for-profit hospital of the Enlarged Group. Furthermore, the Target Group will also continue to provide hospital consultancy services through CR Hospital Management to Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital, respectively. Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital are three not-for-profit hospital groups which in total include 16 hospitals, 9 community healthcare centers and 1 elderly care institution. Pursuant to the Consultancy Services Contracts entered into with Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital, CR Hospital Management provides consultancy services to them to ensure that a standardized process is implemented throughout these hospitals which utilises the platform and resources of the Target Group (and the Enlarged Group after Completion) and improves these hospitals' management and services quality. In particular, these hospitals are permitted to use the brand name of CR Hospital Investment under the Consultancy Services Contracts which enables them to leverage on the Target Group's brand value. They are also expected to benefit from the experience of CR Hospital Investment in hospital supply chain management. In return, CR Hospital Investment charges Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital service fees for the consultancy services provided.

Revenue

The Target Group primarily derived revenue through two sources during the Reviewed Periods: (i) general hospital services provided by 999 Clinic; and (ii) hospital consultancy services provided by CR Hospital Investment to Xukuang Hospital, Huaikuang Hospital Group and Brain Hospital.

The following table sets forth a breakdown of the Target Group's revenue by business line during the Reviewed Periods:

	Year ended 31 December			Five months ended 31 May	
	2013	**2014**	**2015**	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
General hospital services	–	–	6,483	2,251	2,927
Hospital consultancy services	–	442	5,683	2,169	15,409
Total	–	442	12,166	4,420	18,336

The increase in revenue of the Target Group from nil for the year ended 31 December 2013 to approximately RMB0.4 million for the year ended 31 December 2014 was mainly due to the commencement of healthcare information services by CR Health Technology. The revenue further increased to approximately RMB12.2 million for the year ended 31 December 2015, mainly due to (i) the commencement of general hospital services provided by 999 Clinic, and (ii) the commencement of hospital consultancy services provided to Xukuang Hospital. The increase in revenue of the Target Group from approximately RMB4.4 million for the five months ended 31 May 2015 to approximately RMB18.3 million for the five months ended 31 May 2016 was mainly due to (i) CR Hospital Investment's renewal of a Consultancy Services Contract with Xukuang Hospital with effect from 24 December 2015 where consultancy services revenue attributable to Xukuang Hospital continued to record for the five months ended 31 May 2016 of approximately RMB5.4 million, representing a significant increase from the corresponding period in 2015, largely due to the renewed basis of charging service fees from Xukuang Hospital under the renewed Consultancy Services Contract has almost doubled compared to the previous basis; (ii) CR Hospital Investment's signing of the two Consultancy Services Contracts with Huaikuang Hospital Group (i.e. with effect from 1 May 2016) and Brain Hospital (i.e. with effect from 1 May 2016) which recorded an aggregate consultancy services revenue of approximately RMB10.0 million; and (iii) the revenue generated from general hospital services by 999 Clinic remained stable.

Cost of Sales and Services

The increase in cost of sales and services of the Target Group from nil for the year ended 31 December 2013 to approximately RMB0.4 million for the year ended 31 December 2014 was mainly related to the operational costs of CR Health Technology and then to approximately RMB17.8 million for the year ended 31 December 2015 was mainly due to the operational costs for 999 Clinic and the operational costs for the hospital consultancy services, including the administrative costs and labour costs. The increase in cost of sales and services of the Target Group from approximately RMB4.5 million for the five months ended 31 May 2015 to approximately RMB5.2 million for the five months ended 31 May 2016 was mainly due to the increase in the costs for general hospital services.

Other Income

The other income of the Target Group mainly represents interest income, investment income and rental income. The other income of the Target Group increased from approximately RMB4.2 million for the year ended 31 December 2013 to approximately RMB5.2 million for the year ended 31 December 2014 due to increasing bank deposit and then to approximately RMB31.2 million for the year ended 31 December 2015 mainly due to the rental income received by a subsidiary of Million Ease from Kunming Children's Hospital. Million Ease was disposed of by the Target Group during the Reorganization and the Target Group will not receive such payment after Completion. As a result, the other income of the Target Group decreased from approximately RMB12.1 million for the five months ended 31 May 2015 to approximately RMB2.8 million for the five months ended 31 May 2016.

Other Gains and Losses

The Target Group had certain loans advanced by the Seller denominated in USD during the Reviewed Periods. The Target Group recorded other gains and losses of approximately RMB2.6 million, RMB(1.1) million, RMB(15.4) million and RMB2.2 million for the three years ended 31 December 2015 and the five months ended 31 May 2016, respectively, which mainly represented the foreign exchange gains and losses resulting from the said loans.

Administrative Expenses

The administrative expenses of the Target Group were mainly the staff costs, rental fees, expenses for business development, transportation expenses, rental and software expenses in relation to the general hospital services and the hospital consultancy services.

The increase in administrative expenses of the Target Group from RMB44.6 million for the year ended 31 December 2013 to approximately RMB72.4 million for the year ended 31 December 2014 was mainly due to the increased business development efforts. It then decreased to approximately RMB68.2 million for the year ended 31 December 2015, mainly due to the decrease in the operation of CR Health Technology. The increase in administrative expenses of the Target Group from approximately RMB17.8 million for the five months ended 31 May 2015 to approximately RMB22.0 million for the five months ended 31 May 2016 was mainly due to the business development.

Finance Costs

The Target Group recorded finance costs of approximately nil, RMB2.7 million and RMB17.5 million for the three years ended 31 December 2015 and RMB4.4 million and RMB10.0 million for the five months ended 31 May 2015 and 2016, respectively. Such financial costs were the interests on the loans advanced by CR Company and the hospitals sponsored by the Target Group during the Reviewed Periods.

Other Expenses

The Target Group recorded other expenses of approximately RMB46.7 million, RMB31.5 million and RMB31.6 million for the three years ended 31 December 2015 and RMB12.1 million and RMB13.9 million for the five months ended 31 May 2015 and 2016, respectively. Such expenses were mainly the depreciation and amortisation of certain property, plant and equipment operated by Kunming Children's Hospital for providing general hospital services.

Share of Net Profit (Losses) of a Joint Venture

The share of net profit (losses) of a joint venture of the Target Group mainly represents the Target Group's 51% equity interest in CR Wugang. The Target Group recorded share of net profit (losses) of an associate of RMB(7.2) million, RMB(18.3) million and RMB(6.6) million for the three years ended 31 December 2015, respectively, which mainly represent the depreciation of the assets of CR Wugang used for the operation of the Wugang Hospital Group. The Target Group recorded share of net profit (losses) of an associate of RMB(2.3) million and RMB2.2 million for the five months ended 31 May 2015 and 2016, respectively. The reversal of losses into a profit in the five months ended 31 May 2016 was mainly due to the increase of investment income on financial products and the decrease of depreciation as CR Wugang transferred its medical assets to Wugang Hospital Group in February 2016.

Net Losses

The Target Group recorded net losses of approximately RMB91.3 million, RMB120.8 million and RMB115.2 million for the three years ended 31 December 2015, respectively, primarily as a result of the aforementioned factors. The Target Group recorded a loss of approximately RMB24.2 million for the five months ended 31 May 2015 and a net profit of RMB9.6 million for the five months ended 31 May 2016, respectively, primarily as a result of the aforementioned factors.

Liquidity and Financial Resources

The Target Group mainly financed its operation and capital expenditure by cash generated from its operation, borrowings and capital contributed by the shareholder.

As of 31 May 2016, the Target Group did not have any material borrowing or other debt obligations except for loans from Xukuang Hospital, Brain Hospital and Huaikuang Hospital Group, which are unsecured, interest bearing at 0.35% per annum and repayable on demand. These loans are for general working capital purposes and can be repaid by cash flow from operations.

As of 31 May 2016, the Target Group had net current liabilities of approximately RMB305.4 million. As of 31 May 2016, the Target Group had cash and cash equivalents of approximately RMB23.8 million, of which approximately RMB18.1 million was denominated in RMB and RMB5.7 million was denominated in US dollar.

As of 31 May 2016, the Target Group had non-current assets of RMB1,219.1 million, mainly including (i) the intangible assets of approximately RMB849.3 million representing the Target Group's sponsorship rights for Xukuang Hospital, Brain Hospital and Huaikuang Hospital Group and the software owned by the Target Group; (ii) the interests in a joint venture investment of approximately RMB190.9 million representing the Target Group's equity interest in CR Wugang; and (iii) property, plant and equipment of approximately RMB71.3 million.

Significant Investments Held

The Target Group had no significant investment during the Reviewed Periods except for its interest in CR Wugang, a joint venture company with 51% equity interest held by CR Hospital Investment and 49% equity interest held by Wugang Group. CR Wugang was loss making during the three years ended 31 December 2015, mainly due to depreciation of the medical assets of CR Wugang used for the operation of the Wugang Hospital Group. As CR Wugang transferred its medical assets to Wugang Hospital Group in February 2016 which eliminated the depreciation related expenses, and expects to provide hospital consultancy services to Wugang Hospital Group, the Target Group expects to record share of profit from this joint venture going forward. The Target Group is currently in the course of negotiation with Wugang Group, the other shareholder holding 49% equity interest in CR Wugang, and Wugang Hospital Group in relation to the hospital consultancy services contract between CR Wugang and Wugang Hospital Group.

Charge of Assets

The Target Group did not have any charge on its assets during the Reviewed Periods.

Capital Commitment

As of 31 May 2016, the Target Group's capital expenditure contracted for but not provided in its financial information was nil.

As of 31 May 2016, the Target Group did not have any future plan for material investments or capital assets. It expects to fund its investments in hospital equipment and renovation with cash flow from operations.

Gearing Ratio

The Target Group's gearing ratio, which was calculated on the basis of the its net borrowings over total equity was not applicable as the Target Group had no borrowing other than amounts due to related parties and payables to hospitals.

Contingent Liabilities

The Target Group did not have any contingent liabilities during the Reviewed Periods.

Foreign Exchange Fluctuation

The Target Group had certain loans advanced by its direct/indirect holding companies denominated in US dollar during the Reviewed Periods. Save for the aforementioned, the

Target Group's operations are mainly located in the PRC and its assets, liabilities and transactions were mainly denominated in RMB. As such, the impact of fluctuations in foreign currency on the Target Group was minimal and the Target Group did not have any foreign currency hedging policy.

Employees

As of 31 December 2013, 2014 and 2015 and 31 May 2016, the Target Group had 68, 91, 136 and 130 employees, respectively.

The remuneration of employees of the Target Group was in line with market trends and commensurate to the levels of pay in the industry and to the performance of individual employees that are regularly reviewed every year. The Target Group had provided mandatory social insurance and other benefits to its employee.

Significant Investments, Material Acquisition and Disposal

During the Reviewed Periods, the Target Group conducted the following investments, acquisitions and disposals, the details of which are set forth below:

Acquisition

Hospital Group	Date of Acquisition	Remark	Consideration
Wugang Hospital Group	June 2013	Certain assets of Wugang Hospital Group was injected into China Resources Wugang (Hubei) Hospital Management Co., Ltd. as capital contribution	RMB321,762,000
Xukuang Hospital	December 2014	CR Hospital Holding became the sponsor of Xukuang Hospital	RMB122,355,000
999 Clinic	December 2014	CR Hospital Holding entered into a transfer agreement to acquire the equity interest in 999 Clinic	RMB69,174,000
Huaikuang Hospital Group	January 2015 and January 2016	CR Hospital Holding became the sponsor Huaikuang Hospital Group and further acquired interests in Huaikuang Hospital Group in January 2016	RMB402,241,000
Brain Hospital	May 2016	CR Company transferred 100% equity interest in Shenzhen Yukangrun Hospital Management Co., Ltd. (深圳市裕康潤醫院管理有限公司), being the sponsor of the Brain Hospital, to the Target Group	RMB320,000,000

Disposal

Hospital Group	Date of Disposal	Remark	Consideration
Million Ease and Kunming Hospital	May 2016	the Target Group transferred the 100% equity interest in Million Ease to the Seller	US$1.00
CR Health Technology	June 2016	100% equity interest in CR Health Technology was transferred to China Resources Medical Company Limited	HK$1.00

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma financial information presented below is prepared to illustrate the financial position of the Enlarged Group as if the Acquisition had been completed on 30 June 2016.

The unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it does not purport to represent what the financial position of the Enlarged Group would have been upon completion of the Acquisition, for any future periods or on any future dates.

The unaudited pro forma financial information is prepared based on the unaudited condensed consolidated financial statements of the Group as at 30 June 2016 extracted from the Company's interim report on unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016; after giving effect to the pro forma adjustments described in the accompanying notes which are directly attributable to the Acquisition and factually supportable, and is prepared in accordance with Rules 4.29 of the Listing Rules.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 30 June 2016	The Target Group as at 31 May 2016	Unaudited pro forma adjustments				Pro forma for the Enlarged Group as at 30 June 2016
			Issue Shares	Consolidation adjustments	Goodwill Impairment	Transaction cost related to the acquisition	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Audited)					
	Note 1	*Note 2*	*Note 3*	*Note 3*	*Note 3*	*Note 4*	
Non-current assets							
Property, plant and equipment	144,410	71,251		31,542			247,203
Intangible assets	395,141	849,294		947,702			2,192,137
Goodwill	–	14,974		2,344,781	(1,075,322)		1,284,433
Investment in subsidiaries	–	–	4,241,391	(4,241,391)			–
Receivables from a hospital	–	56,950					56,950
Receivables from invest-operate-transfer ("IOT") hospitals	107,073	–					107,073
Lease prepayments for land use right	145,407	–					145,407
Interests in associates	158,170	–					158,170
Interests in joint ventures	–	190,899		370,717			561,616
Loan to a joint venture	17,587	–					17,587
Amount due from a related party	–	700					700
Deferred tax assets	9,963	35,036					44,999
	977,751	1,219,104	4,241,391	(546,649)	(1,075,322)		4,816,275
Current assets							
Inventories	44,467	196					44,663
Receivables from hospitals sponsored or joint sponsored by the Target Group	–	14,871					14,871
Trade receivables	144,081	475					144,556
Prepayments and other receivables	241,768	1,777					243,545
Amounts due from related parties	70,654	1,929					72,583
Short-term investments	197,560	–					197,560
Certificate of deposit	74,463	–					74,463
Cash and cash equivalents	528,292	23,795				(20,000)	532,087
	1,301,285	43,043				(20,000)	1,324,328
Assets classified as held for sale	–	2,272					2,272
	1,301,285	45,315				(20,000)	1,326,600

	The Group as at 30 June 2016	The Target Group as at 31 May 2016	Unaudited pro forma adjustments				Pro forma for the Enlarged Group as at 30 June 2016
			Issue Shares	Consolidation adjustments	Goodwill Impairment	Transaction cost related to the acquisition	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Audited)					
	Note 1	*Note 2*	*Note 3*	*Note 3*	*Note 3*	*Note 4*	
Current Liabilities							
Trade payables	197,306	482					197,788
Other payables and accruals	49,108	28,944					78,052
Amounts due to related parties	–	3,511					3,511
Payables to the Hospitals	–	315,484					315,484
Tax payables	18,755	–					18,755
	265,169	348,421					613,590
Liabilities associated with assets classified as held for sale	–	2,329					2,329
	265,169	350,750					615,919
Net current assets/(liabilities)	1,036,116	(305,435)				(20,000)	710,681
Total assets less current liabilities	2,013,867	913,669	4,241,391	(546,649)	(1,075,322)	(20,000)	5,526,956
Non-current liabilities							
Deferred tax liabilities	–	14,556		337,490			352,046
Retirement benefit obligations	1,705	–					1,705
Total non-current liabilities	1,705	14,556		337,490			353,751
Total liabilities	266,874	365,306		337,490			969,670
Net assets	2,012,162	899,113	4,241,391	(884,139)	(1,075,322)	(20,000)	5,173,205
Capital and reserves							
Share capital	166	329	99	(329)			265
Share premium	1,383,447	1,109,304	4,241,292	(1,094,330)			5,639,713
Reserves	508,478	(210,520)		210,520	(1,075,322)	(20,000)	(586,844)
Equity attributable to owners of the Company	1,892,091	899,113	4,241,391	(884,139)	(1,075,322)	(20,000)	5,053,134
Non-controlling interests	120,071	–					120,071
Total equity	2,012,162	899,113	4,241,391	(884,139)	(1,075,322)	(20,000)	5,173,205

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The amounts are extracted from the interim report of the Company for the six months ended 30 June 2016.

2. The amounts are extracted from the Accountants' Report of the Target Group set out in Appendix II to this Circular.

3. The adjustments represent the consolidation adjustments using the principles of acquisition accounting. If the Acquisition were to complete on 30 June 2016, the Company would have issued 462,913,516 consideration shares to CR Healthcare pursuant to the Sale and Purchase Agreement. The Consideration for the Acquisition is HK$4,962,433,000 (equivalent to approximately RMB4,241,391,000) based on the closing market price of HK$10.72 per share at 30 June 2016.

   The identifiable assets and liabilities of the Target Group to be acquired by the Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the acquisition accounting in accordance with International Financial Reporting Standard ("IFRS") 3, Business Combinations.

   Pro forma adjustments made represent:

	Notes	*RMB'000*
Consideration:		
Fair value of Consideration Shares issued	*(a)*	4,241,391
Less:		
Fair value of net assets acquired	*(b)*	(1,896,610)
Goodwill arising from the Acquisition	*(c)*	2,344,781

   (a) For the purpose of the unaudited pro forma financial information, the increase of equity is as follows:

	RMB'000
Issued capital (462,913,516 shares of HK$0.00025 each)	99
Reserves – share premium	4,241,292
	4,241,391

   In the opinion of the Directors, the fair value of the Consideration Shares is subject to the changes upon completion of the Acquisition because the fair value of the Consideration Shares shall be determined on the Completion Date.

   (b) Fair value of net assets to be acquired represents:

	RMB'000
Audited net assets of the Target Group at 31 May 2016	899,113
Less: Goodwill	(14,974)
Fair value adjustments on:	
Intangible assets	947,702
Interest in a joint venture	370,717
Property, plant and equipment	31,542
Deferred tax liabilities	(337,490)
	1,896,610

The above fair value adjustments as of 30 June 2016 have been determined by reference to the valuation report issued by Vocation (Beijing) International Assets Appraisal Co., Ltd, an independent firm of surveyors who has professional qualifications and relevant experience.

The intangible assets represent the fair value of the sponsorship rights and the Consultancy Services Contract. The fair value of the intangible assets is determined by discounting the projected net cash flows that are expected to be generated by the intangible assets. The cash flows projections are based on financial budgets covering a period of five years. The discount rate used is 9.63%, which is determined based on risk free rate, adjusted for market risk and company specific risk. The terminal growth rate is 2.89%.

The carrying amount of the interest in a joint venture is RMB190,899,000 as of 31 May 2016. The fair value adjustment to the interest in a joint venture, CR Wugang, represent the fair value of the intangible assets, which are the sponsorship rights and the consultancy service contract held by the joint venture. The valuation basis is consistent with the Group's intangible assets as set out in the above paragraph.

The carrying amount of the property is RMB64,027,000 as of 31 May 2016. The fair value of the property is determined based on the open market value of a building located in Shenzhen which was valued by VICPV as at 30 June 2016.

Deferred tax liabilities are calculated based on the 25% tax rate on the above fair value adjustments.

In the opinion of the Directors, the fair value of the identifiable assets being acquired is subject to changes upon completion of the Acquisition because the fair value of the assets being acquired shall be assessed at the Completion Date.

The Directors consider there is no foreseeable limit to the period over which the intangible assets of sponsorship rights and Consultancy Services Contract are expected to generate net cash inflows for the Enlarged Group. The useful life of them is indefinite based on an analysis of the factors, such as the expected useful life of similar nature and functions and the period of control over the right and legal or similar limits on the use of the rights.

(c) The adjustment represents the goodwill arising from the Acquisition provisionally determined based on the fair value of the identifiable assets and liabilities of the Target Group and the fair value of the Consideration Shares on the Completion Date. For the purpose of the unaudited pro forma consolidated statement of financial position, the goodwill of RMB2,344,781,000 arising from the Acquisition, which represents the amount by which the purchase consideration exceeds the fair value of the identifiable assets and liabilities of the Target Group to be acquired, is computed as if the Acquisition has been completed on 30 June 2016. The amounts of goodwill is subject to change based on the fair value of the Consideration Shares on the Completion Date and when the fair value of assets and liabilities of the Target Group is finalised on date of actual completion of the Acquisition.

According to the Group's accounting policy, after initial recognition, the goodwill will be measured at cost less any accumulated impairment losses. The goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, the goodwill is, from the Completion Date, allocated to the Group's cash generating units, that are expected to benefit from the synergies of the acquisition, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Further, impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than the carrying amount of the units, an impairment loss will be recognised by reducing the carrying amount of any goodwill allocated to the units at first.

For the purpose of the unaudited pro forma financial information, the management has assessed the goodwill impairment in accordance with International Accounting Standard 36 "Impairment of Assets". The management has estimated the recoverable amount based on the higher of fair value less costs of disposal and value in use of the underlying cash-generating units as at 30 June 2016. Based on the recoverable amount, an impairment loss on goodwill of RMB1,075 million has been included in the unaudited pro forma financial information.

The Company will adopt consistent accounting policies and principal assumptions to assess the impairment of assets (including the intangible assets of the sponsorship rights and the consultancy service contracts) and goodwill of the Enlarged Group in the financial statements in the future.

4. The adjustment represents expenditures incurred for the Acquisition including financial advisor fees, legal fees, printing costs, accountants' fees, and other related expenses of approximately RMB20,000,000. The adjustment has no continuing effect to the Enlarged Group but will be reflected in the consolidated statement of profit and loss and other comprehensive income of the Group in the year these expenses actually incurred.

5. The translation between HK$ and RMB had been made at the rate of HK$1 to RMB0.8547 disclosed in the section headed "Definitions" included in the Circular. No representation is made that HK$ have been, could have been or could be converted to RMB, or vice versa, at that rate or at any other rates at all.

D. REPORTING ACCOUNTANTS' ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Deloitte.
德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Phoenix Healthcare Group Co. Ltd

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Phoenix Healthcare Group Co. Ltd (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2016 and related notes as set out on pages 265 to 269 of the circular issued by the Company dated 7 October 2016 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page 265 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire equity interest in Ample Mighty Limited and its subsidiaries (collectively referred to as the "Target Group") on the Group's financial position as at 30 June 2016, as if the acquisition had taken place at 30 June 2016. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2016.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Unaudited Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group and the Target Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
7 October 2016

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE TARGET GROUP

The unaudited pro forma financial information presented below is prepared to illustrate the results of the Target Group as if the conditions precedent set out below for the Target Group to achieve before the completion of the Acquisition as stated in the Sale and Purchase Agreement had been satisfied on 1 January 2015:

(a) The transfer of the employees not related to hospital operation division out of the Target Group and termination of two leases of the Target Group's office premises in Beijing and Shenzhen;

(b) Disposal of Million Ease;

(c) Disposal of CR Health Technology;

(d) The capitalisation of the Seller's loans in the total amount of approximately RMB1,109,633,000;

(e) Entering of the Consultancy Services Contracts; and

(f) Transfer of certain assets of CR Wugang used for the operation of Wugang Hospital Group to Wugang Hospital Group.

The unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it does not purport to represent what the Target Group would have been upon fulfilment of the conditions precedent for completion of the Acquisition, for any future periods or on any future dates.

The unaudited pro forma financial information is prepared based on the audited consolidated financial information of the Target Group, after giving effect to the pro forma adjustments described in the accompanying notes which relate to the conditions precedent for the Target Group to achieve before the completion of the Acquisition and which are directly attributable to the Acquisition and factually supportable, and is prepared in accordance with Rules 4.29 of the Listing Rules.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE TARGET GROUP

B.1 For The Year Ended 31 December 2015

	The Target Group for the year ended 31 December 2015	Unaudited pro forma adjustments								Unaudited pro forma for the Target Group for the year ended 31 December 2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)									(Unaudited)
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6(a)*	*Note 6(b)*	*Note 7*	*Note 8*	
Revenue	12,166			(273)		(1,486)	127,932			138,339
Cost of sales and services	(17,836)			39						(17,797)
Gross profit	(5,670)	–	–	(234)	–	(1,486)	127,932	–	–	120,542
Other income	31,181		(26,423)	(1)						4,757
Other gains and losses	(15,399)		990	(37)	15,137					691
Administrative expenses	(68,211)	44,662	5,996	1,315						(16,238)
Finance costs	(17,470)				17,470					–
Other expenses	(31,611)		31,606							(5)
Share of loss of a joint venture	(6,580)							5,001		(1,579)

	The Target Group for the year ended 31 December 2015	Unaudited pro forma adjustments								Unaudited pro forma for the Target Group for the year ended 31 December 2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)									(Unaudited)
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6(a)*	*Note 6(b)*	*Note 7*	*Note 8*	
(Loss)/profit before tax	(113,760)	44,662	12,169	1,043	32,607	(1,486)	127,932	5,001	–	108,168
Income tax (credit) expense	1,430		(2,289)						28,451	27,592
(Loss)/profit and total comprehensive (expenses)/income for the year	(115,190)	44,662	14,458	1,043	32,607	(1,486)	127,932	5,001	(28,451)	80,576
(Loss)/profit and total comprehensive (expenses)/income for the year attributable to:										
Equity holders of the Company	(110,617)	44,662	9,885	1,043	32,607	(1,486)	127,932	5,001	(28,451)	80,576
Non-controlling interests	(4,573)		4,573							–
	(115,190)	44,662	14,458	1,043	32,607	(1,486)	127,932	5,001	(28,451)	80,576

B.2 For the Five Months Ended 31 May 2016

	The Target Group for the five months ended 31 May 2016			Unaudited pro forma adjustments				Unaudited pro forma for the Target Group for the five months ended 31 May 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)							(Unaudited)
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6(b)*	*Note 8*	
Revenue	18,336		(847)	(18)	–	50,914		68,385
Cost of sales and services	(5,194)		800	–	–			(4,394)
Gross profit	13,142	–	(47)	(18)	–	50,914	–	63,991
Other income	2,763		(1,270)	(2)	–			1,491
Other gains and losses, net	2,169		(985)	(9)	100			1,275
Administrative expenses	(22,011)	12,700	1,401	222	–			(7,688)
Finance costs	(9,963)		–	–	9,920			(43)
Other expenses	(13,935)		13,869	–	–			(66)
Share of profit of a joint venture	2,206		–	–	–			2,206
(Loss)/profit before tax	(25,629)	12,700	12,968	193	10,020	50,914	–	61,166
Income tax (credit) expense	(35,277)		(117)				50,123	14,729
Profit and total comprehensive income for the period	9,648	12,700	13,085	193	10,020	50,914	(50,123)	46,437
Profit and total comprehensive income for period attributable to:								
Equity holders of the Company	14,432	12,700	8,301	193	10,020	50,914	(50,123)	46,437
Non-controlling interests	(4,784)		4,784					–
	9,648	12,700	13,085	193	10,020	50,914	(50,123)	46,437

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The amounts are extracted from the audited financial information of the Target Group for the year ended 31 December 2015 and the five months ended 31 May 2016 in the accountants' report on the Target Group set out in Appendix II to the Circular.

2. Pursuant to the Sale and Purchase Agreement, the Target Group will transfer the employees not related to hospital operation division out of the Target Group and terminate two leases of the Target Group's office premises in Beijing and Shenzhen before the completion of the Acquisition. The adjustment represents the staff cost of those employees not related to hospital operation division, the rental expenses of office premises in Beijing and Shenzhen and the related expenses for the year ended 31 December 2015 and for the five months ended 31 May 2016.

3. On 31 May 2016, the Target Group disposed of its equity interests in Million Ease and its subsidiaries to CR Healthcare at a consideration of USD1. Had the disposal of equity interests in these subsidiaries been completed on 1 January 2015, the income earned, expenses and actual loss incurred by these subsidiaries for the year ended 31 December 2015 and the five months ended 31 May 2016 amounting RMB14,458,000 and RMB13,085,000, respectively would have not been consolidated. Gain on disposal is not adjusted in the unaudited pro forma financial information as it is credited to reserves as deemed contribution from shareholders.

4. Pursuant to the shareholder resolution and the equity transfer agreement on 11 April 2016, the Target Group committed to dispose of its 100% equity interest of CR Health Technology. Had the disposal of 100% equity interest of CR Health Technology been completed on 1 January 2015, the income earned, expenses and actual loss incurred by CR Health Technology for the year ended 31 December 2015 and the five months ended 31 May 2016 amounting RMB1,043,000 and RMB193,000, respectively would have not been consolidated. Gain on disposal is not adjusted in the unaudited pro forma financial information as it is credited to reserves as deemed contribution from shareholders.

5. The Target Group had certain amounts due to the intermediate holding company. On 31 May 2016, a total amount of RMB1,109,633,000 was capitalised as the share capital and share premium of Ample Mighty. Had the capitalization of the then outstanding amounts due to the intermediate holding company been completed on 1 January 2015, interest expenses of RMB17,470,000 and exchange losses of RMB15,137,000 would have not been incurred for the year ended 31 December 2015, and interest expenses of RMB9,920,000 and exchange losses of RMB100,000 would have not been incurred for the five months ended 31 May 2016.

6. Consultancy Services Contracts

(a) CR Hospital Investment, a subsidiary of the Target Group, entered into a management service contract with Xukuang Hospital in September 2015 which took effect from 1 January 2015. CR Hospital Investment recognised certain management service income during the year ended 31 December 2015.

Subsequently, CR Hospital Investment and Xukuang Hospital agreed to abolish the management service contract mentioned above, and entered into another consultancy service contract which took effect from December 2015.

Had the new consultancy services contract taken effect on 1 January 2015 and replaced the previously management service contract, revenue derived from the consultancy services would have been reduced by RMB1,486,000 for the year ended 31 December 2015.

(b) CR Hospital Investment entered into a consultancy service contract with each of Huaikuang Hospital Group and Brain Hospital, which took effect from 1 May 2016.

Had these consultancy service contracts been taken effect on 1 January 2015, consultancy service income from these two hospitals would be recognised in an amount of RMB127,932,000 for the year ended 31 December 2015 and in an amount of RMB50,914,000 for the period from January to April 2016. This is calculated based on the pre-set formulas in the contacts and the revenue in the audited PRC financial statements/management accounts of these two hospitals for the year ended 31 December 2015 and the five months ended 31 May 2016.

(c) In order to enter into the consultancy service contracts with Huaikuang Hospital Group and Brain Hospital, the Target Group had provided the relevant hospital operation services to these two hospitals in 2015. Thus, the cost had been incurred before the existence of the consultancy service contracts. As the costs of providing consulting services to the above three hospitals for the year ended 31 December 2015 and the five months ended 31 May 2016 have already been recorded in the consolidated statements of profit and loss and other comprehensive income of the Target Group, no further adjustment to costs is required.

7. CR Wugang, a 51% owned joint venture of the Target Group, disposed part of its assets, namely, net assets of Wugang Hospitals in January 2016. Had the net assets of Wugang Hospitals been disposed on 1 January 2015, the actual depreciation of RMB9,806,000 would have been reduced and the share of loss of a joint venture would have been reduced by RMB5,001,000 (being 51% of RMB9,806,000) for the year ended 31 December 2015.

8. For the purpose of the unaudited pro forma financial information, after consideration of the pro forma adjustments as stated in notes 2 to 7 above, and based on the PRC Enterprise Income Tax rate of 25%, tax provision amounting to RMB28,451,000 for the year ended 31 December 2015 and RMB50,123,000 for the five months ended 31 May 2016 are adjusted in the unaudited pro forma financial information.

D. REPORTING ACCOUNTANTS' ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE TARGET GROUP

The following is a reproduction of the assurance report on unaudited pro forma financial information of the Target Group issued by the Company's Reporting Accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, on 30 August 2016, as included in the Company's announcement dated 30 August 2016.

Deloitte.
德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Phoenix Healthcare Group Co. Ltd

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Ample Mighty Limited ("Ample Mighty"), together with its subsidiaries (collectively referred to as the "Target Group") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2015 and the five months ended 31 May 2016 and related notes (collectively the "Unaudited Pro Form Financial Information") as set out on pages 28 to 32 of the announcement issued by the Company dated 30 August 2016 (the "Announcement"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in the Appendix on pages 28 of the Announcement.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact on the Target Group's financial performance for the year ended 31 December 2015 and the five months ended 31 May 2016, as if the conditions precedent for the Target Group to achieve before the completion of the Acquisition had been satisfied on 1 January 2015. As part of this process, information about the Target Group's financial performance has been extracted by the Directors from the Target Group's audited consolidated financial statements for the year ended 31 December 2015 and the five months ended 31 May 2016.

The Unaudited Pro Forma Financial Information is also regarded as a profit forecast under Rule 10 of the Code on Takeovers and Mergers issued by the Securities and Future Commission (the "Takeover Code").

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as the relevant requirements under Rule 10 of the Takeover Code.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules on the Unaudited Pro Forma Financial Information and to report our opinion to you. We are also required to report to you on the accounting policies and calculations of the Unaudited Pro Forma Financial Information under Rule 10 of the Takeover Code. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Unaudited Pro Forma Financial Information Included in a Prospectus" ("HKSAE 3420") and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audit or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA and whether, so far as the accounting policies and calculations are concerned, the Directors have properly compiled the Unaudited Pro Forma Financial Information on the basis of preparation as described in the Appendix to the Announcement.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Target Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 1 January 2015 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Target Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

In connection with reporting under paragraph 4.29(7) of the Listing Rules:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Target Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

In connection with reporting under Rule 10 of the Takeover Code, so far as the accounting policies and calculations are concerned, the Unaudited Pro Forma Financial Information has been properly compiled in accordance with the basis adopted by the Directors as stated in the Appendix to the Announcement.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 August 2016

Bank of America Merrill Lynch

30 August 2016

The Board of Directors
Phoenix Healthcare Group Co. Ltd

4th Floor, Harbour Place, 103
South Church Street, P.O. Box 10240
Grand Cayman, KY1-1002
Cayman Islands

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

Dear Sirs,

Phoenix Healthcare Group Co. Ltd

We refer to the announcement to be issued by Phoenix Healthcare Group Co. Ltd (鳳凰醫療集團有限公司) (the "**Company**") on 30 August 2016, a copy of which is attached to this letter (the "**Announcement**"). Capitalized terms used in this letter shall have the same meanings as defined in the Announcement unless otherwise specified.

We refer to the unaudited consolidated pro forma financial information of the Target Group for the year ended 31 December 2015 and for the five months ended 31 May 2016 (together, the "**Pro Forma Financial Information**") set out in the Announcement, for which the Directors are solely responsible.

We note that the Pro Forma Financial Information is regarded as a profit forecast under Rule 10 of the Takeovers Code and is required to be reported on by us, the financial adviser to the Company, pursuant to that rule.

We have discussed with the Directors and the directors of the Target the bases and assumptions on which the Pro Forma Financial Information was prepared, and we rely on their representations to us. In addition, we have considered the report of Deloitte Touche Tohmatsu ("**DTT**"), the reporting accountants of the Company, a copy of which is attached to this letter (the "**DTT Report**"). We have discussed with DTT the bases and assumptions on which it has issued the DTT Report, and we rely on DTT's representations to us.

Based on the above, we are of the opinion that the Pro Forma Financial Information, for which the Directors are solely responsible, has been prepared after due and careful consideration by the Directors.

Yours faithfully,
Stephen Gore
Managing Director
For and on behalf of
Merrill Lynch (Asia Pacific) Limited

T 852.3508.8888

Merrill Lynch (Asia Pacific) Ltd
55/F, Cheung Kong Center
2 Queen's Road Central, Central, Hong Kong

A company wholly owned by Bank of America Corporation

交銀國際
BOCOM International

BOCOM International (Asia) Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

30 August 2016

The Board of Directors
Phoenix Healthcare Group Co. Ltd

4th Floor, Harbour Place, 103
South Church Street, P.O. Box 10240
Grand Cayman, KY1-1002
Cayman Islands

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

Dear Sirs,

Phoenix Healthcare Group Co. Ltd

We refer to the announcement to be issued by Phoenix Healthcare Group Co. Ltd (鳳凰醫療集團有限公司) (the "**Company**") on or around 30 August 2016, a copy of which is attached to this letter (the "**Announcement**"). Capitalized terms used in this letter shall have the same meanings as defined in the Announcement unless otherwise specified.

We refer to the unaudited consolidated pro forma financial information of the Target Group for the year ended 31 December 2015 and for the five months ended 31 May 2016 (together, the "**Pro Forma Financial Information**") set out in the Announcement, for which the Directors are solely responsible.

We note that the Pro Forma Financial Information is regarded as a profit forecast under Rule 10 of the Takeovers Code and is required to be reported on by us, the financial adviser to the Company, pursuant to that rule.

We have discussed with the Directors and the directors of the Target the bases and assumptions on which the Pro Forma Financial Information was prepared, and we rely on their representations to us. In addition, we have considered the report of Deloitte Touche Tohmatsu ("**DTT**"), the reporting accountants of the Company, a copy of which is attached to this letter (the "**DTT Report**"). We have discussed with DTT the bases and assumptions on which it has issued the DTT Report, and we rely on DTT's representations to us.

Based on the above, we are of the opinion that the Pro Forma Financial Information, for which the Directors are solely responsible, has been prepared after due and careful consideration by the Directors.

For and on behalf of
BOCOM International (Asia) Limited
Name: **Lai Voon Wai**
Title: *Managing Directors, Head of Investment Banking*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that relating to the Target Group, the Seller and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the directors of the Seller) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

As at the Latest Practicable Date, the board of directors of the Seller comprises Mr. Wang Dekun, Mr. He Xuan, Ms. Wen Quan and Ms. Weng Jingwen. The directors of the Seller jointly and severally accept full responsibility for the accuracy of the information contained in this circular relating to the Target Group, the Seller and parties acting in concert with it and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

Set out below are the authorised and issued share capital of the Company (a) as at the Latest Practicable Date; and (b) immediately after allotment and issue of the Consideration Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Consideration Shares since the Latest Practicable Date up to Completion):

(a) as at the Latest Practicable Date:

Authorised		*HK$*
1,520,000,000	Shares	380,000.00
Issued and fully paid		
833,763,000	Shares	208,441.00

(b) immediately after allotment and issue of the Consideration Shares:

Authorised		*HK$*
1,520,000,000	Shares	380,000.00

Issued and fully paid		
833,763,000	Shares in issue as at the Latest Practicable Date	208,441.00
462,913,516	Consideration Shares to be allotted and issued upon Completion	115,728.00
1,296,676,516	Shares	324,169.00

All the issued Shares rank *pari passu* with each other in all respects including the rights in respect of capital, dividends and voting.

The Company has not issued any Shares since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company did not have any outstanding options, derivatives, warrants or securities which were convertible or exchangeable into Shares.

3. MARKET PRICES

The table below shows the closing prices of the Share on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; and (ii) the Latest Practicable Date:

Date	**Closing price per Share** *HK$*
30 October 2015	11.60
30 November 2015	10.97
31 December 2015	8.92
29 January 2016	6.67
29 February 2016	6.88
31 March 2016	8.59
1 April 2016 (last trading date before the Term Sheet)	9.10
29 April 2016	11.78
31 May 2016	10.98
30 June 2016	10.72
29 July 2016	11.46
29 August 2016 (last trading date before the Sale and Purchase Agreement)	12.90
31 August 2016	13.56
4 October 2016, the Latest Practicable Date	13.66

The highest and lowest closing price per Share as quoted on the Stock Exchange during the Relevant Period were HK$14.56 per Share on 22 October 2015, and HK$5.81 per Share on 21 January 2016.

4. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, taking no account of the Consideration Shares that may be allotted and issued by the Company to the Seller (or its wholly-owned subsidiary as the Seller may nominate) as payment of the Consideration, the following Directors or chief executive of the Company had or were deemed to have interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which 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 had taken or deemed to have taken under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Listing Rules:

Long positions in the Shares

Name of Director	Capacity/Nature of Interest	Number of Shares held	Approximate percentage of shareholding %
Liang Hongze	Interest in Controlled Corporation and Beneficial Owner	26,860,912[1]	3.22
Xu Jie	Beneficial Owner	13,868,000	1.66
Zhang Xiaodan	Beneficial Owner	2,651,729	0.32
Xu Zechang	Beneficial Owner	2,948,593	0.35
Cheng Libing	Beneficial Owner	928,629	0.11
Jiang Tianfan	Interest in Controlled Corporation and Beneficial Owner	10,551,648[2]	1.27
Shan Baojie	Beneficial Owner	148,629	0.02

Notes:

1. These interest represented:

    (a) 26,705,912 Shares held by Xin Yue Development Limited, which is wholly owned by Liang Hongze; and

    (b) 155,000 Shares held by Liang Hongze.

2. These interest 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.

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

(b) Substantial Shareholders' and other person's interests and short positions in the Shares and underlying shares of the Company

As at the Latest Practicable Date, taking no account of the Consideration Shares that may be allotted and issued by the Company to the Seller (or its wholly-owned subsidiary as the Seller may nominate) as payment of the Consideration, substantial Shareholders' interests or short positions in the Shares and underlying shares of the Company, which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Long positions in the Shares and underlying shares 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
Jiang Jinzhi	Interest in Controlled Corporation	58,350,000 (L)[2]	6.99
Tang Hua	Interest in Controlled Corporation	58,350,000 (L)[2]	6.99

Name of Shareholder	Capacity/Nature of Interest	Number of Shares held	Approximate percentage of shareholding %
JPMorgan Chase & Co.	Interest in Controlled Corporation	58,005,347 (L)[3]	6.95
		1,057,477 (S)	0.12
		4,448,500 (P)	0.53

L: Long position

S: Short position

P: Lending Pool

Notes:

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

2. These Shares represented:

   (a) Greenwood China Healthcare Master Fund, Greenwoods China Alpha Master Fund, Greenwood Asset Management Limited and Golden China Master Fund held 5,800,000 Shares, 7,500,000 Shares, 2,600,000 Shares and 15,000,000 Shares respectively, an aggregate of 30,900,000 Shares.

   The entire issued share capital of each of Greenwood China Healthcare Master Fund and Greenwoods China Alpha Master Fund is held by Greenwoods Asset Management Limited, which is in turn wholly owned by Greenwoods Asset Management Holdings Limited. Unique Element Corp. which is wholly owned by Jiang Jinzhi, holds 81% of the issued share capital of Greenwoods Asset Management Holdings Limited.

   The entire issued share capital of Golden China Master Fund is wholly owned by Jiang Jinzhi.

   Jiang Jinzhi is the husband of Tang Hua and is deemed to be interested in the 27,450,000 Shares held by Green Talent Investments Limited, a company controlled by Tang Hua.

   (b) 27,450,000 Shares were held by Green Talent Investments Limited, which is owned as to 6.32%, 46.84% and 46.84% by Greenwoods Bloom Ltd., Greenwoods Bloom Fund, L.P. and Greenwoods Bloom Fund II, L.P. respectively.

   2% of the equity interests in each of Greenwoods Bloom Fund, L.P. and Greenwoods Bloom Fund II, L.P. is held by Greenwoods Bloom Ltd. and Greenwoods Bloom II Ltd. respectively, which are both in turn wholly owned by Tang Hua.

   Tang Hua is the wife of Jiang Jinzhi and is deemed to be interested in the 30,900,000 Shares beneficially owned by Jiang Jinzhi.

3. 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 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. 0.59% 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.. 99.41% 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 72.73% owned by J.P. Morgan International Finance Limited and 27.27% owned by J.P. Morgan Overseas Capital Corporation.

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..

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the Shares and underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

5. ADDITIONAL DISCLOSURE

(i) As at the Latest Practicable Date, there was no agreement, arrangement or understanding pursuant to which the Consideration Shares to be issued to the Seller (or its wholly-owned subsidiary as the Seller may nominate) under the Sale and Purchase Agreement would be transferred, charged or pledged to any other persons.

(ii) As at the Latest Practicable Date, save as disclosed in the section headed "Effect of the Acquisition on the Shareholding Structure of the Company" in the letter from the Board contained in this circular and the paragraph headed "Disclosure of interests" above in this appendix, none of the Directors, directors of the Seller, the Seller and parties acting in concert with it owned or controlled or were interested in any other Shares, convertible securities, warrants, options or derivatives of the Company.

(iii) Save for the entering into of the Sale and Purchase Agreement and as disclosed below, none of the Directors, directors of the Seller, the Seller and parties acting in concert with it had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period:

- Mr. Zhang Xiaodan on 24 May 2016 sold 61,371 Shares in the open market with an average price of approximately HK$10.54 per Share, and on 27 May 2016 acquired 1,100,000 Shares in the open market with an average price of approximately HK$10.97 per Share;

- Mr. Xu Zechang on 24 May 2016 sold 61,371 Shares in the open market with an average price of approximately HK$10.54 per Share;

- Mr. Shan Baojie on 24 May 2016 sold 61,371 Shares in the open market with an average price of approximately HK$10.54 per Share;

- Mr. Cheng Libing on 24 May 2016 sold 61,371 Shares in the open market with an average price of approximately HK$10.54 per Share, on 26 May 2016 acquired 570,000 Shares in the open market with an average price of approximately HK$10.96 per Share, on 27 May 2016 acquired 230,000 Shares in the open market with an average price of HK$10.98 per Share, and on 24 June 2016 sold 20,000 Shares in the open market with an average price of approximately HK$10.37 per Share;

- Mr. Liang Hongze on 3 June 2016 sold 210,000 Share in the open market with an average price of HK$10.91 per Share and on 16 June 2016 acquired 155,000 Shares in the open market with an average price of approximately HK$9.96 per Share. Xin Yu Development Limited, which is wholly owned by Mr. Liang, on 17 June 2016, acquired a total of 1,500,000 Shares in the open market with an average price of approximately HK$10.00 per Share; and

- Mr. Jiang Tianfan on 3 June 2016 sold 210,000 Shares in the open market with an average price of HK$10.90 per Share.

(iv) As at the Latest Practicable Date, none of the Independent Shareholders had irrevocably committed themselves to vote for or against the resolutions approving the Acquisition (including the issue of the Consideration Shares) and the Whitewash Waiver to be proposed at the EGM.

(v) As at the Latest Practicable Date, none of the Seller and parties acting in concert with it had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person.

(vi) None of the Seller and parties acting in concert with it had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(vii) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) existed between the Seller or parties acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Acquisition (including the issue of the Consideration Shares), and/or the Whitewash Waiver.

(viii) The Seller is indirectly wholly owned by CR Holdings, which had not dealt for value in any shares, convertible securities, warrants, options or derivatives of the Seller during the Relevant Period. None of the Company and the Directors owned or controlled or were interested in any shares, convertible securities, warrants, options or derivatives of the Seller as at the Latest Practicable Date or had any of them dealt for value in any shares, convertible securities, warrants, options or derivatives of the Seller during the Relevant Period.

(ix) As at the Latest Practicable Date, none of the subsidiaries of the Company, pension fund of the Company or of a subsidiary of the Company and any advisers to the Company (as specified in class (2) of the definition of associate in the Takeovers Code but excluding exempt principal traders) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company or had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(x) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(xi) As at the Latest Practicable Date, there was no Shares, convertible securities, warrants, options or derivatives of the Company which were managed on a discretionary basis by fund managers connected with the Company.

(xii) Save as disclosed in the section headed "Effect of the Acquisition on the Shareholding Structure of the Company" in the letter from the Board contained in this circular and the paragraph headed "Disclosure of Interests" above in this appendix, none of the Directors held any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date. It is the intention of all the Directors who have interests in the Shares (i.e. Ms. Xu Jie, Mr. Liang Hongze, Mr. Jiang Tianfan, Mr. Zhang Xiaodan, Mr. Xu Zechang, Mr. Cheng Libing and Mr. Shan Baojie) to vote and, where applicable, to procure companies wholly owned by him to vote, in favour of the resolutions to be proposed at the EGM to approve the increase in authorised share capital, the Change of Company Name and the Continuing Connected Transactions. In relation to the resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition, the Specific Mandate and the Whitewash Waiver), Ms. Xu Jie, Mr. Liang Hongze and Mr. Jiang Tianfan will abstain from voting as referred to in the section headed "Implications under the Takeovers Code" in the letter from the Board in this circular and each of Mr. Zhang Xiaodan, Mr. Xu Zechang, Mr. Cheng Libing and Mr. Shan Baojie intends to vote in favour of such resolutions.

(xiii) As at the Latest Practicable Date, neither the Company nor any of the Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company.

(xiv) As at the Latest Practicable Date, no benefit had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Acquisition (including the issue of the Consideration Shares) and/or the Whitewash Waiver.

(xv) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Acquisition (including the issue of the Consideration Shares) and/or the Whitewash Waiver or otherwise connected with the Acquisition (including the issue of the Consideration Shares) and/or the Whitewash Waiver.

(xvi) As at the Latest Practicable Date, there was no material contract entered into by the Seller in which any Director had a material personal interest.

6. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been, since 31 December 2015 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Save for the Yan Hua IOT Agreement and the Yan Hua PMM Framework Agreement which Ms. Xu Jie is interested in, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

7. DIRECTORS' SERVICE CONTRACTS

Save for the service contracts of Mr. Shan Baojie and Mr. Cheng Libing with the Company both of which were entered into on 1 February 2016, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (including both continuous and fixed term contracts) had been entered into or amended during the Relevant Period. As at the Latest Practicable Date, (i) none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (a) were continuous contracts with notice period of 12 months or more; or (b) were fixed term contracts with more than 12 months to run irrespective of the notice period; and (ii) none of the Directors had any existing or proposed service contract with any member of the Enlarged Group which does not expire or is not determinable by such member of the Enlarged Group within one year without payment of compensation (other than statutory compensation).

Mr. Shan Baojie and Mr. Cheng Libing have been appointed as executive Directors with effect from 1 February 2016. Each of Mr. Shan and Mr. Cheng has entered into a service agreement with the Company for a term of two (2) years commencing from February 2016. Pursuant to the service agreements, the Company shall pay Mr. Shan and Mr. Cheng a remuneration of RMB746,800 and RMB812,300 per annum respectively for serving as an executive Director. In addition, Mr. Shan and Mr. Cheng is entitled to a discretionary bonus for each completed year of service, as may be decided by the Board and Company's remuneration committee, and benefits under such health insurance scheme and any employee benefit plan adopted from time to time by the Company.

8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates (as defined under the Listing Rules) had any interests in any business which competed or might compete with the business of the Group.

9. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following material contracts (not being contracts entered into in the ordinary course of business) had been entered into by members of the Enlarged Group after the date falling two years immediately preceding the signing of the Term sheet on 8 April 2016:

(a) the cooperation framework agreement dated 30 December 2014 entered into between the Company and Beijing Jing Mei Group Co. Ltd for the purpose of the overall restructuring of Jing Mei Group General Hospital as disclosed in the announcement of the Company dated 30 December 2014;

(b) the framework agreement dated 5 January 2015 entered into between the Company and the People's Government of Baoding, Hebei Province, the PRC for the purpose of establishing an all-round healthcare services system in Baoding as disclosed in the announcement of the Company dated 5 January 2015;

(c) the cooperation framework agreement dated 6 January 2015 entered into among the Company, the State Administration of Work Safety of the PRC (the "**Work Safety Authority**") and Citic Trust Co., Ltd. for the purpose of establishing a healthcare network in Beijing and other cities in the PRC that can provide general healthcare, nursing and ambulance services to the employees of the Work Safety Authority and citizens as disclosed in the announcement of the Company dated 6 January 2015;

(d) the framework agreement dated 18 March 2015 entered into between the Company and UMP Healthcare Holdings Limited ("**UMP Holdings**") for the purpose of establishing a joint venture to provide a clinic network of comprehensive family medicine and integrated specialists healthcare services and to provide customized preventive and health management schemes to both corporates and individuals as disclosed in the announcement of the Company dated 18 March 2015;

(e) the cooperation agreement dated 28 May 2015 entered into between the Company and the People's Government of Shunyi District, Beijing Municipality for the purpose of joint development of healthcare system in modern community in Shunyi District, Beijing as disclosed in the announcement of the Company dated 28 May 2015;

(f) the share purchase agreement dated 13 July 2015 entered into among the Company, the Purchaser and True Point Holdings Limited ("**True Point**"), pursuant to which the Purchaser acquired 20% equity interests in UMP Holdings at a consideration of HK$180 million as disclosed in the announcement of the Company dated 13 July 2015;

(g) the shareholders' agreement dated 13 July 2015 entered into among the Company, the Purchaser, True Point and UMP Holdings in order to regulate the affairs relating to UMP Holdings and its subsidiary as disclosed in the announcement of the Company dated 13 July 2015;

(h) the shareholders' agreement dated 13 July 2015 entered into among the Company, the Purchaser, True Point, UMP Holdings, UMP Healthcare China Limited, UMP Phoenix Healthcare Limited ("**UMP Phoenix**") for the purpose of UMP Phoenix issuing shares to the Purchaser and regulating the affairs relating to UMP Phoenix as disclosed in the announcement of the Company dated 13 July 2015;

(i) the master agreement dated 15 September 2015 entered into between the Company and No. 1 Central Hospital of Baoding City for the purpose their cooperation as disclosed in the announcement of the Company dated 15 September 2015;

(j) the master agreement dated 15 September 2015 entered into between the Company and Third Center Hospital of Baoding City for the purpose of their cooperation as disclosed in the announcement of the Company dated 15 September 2015;

(k) the Sale and Purchase Agreement;

(l) the share transfer agreement dated 17 May 2016 and entered into among CR Company, CR Hospital Holding and Shenzhen Yukangrun, pursuant to which CR Company agreed to transfer 100% equity interest in Shenzhen Yukangrun to CR Hospital Holding at a consideration of RMB320,010,000; and

(m) the share transfer agreement dated 11 April 2016 and entered into between CR Hospital Investment and China Resources Medical Company Limited (華潤醫療器械有限公司), pursuant to which CR Hospital Investment agreed to transfer 100% equity interest in CR Health Technology to China Resources Medical Company Limited at a consideration of HK$1.

10. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other member of the Group was engaged in any litigation, arbitration or claim of material importance and there was no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

As at the Latest Practicable Date, neither the Target Company nor any other member of the Target Group was engaged in any litigation, arbitration or claim of material importance and there was no litigation, arbitration or claim of material importance known to the directors of the Seller to be pending or threatened by or against any member of the Target Group.

11. EXPERTS AND CONSENTS

Set out below are the qualification of the experts who have given opinions or advices contained in this circular:

Name	Qualification
Merrill Lynch (Asia Pacific) Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
BOCOM International (Asia) Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
Somerley	a corporation licensed by the SFC to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	certified public accountants
Commerce & Finance Law Offices	PRC legal advisor

As at the Latest Practicable Date, none of the above experts had any direct or indirect interests in any assets which had been, since 31 December 2015 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the above experts was interested in any securities in any members of the Group or had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or report and/or reference to its name in the form and context in which they respectively appear.

12. MISCELLANEOUS

(a) The secretary of the Company is Ms. Ngai Kit Fong of Tricor Services Limited. Ms. Ngai is a director of the Corporate Services Division of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. She is a Chartered Secretary and a Fellow of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.

(b) The registered office of the Company is situated at Harneys Services (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, PO Box 10240, Grand Cayman, KY1-1002, Cayman Islands.

(c) The head office and principal place of business of the Company is E-825, No. 6 Taiping Street, Xicheng District, Beijing 100050, China.

(d) The registered address of the Seller is 37/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

(e) The Seller is wholly-owned by CRH (Healthcare) Limited, which is in turn wholly-owned by CR Holdings. CR Holdings is beneficially wholly-owned by CRC Bluesky Limited, which is in turn wholly-owned by CR Company. CR Company is ultimately beneficially wholly-owned by China Resources National Corporation* (中國華潤總公司).

(f) As at the Latest Practicable Date, the directors of CR Holdings were Dr. Fu Yuning, Mr. Luo Xi, Mr. Wang Yin, Mr. Chen Lang, Mr. Du Wenmin, Mr. Wang Chuandong, Mr. Shan Jijing and Mr. Wei Bin.

(g) As at the Latest Practicable Date, the directors of China Resources National Corporation were Dr. Fu Yuning, Mr. Luo Xi, Mr. Wang Yin, Mr. Chen Lang, Mr. Du Wenmin, Mr. Wang Chuandong, Mr. Shan Jijing and Mr. Wei Bin.

(h) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(i) In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

13. DOCUMENTS AVAILABLE FOR INSPECTION AND DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. on any day (except Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong; and (ii) on the websites of the Company (www.phg.com.cn) and the SFC (www.sfc.hk) from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the memorandum and articles of association of the Seller;

(c) the annual reports of the Company for the two years ended 31 December 2014 and 2015;

(d) the interim report of the Company for the six months ended 30 June 2016;

(e) the letter from the Board as set out in this circular;

(f) the letter from the Independent Board Committee as set out in this circular;

(g) the letter from Somerley as set out in this circular;

(h) the accountants' report from Deloitte Touche Tohmatsu in respect of the financial information of the Target Group, the text of which is set out in Appendix II to this circular;

(i) the assurance report from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(j) the assurance report from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Target Group, the text of which is set out in Appendix IV to this circular;

(k) the report issued by Merrill Lynch (Asia Pacific) Limited in relation to the unaudited pro forma financial information of the Target Group, the text of which is set out in Appendix V to this circular;

(l) the report issued by BOCOM International (Asia) Limited in relation to the unaudited pro forma financial information of the Target Group, the text of which is set out in Appendix VI to this circular;

(m) the written consents referred to under the paragraph headed "Experts and consents" in this appendix;

(n) the CR PMM Framework Agreement;

(o) the Sale and Purchase Agreement and the other material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(p) director service agreement entered into between Cheng Libing and the Company dated 1 February 2016;

(q) director service agreement entered into between Shan Baojie and the Company dated 1 February 2016; and

(r) this circular.

PHOENIX
HEALTHCARE
GROUP
凤凰医疗集团

Phoenix Healthcare Group Co. Ltd
鳳凰醫療集團有限公司

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

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of Phoenix Healthcare Group Co. Ltd (the "**Company**") will be held at E-825, Fuli Morgan Center, No. 6 Taiping Street, Xicheng District, Beijing, the PRC on 31 October 2016 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without amendments) (i) the following resolutions numbered (1) to (4) as ordinary resolutions of the Company; and (ii) the following resolution numbered (5) as a special resolution of the Company. Unless otherwise indicated, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 7 October 2016 (the "**Circular**"):

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the Sale and Purchase Agreement entered into between the Company, the Purchaser and the Seller (a copy of which is tabled at the Meeting and marked "A" and signed by the chairman of the Meeting for identification purpose) pursuant to which the Company has conditionally agreed to purchase and the Seller has conditionally agreed to sell, at Completion, the Sale Shares (representing the entire issued share capital of the Target Company), and the transactions contemplated thereunder be and are hereby approved;

(b) subject to the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in the Consideration Shares, the Directors be and are hereby granted the Specific Mandate which shall entitle the Directors to exercise all the powers of the Company to allot and issue the Consideration Shares to the Seller (or its wholly-owned subsidiary as the Seller may nominate) on and subject to the terms and conditions of the Sale and Purchase Agreement, and that the Specific Mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution; and

(c) any one of the Directors be and is hereby authorised to do all such acts and things and approve, sign, ratify and deliver all such agreements, deeds, instruments and any other documents (and, where required, under the common seal of the Company in accordance with the Articles of Association of the Company) and take all such actions as the Director may consider necessary or desirable for the purpose of or in connection with or to give effect to the Sale and Purchase Agreement and the transactions contemplated thereunder."

2. "**THAT**, subject to and conditional upon the passing of resolution numbered (1) above, the Whitewash Waiver, granted or to be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code waiving the obligation on the part of the Seller and parties acting in concert with it to make a mandatory general offer for all the Shares that are not already owned or agreed to be acquired by the Seller and parties acting in concert with it as a result of the Company allotting and issuing the Consideration Shares to the Seller (or its wholly-owned subsidiary as the Seller may nominate), be and is hereby approved."

3. "**THAT**, subject to and conditional upon the passing of resolutions numbered (1) and (2) above, the authorised share capital of the Company be increased from HK$380,000 (divided into 1,520,000,000 Shares of HK$0.00025 each) to HK$760,000 (divided into 3,040,000,000 Shares of HK$0.00025 each) by the creation of an additional 1,520,000,000 Shares of HK$0.00025 each."

4. "**THAT**, subject to and conditional upon the passing of resolutions numbered (1) and (2) above:

(a) the CR PMM Framework Agreement entered into between the Company and CR Holdings (a copy of which is tabled at the Meeting and marked "B" and signed by the chairman of the Meeting for identification purpose) in relation to the supply of pharmaceuticals, medical device and medical consumables by CR Holdings and its subsidiaries, and the transactions contemplated thereunder be and are hereby approved;

(b) the proposed caps under the CR PMM Framework Agreement for the period from 1 November 2016 or the Completion Date, whichever is the earlier, to 31 December 2016, the financial year ending 31 December 2017 and the financial year ending 31 December 2018 as set out in the Circular be and are hereby approved; and

(c) any one of the Directors be and is hereby authorised to do all such acts and things and approve, sign, ratify and deliver all such agreements, deeds, instruments and any other documents (and, where required, under the common seal of the Company in accordance with the Articles of Association of the Company) and take all such actions as the Director may consider necessary or desirable for the purpose of or in connection with or to give effect to the CR PMM Framework Agreement and the transactions contemplated thereunder."

SPECIAL RESOLUTION

5. "**THAT**, subject to and conditional upon the passing of resolutions numbered (1) and (2) above:

   (a) subject to and conditional upon Completion and the approval of the Registrar of Companies in the Cayman Islands, the English name of the Company be changed from "Phoenix Healthcare Group Co. Ltd" to "China Resources Phoenix Healthcare Holdings Company Limited" and the Chinese name of "華潤鳳凰醫療控股有限公司" be adopted and registered as the new secondary name of the Company in place of "鳳凰醫療集團有限公司" with effect from the date on which the Registrar of Companies in the Cayman Islands enters the new English name and the new secondary name in the register maintained by it in place of the existing names of the Company; and

   (b) any one of the Directors be and is hereby authorised to do all such acts and things and to approve, sign and execute all such documents, instruments and agreements for and on behalf of the Company as the Director may consider necessary, appropriate, desirable or expedient to give effect to or in connection with paragraph (a) of this resolution."

By order of the Board
Phoenix Healthcare Group Co. Ltd
Xu Jie
Chairman

Hong Kong, 7 October 2016

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

Principal place of business:
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the Memorandum of Association and Articles of Association of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number of Shares in respect of which each such proxy is so appointed.

2. Where there are joint holders of any Share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

3. A proxy form for use at the Meeting is enclosed. Whether or not you intend to attend the Meeting in person, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon.

4. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or if the appointer is a corporation, either under its common seal or under the hands of any officer or attorney duly authorised.

5. In order to be valid, the proxy form, together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof (as the case may be).

6. Completion and return of a proxy form shall not preclude a member from attending and voting in person at the Meeting or any adjournment thereof (as the case may be) and, in such event, the proxy form appointing a proxy shall be deemed to be revoked.