IMPORTANT: If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.

康宁

Wenzhou Kangning Hospital Co., Ltd.

溫州康寧醫院股份有限公司

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

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	**17,600,000 H Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	:	**1,760,000 H Shares (subject to adjustment)**
Number of International Offer Shares	:	**15,840,000 H Shares (subject to adjustment and the Over-allotment Option)**
Maximum Offer Price	:	**HK$38.7 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund on final pricing)**
Nominal value	:	**RMB1.00 per H Share**
Stock code	:	**2120**

Joint Sponsors

(in alphabetical order)

The Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable(1) of the Hong Kong Public Offering.

Latest time to complete electronic applications under **White Form eIPO** service through the designated website at **www.eipo.com.hk**(2) ..... 11:30 a.m. on Friday, November 13, 2015

Application lists of the Hong Kong Public Offering open(3) ..... 11:45 a.m. on Friday, November 13, 2015

Latest time to lodge **WHITE** and **YELLOW** Application Forms ..... 12:00 noon on Friday, November 13, 2015

Latest time to give **electronic application instruction** to HKSCC(4) ..... 12:00 noon on Friday, November 13, 2015

Latest time to complete payment for **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) ..... 12:00 noon on Friday, November 13, 2015

Application lists of the Hong Kong Public Offering close ..... 12:00 noon on Friday, November 13, 2015

Expected Price Determination Date(5) ..... Friday, November 13, 2015

Announcement of:

- the Offer Price;
- the indication of the level of interest in the International Offering;
- the indication of the level of interest in the Hong Kong Public Offering; and
- the basis of allocation of the Hong Kong Offer Shares,

to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at **www.hkexnews.hk** and our Company at **www.knholdings.cn**(6) on or before ..... Thursday, November 19, 2015

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see the section headed How to Apply for the Hong Kong Offer Shares) from .... Thursday, November 19, 2015

Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk with a search by ID function from ..... Thursday, November 19, 2015

Despatch of H Share certificates on or before ..... Thursday, November 19, 2015

and/or White Form e-Refund payment instructions and/or refund cheques (if applicable) on or before(7)(8) ..... Thursday, November 19, 2015

Dealings in H Shares on the Stock Exchange expected to commence on ..... Friday, November 20, 2015

Notes:

(1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this Prospectus.

(2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning at any time between 9:00 a.m. and 12:00 noon on Friday, November 13, 2015, the application lists will not open on that day. See "How to apply for the Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists." If the application lists do not open and close on Friday, November 13, 2015, the dates mentioned in this section "Expected Timetable" may be affected. An announcement will be made by us in such event.

(4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section "How to Apply for the Hong Kong Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS" in this Prospectus.

(5) We expect to determine the Offer Price by agreement with the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, November 13, 2015 and, in any event, not later than Monday, November 16, 2015. If, for any reason, the Offer Price is not agreed among the Joint Global Coordinators (on behalf of the Underwriters) and us by Monday, November 16, 2015, the Hong Kong Public Offering and the International Offering will not proceed.

(6) The website, and all of the information contained on the website, does not form part of this Prospectus.

(7) H Share certificates for the Hong Kong Offer Shares will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects, and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Friday, November 20, 2015. Investors who trade H Shares on the basis of publicly available allocation details before the receipt of H Share certificates or before the H Share certificates becoming valid certificates of title do so entirely at their own risk.

(8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications, and also in respect of successful applications if the Offer Price is less than the price payable on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s), may be printed on the refund cheque, if any. Such data may also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund cheque.

You should read carefully the sections entitled "Underwriting", "How to Apply for the Hong Kong Offer Shares", and "Structure of the Global Offering" in this Prospectus, for details relating to the structure and conditions of the Global Offering, how to apply for Hong Kong Offer Shares and the expected timetable, including, among other things, conditions, effect of bad weather and the despatch of refund cheques and H Share certificates.

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IMPORTANT NOTE TO INVESTORS

We have issued this Prospectus solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares, and it does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. We have taken no action to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, and we have taken no action to permit the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, any of the Underwriters, any of their respective directors, agents, employees or advisors, or any other person or party involved in the Global Offering. Information contained on the website at www.knhosp.cn does not form part of this Prospectus.

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Revenue by Healthcare Facility

The table belo sets forth, for the periods indicated, a breakdo n of our revenue b healthcare facilit [(1)(2)]:

	Fo he y ea ended December 31,						Fo he ix mon h ended J ne 30,			
	2012		2013		2014		2014		201 5	
R en e	Amo n	% of o al	Amo n	% of o al	Amo n	% of o al	Amo n	% of o al	Amo n	% of o al
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Wen hou Kangning Hospital	152,113	89.1	175,787	77.7	215,918	72.9	101,722	73.9	110,644	68.8
Qingtian Kangning Hospital	7,575	4.4	11,026	4.9	13,895	4.7	7,009	5.1	7,432	4.6
Cangnan Kangning Hospital	5,100	3.0	20,651	9.1	31,039	10.5	13,611	9.9	19,319	12.0
Yongjia Kangning Hospital			11,012	4.8	18,178	6.1	8,421	6.1	11,207	7.0
Yueqing Kangning Hospital			252	0.1	6,972	2.3	2,070	1.5	6,567	4.1
Ping ang Changgeng Ward[3]	6,025	3.5	7,635	3.4	10,294	3.5	4,762	3.5	5,574	3.5
To al e en e	**170,813**	**100.0**	**226,363**	**100.0**	**296,296**	**100.0**	**137, 5**	**100.0**	**160,743**	**100.0**

N e :

(1) We commenced operations at Yanjiao Furen Hospital and Chengdu Ren i Ward in April 2015, both of

	For the year ended December 31,						For the six months ended June 30,			
	2012		2013		2014		2014		2015	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	RMB'000, except percentage	%	RMB'000, except percentage	%	RMB'000, except percentage	%	RMB'000, except percentage (unaudited)	%	RMB'000, except percentage	%
Gross profit margin										
Treatment and general healthcare services	36.3%		42.1%		45.0%		48.2%		47.3%	
Pharmaceutical sales	26.5%		25.1%		17.1%		11.1%		18.3%	
Ancillary hospital services	59.9%		57.6%		54.5%		38.3%		34.5%	
Management service fees	76.9%		78.1%		75.3%		73.1%		75.1%	
Overall	**34.6%**		**38.4%**		**38.8%**		**39.4%**		**40.6%**	

The gross profit margin of our treatment and general healthcare services increased from 2012 to 2013 primarily due to the diversification of our service portfolio to provide more differentiated and personalized treatment services, and further increased from 2013 to 2014 primarily due to our election for certain healthcare facilities to join a government-led pricing regime that permitted higher pricing for insurance-reimbursable healthcare services in exchange for selling pharmaceuticals at the procurement bidding price of public hospitals. As a result of such pricing regime, our gross profit margin for pharmaceutical sales decreased over the same period. In particular, after our election to join such pricing regime, we continued to derive gross profits through pharmaceutical sales based on the difference between the procurement price we negotiate with our pharmaceutical suppliers and our sales price set in line with the procurement bidding price for public hospitals. Our gross profit margin on pharmaceutical sales increased in the six months ended June 30, 2015 compared to the six months ended June 30, 2014, primarily due to the further consolidation of our pharmaceutical procurement to wards major suppliers such as Sinopharm, which resulted in more cost efficient procurement.

Summary Consolidated Balance Sheet

	As of December 31,			As of June 30,
	2012	2013	2014	2015
	RMB'000			
Non-current assets	100,438	140,676	201,783	365,246
Current assets	126,229	165,003	170,556	207,488
Current liabilities	195,037	69,772	84,405	106,327
Net current (liabilities)/assets	**(68,808)**	**95,231**	**86,151**	**101,161**
Total assets less current liabilities	31,630	235,907	287,934	466,407
Non-current liabilities	7,564	27,046	26,844	114,612
Total equity	**24,066**	**208,861**	**261,090**	**351,795**

Summary of Consolidated Statements of Cash Flows

	For the year ended December 31,			For the six months ended June 30,	
	2012	2013	2014	2014	2015
			RMB'000		
Net cash from/used in operating activities	22,608	37,078	33,328	2,334	(14,018)[1]
Net cash used in investing activities	(39,315)	(12,885)	(60,663)	(21,957)	(60,982)
Net cash from/used in financing activities	18,007	23,751	(2,977)		77,553
Cash and cash equivalents at beginning of the year	18,339	19,639	67,583	67,583	37,271
Net increase/decrease in cash and cash equivalents	1,300	47,944	(30,312)	(19,623)	2,553
Cash and cash equivalents at end of the year	**19,639**	**67,583**	**37,271**	**47,960**	**39,824**

Note:

(1) We had net cash used in operating activities for the six months ended June 30, 2015, primarily due to the increase in trade and other receivables of RMB52.3 million as a result of (i) increased treatment volume attributable to the continued expansion and scaling up of our network operations and (ii) our prepayments for rental expenses relating to the Louqiao Medical Area of Wenzhou Kangning Hospital partially offset by a decrease in amounts due from related parties of RMB12.6 million as a result of the settlement of amounts due from Pingyang Changgeng Hospital.

Key Financial Ratios

RISK FACTORS

Pre-IPO Investments

We received (i) from Defu Fund, RMB90.5 million in May 2013 and RMB55.1 million in March 2015, (ii) from Beijing CDH Weixin, RMB35.1 million in May 2013 and RMB13.7 million in March 2015 and (iii) from Beijing CDH Weisen, RMB24.4 million in May 2013 and RMB9.6 million in March 2015. Following the above Pre-IPO Investments, Defu Fund, Beijing CDH Weixin and Beijing CDH Weisen held 29.14%, 7.27% and 5.05% equity interest in our Company, respectively. We used the proceeds from the Pre-IPO Investments primarily for capital increase, with the remaining being included in the capital reserve. See "Our History and Corporate Structure — Pre-IPO Investments."

DIVIDENDS AND DIVIDEND POLICY

We did not pay any dividends in the three years ended December 31, 2012, 2013 and 2014 and the six months ended June 30, 2015. We declared a dividend of RMB18.5 million on May 11, 2015, which was subsequently paid on July 23, 2015. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend upon various factors, such as our future operations and earnings, capital requirements and surplus, general financial condition, debt covenants and other factors that our Directors deem relevant. We do not have a fixed dividend pay out ratio.

PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles. We and our subsidiaries are required under the PRC Company Law to appropriate 10% of our after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve fund until the reserve balance reaches 50% of the registered capital. PRC laws also require our subsidiaries in the PRC to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions may also be restricted if we or any of our subsidiaries incur debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instrument or other agreements that we or our subsidiaries may enter into in the future.

GLOBAL OFFERING STATISTICS

Offer size:	17.6 million H Shares
Offering structure:	10% Hong Kong Public Offering (subject to adjustment) and 90% International Offering (subject to adjustment and the Over-allotment Option)
Over-allotment Option:	up to 15% of the number of Offer Shares initially available under the Global Offering
Offer Price for H Share:	HK$32.1 to HK$38.7 per Offer Share

	Based on an Offer Price of HK$32.1	Based on an Offer Price of HK$38.7
Market capitalization[1]	HK$2,259.8 million	HK$2,724.5 million
Unaudited pro forma adjusted net tangible assets per H Share[2][3]	HK$11.59	HK$13.18

Note:

(1) Calculation based on 17,600,000 H Shares expected to be issued and outstanding following the Global Offering.

(2) The pro forma adjusted net tangible assets per H Share is calculated after the adjustments referred to in the section headed "Financial Information — Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" of Our Group.

(3) No adjustment has been made to reflect any transactions we entered into subsequent to June 30, 2015.

LISTING EXPENSES

The total estimated listing expenses in relation to the Global Offering are expected to be RMB55.3 million (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised), of which RMB50.2 million will be deducted from gross proceeds from the Global Offering and accounted for as a deduction from equity and RMB5.1 million will be recorded in our consolidated statement of comprehensive income for the year ending December 31, 2015.

FUTURE PLANS AND USE OF PROCEEDS

We estimate that e ill receive net proceeds from the Global Offering of appro imatel HK$555.2 million (assuming the Over-allotment Option is not e ercised and an Offer Price of HK$35.4 per H Share, being the mid-point of the proposed Offer Price range stated in this Prospectus), after deducting the under riting fees and commissions and estimated e penses pa able b us in relation to the Global Offering. We intend to use these net proceeds for the follo ing purposes:

- Appro imatel 50% or HK$277.6 million ill be used to e pand and ramp up our healthcare facilit net ork and operating capacit , including ith respect to both our e isting and future pipeline facilities, b leveraging our diversified e pansion model in regions ith underserved demand for ps chiatric healthcare services. As of the Latest Practicable Date, e cept as other ise disclosed in the section headed Busr isediating anr4e

Board	the board of Directors
Board of Supervisors	the board of Supervisors
Business Da or business da	an da (other than a Saturda , Sunda and public holida in Hong Kong) on hich banks in Hong Kong are generall open for normal banking business
CAGR	compound annual gro th rate
Cangnan Kangning or Cangnan Kangning Hospital	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a compan established in the PRC ith limited liabilit on June 15, 2012, one of our holl -o ned subsidiaries
CCASS	the Central Clearing and Settlement S stem established and operated b HKSCC
CCASS Clearing Participant	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
CCASS Custodian Participant	a person admitted to participate in CCASS as a custodian participant
CCASS Investor Participant	a person admitted to participate in CCASS as an investor participant ho ma be an individual or joint individuals or a corporation
CCASS Participant	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
Chengdu Ren i Hospital	Chengdu Ren i Hospital Compan Limited (成都仁一醫院有限公司), an independent third part established in the PRC on June 29, 2010 as Chengdu Jihong Hospital Compan Limited (成都濟宏醫院有限公司) and hich changed to its current name on Jul 28, 2015. For the purposes of this Prospectus, Chengdu Ren i Hospital is assumed to have operated under its current name throughout its e×istence
Chengdu Ren i Ward	the ps chiatric healthcare department of Chengdu Ren i Hospital
China or PRC	the People's Republic of China e×cluding, for the purpose of this Prospectus onl , Hong Kong, the Macau Special Administrative Region and Tai an
close associate(s)	has the meaning ascribed thereto under the Listing Rules

Companies Ordinance	the Companies Ordinance (Chapter 622 of the La s of Hong Kong) as amended, supplemented or other ise modified from time to time
Companies (Winding Up and Miscellaneous Provisions) Ordinance	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the La s of Hong Kong) as amended, supplemented or other ise modified from time to time
Compan , our Compan , the Compan , e or us	Wen hou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司), previousl kno n as Wen hou Kangning Mental Convalescent Hospital (溫州市康寧精神康復醫院), Wen hou Kangning Hospital (溫州康寧醫院) and Wen hou Kangning Hospital Limited (溫州康寧醫院有限公司), hich as established as a joint stock cooperative enterprise on Februar 7, 1996 and subsequentl converted into a limited liabilit compan in December 2011. On October 15, 2014, it as converted into a joint stock compan established under the la s of the PRC ith limited liabilit , and if the conte t requires, it also includes its predecessor
connected person(s)	has the meaning ascribed to it under the Listing Rules
Controlling Shareholder(s)	has the meaning ascribed under the Listing Rules and in this conte t, refers to Mr. Guan Weili (管偉立) and Ms. Wang Lian ue (王蓮月)
CSRC	China Securities Regulator Commission (中國證券監督管理委員會)
Defu Fund	Guang hou GL Capital Investment Fund L.P. (廣州德福股權投資基金合夥企業(有限合夥)), being one of our Promoters, is a limited partnership established in the PRC on Januar 23, 2013, holding appro imatel 29.14% in our Compan as of the Latest Practicable Date. Its general partner is Guang hou GL Capital GP L.P. (廣州德福投資諮詢合夥企業(有限合夥))
Director(s)	the director(s) of our Compan
Domestic Shares	ordinar shares in our capital, ith a nominal value of RMB1.00 each, hich are subscribed for and paid up in Renminbi

EIT La	PRC Enterprise Income Ta˟ La (中華人民共和國企業所得稅法) adopted b the National People's Congress on March 16, 2007, and became effective on Januar 1, 2008, as amended, supplemented or other ise modified from time to time
Enci Kangning	Ningbo Enci Kangning Investment Management L.P. (寧波恩慈康寧投資管理合夥企業(有限合夥)), being one of our Promoters, is a limited partnership established in the PRC on Jul 18, 2014, holding appro˟imatel 0.49% in our Compan as of the Latest Practicable Date. As of the Latest Practicable Date, it as held b 27 individuals (including a Supervisor, and emplo ees and e˟ternal consultants of our Group)
Frost & Sullivan Report	an industr report dated November 2, 2015 commissioned b us for a fee of RMB880,000, issued b Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a private independent research firm
G7 countries	A governmental forum of leading developed economies in the orld, consisting of Canada, France, German , Ital , Japan, the United Kingdom and the United States
GDP	gross domestic product (all references to GDP gro th rates are to real as opposed to nominal gro th rates of GDP)
GFA	gross floor area
Global Offering	the Hong Kong Public Offering and the International Offering
GREEN Application Form(s)	the application form(s) to be completed b **Whi e Fo m eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
Group or our Group	our Compan and its subsidiaries
H Share(s)	overseas listed foreign shares in our ordinar share capital ith a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and listed on the Stock E˟change
H Share Registrar	Computershare Hong Kong Investor Services Limited

healthcare facilities	our ps chiatric healthcare institutions, hich include our o ned ps chiatric specialt hospitals and our ps chiatric ards and hospitals that e manage under management agreements ith third part hospitals
HKSCC	Hong Kong Securities Clearing Compan Limited
HKSCC Nominees	HKSCC Nominees Limited, a holl -o ned subsidiar of HKSCC
Hong Kong or HK	Hong Kong Special Administrative Region of the PRC
Hong Kong dollars or HK$	Hong Kong dollars, the la ful currenc of Hong Kong
Hong Kong Offer Shares	the 1,760,000 H Shares initiall being offered b us for subscription pursuant to the Hong Kong Public Offering (subject to adjustment as described in the section headed Structure of the Global Offering in this Prospectus)
Hong Kong Public Offering	the conditional offering b our Compan of the Hong Kong Offer Shares for subscription to the public in Hong Kong (subject to adjustment as described in the section headed Structure of the Global Offering in this Prospectus) at the Offer Price on the terms and conditions described in this Prospectus and the Application Forms
Hong Kong Under riters	the group of under riters of the Hong Kong Public Offering listed in the section headed Under riting Hong Kong Under riters in this Prospectus
Hong Kong Under riting Agreement	the under riting agreement dated November 9, 2015 relating to the Hong Kong Public Offering entered into bet een, among others, the Joint Global Coordinators, the Joint Sponsors, the Hong Kong Under riters and us as further described in Under riting Under riting Arrangements and E^penses Hong Kong Public Offering Hong Kong Under riting Agreement in this Prospectus
IFRS	the International Financial Reporting Standards, hich include standards and interpretations promulgated b the International Accounting Standards Board (IASB)

independent third part (ies)	an individual or a compan ho is not connected ith (ithin the meaning of the Listing Rules) an director, supervisor, chief e ecutive or Substantial Shareholder of our Compan , its subsidiaries or an of their respective associates
International Offer Shares	the 15,840,000 H Shares initiall offered b our Compan for subscription under the International Offering, subject to the Over-allotment Option and adjustment as described in the section headed Structure of the Global Offering in this Prospectus
International Offering	the offer of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance ith Regulation S and in the United States to QIBS onl in reliance on Rule 144A or an other available e emption from registration under the U.S. Securities Act
International Under riters	the group of international under riters e pected to enter into the International Under riting Agreement to under rite the International Offering
International Under riting Agreement	the under riting agreement e pected to be entered into on or about November 13, 2015 b , among others, the Joint Global Coordinators, the Joint Bookrunners, the International Under riters and us in respect of the International Offering, as further described in Under riting Under riting Arrangements and E penses International Offering
Joint Bookrunners and Joint Lead Managers	Citigroup Global Markets Asia Limited (in relation to the Hong Kong Public Offering), Citigroup Global Markets Limited (in relation to the International Offering) and CLSA Limited
Joint Global Coordinators	Citigroup Global Markets Asia Limited and CLSA Limited
Joint Sponsors	Citigroup Global Markets Asia Limited and CITIC CLSA Capital Markets Limited
Judicial Appraisal Institution	Wen hou Kangning Judicial Appraisal Institution (溫州康寧司法鑒定所), previousl kno n as Wen hou Zhemin Judicial Appraisal Institution (溫州浙閩司法鑒定所), an institution established in the PRC on June 16, 2006, hich is holl sponsored b our Compan

NHFPC	The National Health and Famil Planning Commission of the PRC (中華人民共和國衛生和計劃生育委員會), hich as reorgani ed from the former Ministr of Health and the National Population and Famil Planning Commission in March 2013 and includes such predecessor regulator bodies for the purpose of this Prospectus
Nomination Committee	the nomination committee of our Board
Non-Competition Agreement	the non-competition agreement dated Ma 11, 2015 entered into b our Compan and our Controlling Shareholders as further described in Relationship ith Our Controlling Shareholders Non-Competition Agreement in this Prospectus
Non-PRC resident enterprise	as defined under the EIT La , companies established pursuant to non-PRC la ith their de facto management conducted outside the PRC, but hich have established organi ations or premises in the PRC, or hich have generated income ithin the PRC ithout having established organi ations or premises in the PRC
NRCMIS	Ne Rural Cooperative Medical Insurance Scheme (新型農村合作醫療保險)
Offer Price	the final price per Offer Share in Hong Kong dollars (e clusive of brokerage fee of 1%, Stock E change trading fee of 0.005% and SFC transaction lev of 0.0027%) at hich the Hong Kong Offer Shares are to be subscribed, to be confirmed in the manner further described in the section headed Structure of the Global Offering in this Prospectus
Offer Share(s)	the Hong Kong Offer Shares and the International Offer

Over-allotment Option	the option e✕pected to be granted b our Compan to the International Under riters e✕ercisable b the Joint Global Coordinators (on behalf of the International Under riters) under the International Under riting Agreement pursuant to hich our Compan ma be required b the Joint Global Coordinators to issue and allot up to an aggregate of 2,640,000 additional H Shares at the Offer Price as described in the section headed Structure of the Global Offering in this Prospectus
PBOC	the People's Bank of China (中國人民銀行)
Ping ang Changgeng Hospital	Ping ang Changgeng Hospital Compan Limited (平陽縣長庚醫院有限責任公司), a compan established in the PRC on December 13, 2005, an independent third part
Ping ang Changgeng Ward	the ps chiatric healthcare department of Ping ang Changgeng Hospital
PRC Compan La or Companies La	the Compan La of the PRC (中華人民共和國公司法), as amended and adopted b the Standing Committee of the Tenth National People's Congress of the PRC on October 27, 2005 and effective on Januar 1, 2006, as amended, supplemented or other ise modified from time to time, hich as further amended on December 28, 2013 to take effect on March 1, 2014
PRC Government or PRC government or State	the government of the PRC, including government departments at all levels (including provincial, municipal and other regional or local governmental agencies)
PRC Securities La	the Securities La of the PRC (中華人民共和國證券法), hich as enacted b the Standing Committee of the National People's Congress on December 29, 1998 and became effective on Jul 1, 1999, as amended from time to time, hich as further amended on August 31, 2014 to take effect on August 31, 2014
Price Determination Date	the date, e✕pected to be on or around Frida , November 13, 2015 but no later than Monda , November 16, 2015, on hich the Offer Price is to be fi✕ed for the purposes of the Global Offering
Promoters	the promoters of our Compan , namel Mr. Guan Weili, Ms. Wang Hong ue, Ms. Wang Lian ue, Defu Fund, Beijing CDH Wei✕in, Beijing CDH Weisen, Xinshi Kangning, Enci Kangning and Renai Kangning

Prospectus	this Prospectus being issued in connection ith the Hong Kong Public Offering
Qingtian Kangning or Qingtian Kangning Hospital	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a compan established in the PRC ith limited liabilit on April 1, 2011, one of our holl -o ned subsidiaries
Qualified Institutional Bu ers or QIBs	qualified institutional bu ers ithin the meaning of Rule 144A
Regulation S	Regulation S under the U.S. Securities Act
Remuneration Committee	the remuneration committee of our Board
Renai Kangning	Ningbo Renai Kangning Investment Management L.P. (寧波仁愛康寧投資管理合夥企業(有限合夥)), being one of our Promoters, is a limited partnership established in the PRC on Jul 17, 2014, holding approximatel 0.38% in our Compan as of the Latest Practicable Date. As of the Latest Practicable Date, it as held b 41 emplo ees of our Group
RMB or Renminbi	the la ful currenc of the PRC
Rule 144A	Rule 144A under the U.S. Securities Act
SAFE	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
SAT or State Administration of Taxation	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
SFC	the Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance (Chapter 571 of the La s of Hong Kong), as amended, supplemented or other ise modified from time to time
Share(s)	share(s) in the share capital of our Compan , ith a nominal value of RMB1.00 each, including our Domestic Shares and H Shares
Shareholder(s)	holder(s) of our Share(s)

UEBMIS Urban Emplo ee Basic Medical Insurance Schedule (

Yanjiao Furen Hospital	Yanjiao Furen Hospital of Traditional Chinese and Western Medicine (燕郊輔仁中西醫結合醫院) under our operation and management in accordance ith an entrustment management agreement dated March 26, 2015 entered into bet een Yanjiao Furen Hospital of Traditional Chinese and Western Medicine and our Compan
Yining Investment	Shen hen Yining Medical Investment Co., Ltd. (深圳怡寧醫療投資有限公司), a compan established in the PRC ith limited liabilit on September 23, 2015, one of our holl -o ned subsidiaries
Yongjia Kangning or Yongjia Kangning Hospital	Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a compan established in the PRC ith limited liabilit on December 12, 2012, one of our holl -o ned subsidiaries
Yueqing Kangning or Yueqing Kangning Hospital	Yueqing Kangning Hospital Co., Ltd. (樂清康寧醫院有限公司), a compan established in the PRC ith limited liabilit on September 3, 2013, one of our holl -o ned subsidiaries

In this Prospectus:

The English names of the PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translation and/or transliteration of their Chinese names and are included for identification purposes onl . In the event of inconsistenc bet een the Chinese names and their English translations and/or transliterations, the Chinese names shall prevail.

- Our abilit to obtain or e tend the terms of the licenses necessar for the operation of our business;
- Changes to our e pansion plans and estimated capital e penditure;
- Adverse changes or developments in the industries in hich e operate;
- Fluctuations in inflation, interest rates and e change rates;
- Changes in the availabilit of, or ne requirements for financing;
- Our dividend polic ; and
- Our success in accuratel identif ing future risks to our business and managing the risks of the aforementioned factors.

For ard-looking statements ma and often do differ materiall from actual results. An for ard-looking statements in this Prospectus reflect our management's current vie ith respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions. Investors should specificall consider the factors identified in this Prospectus, hich could cause actual results to differ, before making an investment decision. Subject to the requirements of the Listing Rules and e cept as ma be required b applicable la , e undertake no obligation to revise an for ard-looking statements that appear in this Prospectus to reflect an change in our e pectations, or an events or circumstances, that ma occur or arise after the date of this Prospectus. All for ard-looking statements in this Prospectus are qualified b reference to this cautionar statement.

You should carefully read and consider all of the information in this Prospectus, including the material risks and uncertainties described below before making any investment in our H Shares. You should pay particular attention to the fact that we are incorporated in the PRC and that all of our operations are conducted in the PRC and are governed by a legal

Change in China's regulatory regime for the healthcare industry, particularly with respect to public medical insurance programs or healthcare reforms, could have a material adverse effect on our business.

In recent years, the PRC government unveiled a new healthcare reform plan with the aim to ensure that every citizen has access to affordable basic healthcare. In pursuit of these objectives, the PRC government has issued extensive policy reforms to address the affordability, accessibility and quality of healthcare services and medical insurance coverage, and has called for additional government spending on healthcare. The PRC government aims to expand the public insurance programs to cover 100% of the population by 2020, and accordingly, funding for such programs has increased from RMB367.0 billion in 2008 to RMB1,122.1 billion in 2013, representing a CAGR of 25.1%, according to the Frost & Sullivan Report.

A substantial portion of our business operations and future expansion plans are affected by government policies, which may change significantly in the future and are beyond our control. Depending on the priorities determined by the PRC government, the economic and political climate at any given time and the continued development of the Chinese healthcare system, future legislative changes may negatively affect the healthcare reform process in a number of ways, including, not but limited to, (i) reducing coverage or reimbursement rates, or lengthening the payment processing cycle, for publicly insured services and products, (ii) limiting private or foreign investment in healthcare services, (iii) implementing additional price controls on pharmaceuticals and (iv) imposing certain caps on treatment fees permitted to be charged, any of which may materially and adversely affect our business, financial condition and results of operation.

We derive a significant portion of our patient fees from services and products provided to patients covered by public medical insurance, and any non-payment or delayed payment from insurance programs, any change in insurance policies, administrative obstacles or any other reasons may adversely affect our cash flow.

We receive a significant portion of payments for our medical bills from the PRC government, principally by way of public medical insurance provided through social insurance programs. According to the Frost & Sullivan Report, as of the end of 2012, public medical insurance for urban residents in China covered approximately 95% of the total registered urban population, while public medical insurance for rural residents covered approximately 98% of the total registered rural population. Under these programs, patients are required to pay hospitals only a portion of their medical expenses upfront and hospitals will seek payment of the balance from the government. The government only reimburses medical expenses for certain approved services and pharmaceuticals, and reimbursement percentages and caps for covered medical expenses may vary widely depending on the region, hospital rating, type of illness and treatment and pharmaceuticals provided.

In line with the expansion of funding and expenditure for the PRC public medical insurance programs, during the Track Record Period, our medical bill payments received from public medical insurance grew significantly. Such payments amounted to RMB53.3 million, RMB81.5 million, RMB134.2 million and RMB79.1 million in 2012, 2013 and 2014 and the six months ended June 30, 2015, respectively, representing 31.5%, 42.1%, 51.0% and 52.7% of

our total pa ments received in the same period, respectivel . In addition, as a result of our election for Wen hou Kangning Hospital, Ping ang Changgeng Ward, Yongjia Kangning Hospital and Cangnan Kangning Hospital to join a government-led pricing regime that allo s for higher pricing of reimbursable services, e e pect to continue to receive a significant portion of our total medical bill pa ments from public medical insurance. An dispute or late or delinquent reimbursement pa ment ma cause our accounts receivables to increase and result in provisions. In addition, an prolonging of our average receivables settlement da s due to a slo do n in pa ments from insurance or other sources ma have an adverse effect on our cash inflo from operations. Healthcare insurers ma also change their reimbursement policies and coverage plans in the future such that (i) certain services and products e provide ma no longer be covered or (ii) more stringent thresholds on e isting coverage ma be imposed, such as reducing the admissions and lengths of sta for inpatients, for hom treatment is generall more costl than outpatients. An reduction in the rates paid or the scope of services covered b insurance providers ma reduce patients' accessibilit to our healthcare facilities and ma , in turn, lead to reduced patient flo or require us to lo er the prices e charge, either of hich could have a material adverse effect on our business, financial position and results of operations.

We e pe ience a long collec ion c cle on o ade ece i able d e o o eliance on p blic medical in ance o e le a ignifican po ion of o medical bill pa men , and face collec ion i k i h e pec o nin ed and nde in ed pa ien , bo h of hich ma e e e on o ca h flo .

Collection of our trade receivables, hich primaril relate to the unpaid portion of the medical bills e issue, is critical to our operating performance. The net balance of our trade receivables as RMB52.0 million, RMB63.1 million, RMB84.5 million and RMB106.6 million as of December 31, 2012, 2013 and 2014 and June 30, 2015, respectivel . We do not hold an collateral or other credit enhancements over these balances. T picall , public medical insurance programs settle accounts receivable ith us at appro imatel one to si months follo ing the billing date. Settlement from supplemental civil administration funds for lo -income patients, hich comprise a smaller source of total pa ments to us, ma require one to t o ears. As a result, e have had average trade receivables turnover da s of 101 da s, 93 da s, 91 da s and 108 da s in 2012, 2013 and 2014 and the si months ended June 30, 2015, respectivel . B comparison, in the same period, our average inventor turnover da s ere 25 da s, 19 da s, 15 da s and 15 da s, respectivel , and our average trade pa ables turnover da s ere 73 da s, 69 da s, 49 da s and 50 da s respectivel . Our trade receivables c cle ma e pose us to cash flo shortages or liquidit gaps in our operations, hich ould require us to obtain orking capital from other sources, such as e ternal borro ings, in order to meet our obligations, hich e ma not be able to do on commerciall acceptable terms or at all.

We also face impairment risk ith respect to our trade receivables. As of December 31, 2012, 2013 and 2014 and June 30, 2015, our provision for impairment of trade receivables, hich primaril represented receivables attributable to uninsured and underinsured patients for hom e deem the amounts to irrecoverable, and thus have decided to make provisions for, amounted to RMB3.0 million, RMB3.7 million, RMB5.0 million and RMB6.0 million, respectivel , representing 5.4%, 5.5%, 5.6% and 5.3% of our balance of trade receivables as of such dates, respectivel . We e pect to continue to face collection risk ith respect to uninsured

and underinsured patients going for ard, especiall as e continue to scale up our operations. An adverse developments in our abilit to timel settle our trade receivables ma have a material adverse effect on our business, financial condition and results of operations.

O pe fo mance depend on o abili y o ec i and e ain ali y doc o and o he medical aff, and comp e i ion fo ch p ofe ional ma y be in en e and ad e el y affec o labo co .

Our success and competitive advantage relies, in part, on the number and qualit of the ps chiatric doctors and other medical staff of our healthcare facilities. Our future success ill depend significantl on our abilit to identif , hire and retain highl qualified professionals of

in extreme cases, death. Serious incidents may arise at any point in the patient intake, treatment and follow-up processes, including violence or threats of violence committed by patients against themselves, other patients or our doctors and staff.

For the three years ended December 31, 2012, 2013 and 2014, and for the six months ended June 30, 2015, we had certain material instances of medical incidents at our healthcare

capital e penditure in connection ith such relocation plan to materiall and adversel affect the availabilit of financial resources budgeted for our current e pansion plan and pipeline hospitals, there is no assurance that the planned capital e penditure ould be sufficient for such relocation hich ma e perience significant increase due to factors be ond our control. An such negative development ma have a material and adverse effect on our business, financial condition and results of operations.

A majo i of o ope a ion a e loca ed in Zhejiang P ince, hich ende e peciall en i e o local condi ion and change , ch a i h e pec o la and eg la ion , fo ce maje e en , na al di a e o o b eak of con agio di ea e .

A majorit of our healthcare facilities and beds in operation are located in Zhejiang Province, primaril in and around Wen hou. As of the Latest Practicable Date, si of our nine healthcare facilities in operation ere located in Zhejiang Province. As a result, e are highl sensitive to the regulator , economic, public health, environmental and competitive conditions in this region. In particular, significant changes in la s and regulations governing the healthcare industr in Zhejiang ma materiall affect our business. In addition, e ma be adversel impacted b an recurrence of past outbreaks or epidemics in the PRC, such as Severe Acute Respirator S ndrome, or SARS in 2003, the H1N1 virus, or s ine flu, in 2009, and the H7N9 virus in the first half of 2013, as people ma choose to avoid cro ds and hospitals in order to minimi e the risk of contagion. An future epidemic outbreaks could significantl disrupt our operations. Furthermore, natural disaster or other catastrophic events that ma occur in Zhejiang Province, such as earthquakes, fire, drought, t phoons, flood, outage of critical utilities, disruption to transportation s stems or terrorist attacks, ma damage or limit our abilit to operate our healthcare facilities and require significant repair, hich could prevent us from effectivel serving our patients. An such developments in Zhejiang Province ma have a material adverse effect on our business, financial condition and results of operations.

We c en l de i e a majo i of o en e f om Wen ho Kangning Ho pi al, and ma be pa ic la l en i e o ad e de elopmen i h e pec o ch ho pi al.

Wen hou Kangning Hospital is our flagship hospital and the first healthcare facilit of our net ork to be established. As the largest healthcare facilit in our net ork in terms of revenue, bed count and emplo ees, e concentrate a significant portion of our net ork resources at Wen hou Kangning Hospital, including much of our training, teaching and research programs as ell as our core management team. Revenue from Wen hou Kangning Hospital amounted to RMB152.1 million, RMB175.8 million, RMB215.9 million and RMB110.6 million in 2012, 2013 and 2014 and the si months ended June 30, 2015, representing 89.1%, 77.7%, 72.9% and 68.8% of our total revenue in the same ears, respectivel , and is e pected to continue to account for a significant portion, if not the majorit , of our revenue going for ard. As a result, an events ith respect to Wen hou Kangning Hospital that ould negativel impact, among other things, its abilit to generate revenue ould have a material adverse effect on our business, financial condition and results of operation.

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

We have grown our healthcare facility network from three healthcare facilities as of January 1, 2012 to eight as of June 30, 2015, in the process more than doubling our bed capacity from 1,090 to 2,210 as of the same dates, respectively. We began operating our first healthcare facility beyond Zhejiang Province in April 2015, and have three additional healthcare facilities under development in various locations in the PRC as of the Latest Practicable Date. To achieve further business growth, we will need to continue to seek expansion opportunities in other geographic areas, including those where we have limited experience. Accomplishing our growth strategy depends partly on timely and cost-effective execution of our expansion efforts, which will require us to face and overcome new market, technological, regulatory and operational risks and challenges with which we have limited experience. Moreover, our expansion strategies may require significant time commitments from our management and other personnel, as well as substantial operational, financial and other resources. The success of our expansion efforts depends on many factors, including, among others, our ability to:

- accurately identify suitable geographic markets for the type of services we offer, including evaluating the target markets' ability to support such expansion with respect to their population densities and income levels;
- identify local demand and preferences, including executing development plans and strategies and accommodating local social needs;
- address local market competition;
- negotiate acceptable lease agreements and renew them on commercially acceptable terms;
- hire, train and retain a sufficient workforce of qualified doctors and other personnel, as well as maintain a reliable pipeline of future recruits, to meet our growth demands;
- successfully integrate new healthcare facilities into our existing control structure and operations, including with respect to implementation of our high-standardized operating protocols, in order to provide consistently high levels of service throughout our network;
- maintain stable relationships with our suppliers;
- provide consistent, high-quality service throughout our network in order to strengthen our reputation and attract more patients; and
- secure financing or maintain sufficient capital to invest in healthcare facilities.

We may not be able to obtain adequate timely financing for existing and future investments for our expansion plans, and our projects under development may not be completed within the expected timeframe and within budget, or at all, and may not achieve the intended economic results.

To finance our continued growth or future developments, including investments in new healthcare facilities and upgrades for our existing healthcare facilities that we may decide to undertake, we will require additional cash resources. The amount and timing of such additional financing needs will vary depending on the timing of our new healthcare facility openings, investments in acquired healthcare facilities, labor costs and the amount of cash flow from our operations. If our internally-generated resources are insufficient to satisfy our cash requirements, we may seek additional financing. To the extent that we raise additional financing by selling additional equity, our shareholders may experience dilution.

To the extent we engage in debt financing, the incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that may, among other things, restrict our operations or our ability to pay dividends. Servicing such debt obligations could also be burdensome to our operations. If we fail to service any particular debt obligations or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations, which could trigger a default of other debt obligations and materially and adversely affect our liquidity and financial condition. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, some of which are beyond our control, including general economic and capital market conditions, credit availability from banks or other lenders, receipt of necessary PRC government approvals, investors' confidence in us, the performance of the psychiatric healthcare industry in general, and our operating and financial performance in particular. We cannot assure you that future financing will be available in amounts or on terms acceptable to us, if at all. In the event that financing is not available or is not available on terms acceptable to us, our business, results of operations and growth prospects may be adversely affected.

Any early termination of our leases, failure to renew our leases or substantial increase in rental prices may adversely affect our business and financial performance.

We lease the properties and underlying land for a number of our healthcare facilities, including a portion of Wenzhou Kangning Hospital and all of our self-operated hospitals, for which the lease agreements typically have a term of eight to 15 years. However, our landlords

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As a healthcare provider, e depend substantiall on our abilit to provide pharmaceuticals to patients as part of our comprehensive treatment services, as ell as our abilit to develop and scale up ps chiatric healthcare facilities to e pand our net ork and operational capacit . In 2013, e entered into a suppl agreement ith Sinopharm ith the aim to consolidate our procurement needs and achieve economies of scale. Subsequentl , our procurement from Sinopharm amounted to RMB8.4 million, RMB13.9 million, RMB43.5 million and RMB36.5 million in 2012, 2013, 2014 and the si months ended June 30, 2015,

and dela the implementation of our business strategies. In addition, e ma not be able to hire suitable or qualified replacements, and ma incur additional expenses to recruit and train

hospitals, allegations or actual medical incidents that occurred ithin other departments of such hospitals ma be improperl attributed to our ps chiatric ards and in turn, our ps chiatric healthcare facilit net ork as a hole. As e focus a substantial majorit of our operations on ps chiatric healthcare, an of the above developments ma have a material adverse effect on our business, financial condition and results of operations.

If e ha e majo di p e i h o b ine pa ne fo o heal hca e facili ie ha e manage nde managemen ag eemen , o if he decide o e mina e o no ene ch managemen ag eemen , o b ine and ep a ion ma ffe .

For our managed facilities, our management agreements set forth certain events that ma grant the relevant parties the right to earl termination. In particular, the counterpart ma unilaterall terminate the agreement if e fail to reach certain performance targets or incur significant losses in the course of our management of the operations of the relevant healthcare facilit . In addition, if e have material disputes ith our hospital partners or

Regarding Anti-corruption and Anti-commercial Briber . We cannot assure ou that our doctors, staff and hospital administrators ill full compl ith anti-corruption regulations at all times, or that our management ill be able to detect and identif all instances of briber involving our healthcare facilities. In the event of an briber incidents involving our emplo ees, e ma be subject to investigations, sanctions or fines, and our reputation could be significantl harmed b an negative publicit stemming from such incidents, hich ma materiall and adversel affect our business, financial condition, results of operations and prospects.

We co ld be exp o ed o i k ela ed o o managemen of o pa ien ' medical da a.

As part of our routine operations, our healthcare facilities collect and maintain medical data and ps chiatric treatment records and other personal details of our patients. PRC la s and regulations generall require medical institutions and their medical personnel to protect the privac of their patients and prohibit unauthori ed disclosure of personal information. Such medical institutions and their medical personnel ill be liable for damage caused b divulging the patients' private or medical records ithout consent.

We have taken measures to maintain the confidentialit of our patients' medical records and personal data, including encr pting such information in our information technolog s stem so that it cannot be vie ed ithout proper authori ation, and setting internal rules requiring our emplo ees to maintain the confidentialit of our patients' medical records. Ho ever, these measures ma not be al a s effective in protecting our patients' medical records. Our information technolog s stems could be breached through hacking activities. Personal information could be leaked due to an theft or misuse of personal information arising from misconduct or negligence. In addition, as Wen hou Kangning Hospital also operates as a teaching and research hospital, e frequentl host medical students and professionals from third part institutions orking on-site ith our staff and patients. We cannot ensure that such persons ill al a s compl ith our data privac measures. Furthermore, an change in such la s and regulations could affect our abilit to use medical data and subject us to liabilit for the use of such data for current permitted purposes. Failure to protect the confidentialit of patient medical records and personal data, or an restriction on or liabilit as a result of, our use of medical data, could have a material adverse effect on our business and operations.

The p ope f nc ioning of o comp e ne o k inf a c e and cen ali ed info ma ion y em i e en ial o o b ine ope a ion, and an echnological fail e, ec i b each o o he challenge ma ignifican l di p o b ine .

Our computer net ork infrastructure and information s stems help us to operate and monitor the operational performance of our in-net ork hospitals and clinics, such as billing, financial and budgeting data, patient records and inventor . We regularl maintain, upgrade and enhance the capabilities of our information s stems to meet operational needs. An technical failures associated ith our information s stems, including those caused b po er loss, natural disasters, computer viruses or hackers, net ork failures or other unauthori ed tampering, ma cause interruptions in our abilit to provide services to our patients, keep accurate records and maintain proper business operations. In particular,3rimation

s stem relating to our billing and public medical insurance reimbursements ere to malfunction and lose related records, e might not timel receive full pa ments on our accounts receivable, hich ma result in a material adverse impact to our business and operations. In addition, e ma be subject to liabilit as a result of an theft or misuse of personal information stored on our s stems due to illful misconduct or gross negligence.

We depend on he eng h of o e a ion, incl ding he p e ige confe ed b he G ade A Cla III ho pi al a ing achie ed b Wen ho Kangning Ho pi al, and an damage o o e a ion co ld ma e iall and ad e el impac o b ine and e l of ope a ion .

Our reputation is critical to our success in China's rapidl -gro ing ps chiatric healthcare industr . We believe that our success and continued gro th depend on the public perception of our reputation and our abilit to protect and promote it. In particular, the Grade A Class III rating that e have achieved for our Wen hou Kangning Hospital carries significant competitive advantages, but also requires substantial effort and cost to maintain. We cannot assure ou that e ill al a s be able to maintain the highest rating for Wen hou Kangning Hospital or that our other healthcare facilities ill be able to elevate or maintain their respective ratings.

Man factors hich are important to help maintain and enhance our image are be ond our control and ma have a negative impact on our name and reputation. Such factors include, among others:

- our abilit to effectivel control the qualit and consistenc of the services performed b our doctors and other medical staff, and to monitor the service performance of such personnel as e continue to e pand;
- our abilit to offer a comfortable, convenient and consistentl reliable patient e perience as e e pand our service offerings; and
- our abilit to enhance our reputation among e isting and potential patients through various marketing, promotional and communit outreach activities.

An failure to continuousl develop, maintain and enhance our reputation ma materiall and adversel affect the level of market recognition of, and trust in, our services, hich could result in stagnant or negative gro th and have a material adverse effect on our business, financial condition and results of operations.

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We ma be e posed to intellectual propert rights infringement or misap8(opert)-7277.414141414141

against us in an such litigation or proceedings could subject us to significant liabilit to third parties, require us to seek costl licenses for use, pa ongoing ro alties or prohibit us from operating under our historical trade names. Protracted litigation or an adverse determination against us could also harm our abilit to provide the full scope of our services to our patients, hich ma harm our relationships ith our patients and in turn, our reputation. An such negative events ma materiall and adversel aS2h(scope8.9(t( )-514.4(.8(-378.,a)21.9usineses)49.7(,)(-378

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enterprises, ho ever a substantial portion of productive assets in the PRC is still o ned b the PRC government. In addition, the PRC government continues to pla a significant role in regulating industr development b imposing industrial policies. The PRC government still retains significant control over the PRC's economic gro th through the allocation of resources, controlling pa ment of foreign currenc denominated liabilities, setting monetar polic and providing preferential treatment to particular industries or enterprises.

Our performance has been and ill continue to be affected b the PRC econom , hich in turn is influenced b the global econom . The global economic slo do n and the turmoil in the global financial markets that began in the second half of 2008, continued eakness in the United States econom and the sovereign debt crisis in Europe have collectivel added do n ard pressure to economic gro th in the PRC.

An of the above factors ma materiall and adversel affect our business, financial condition and results of operations. We are unable to accuratel predict the precise nature of all the risks and uncertainties that e face as a result of current economic, political, social and regulator conditions and man of these risks are be ond our control.

Unce ain ie i h e pec o he PRC legal em co ld ha e a ma e ial ad e e effec on .

Our business and operations are conducted in the PRC and governed principall b the PRC la s and regulations. The PRC legal s stem is based on ritten statutes, and prior court decisions can onl be cited as reference. Since 1979, the PRC government has promulgated la s and regulations in relation to economic matters such as foreign investment, corporate organi ation and governance, commerce, ta ation, finance, foreign e change and trade, ith a vie to developing a comprehensive s stem of commercial la . Ho ever, China has not developed a full integrated legal s stem and recentl enacted la s and regulations ma not sufficientl cover all aspects of economic activities in China, or ma be unclear or inconsistent.

In particular, since PRC healthcare industr is e periencing ongoing reform, the la s and regulations relating to this industr are unspecific and ma be incomprehensive. Because of the limited volume of published decisions and their non-binding nature, the interpretation and

(5) To define the rehabilitation for mental disorders. The Mental Health Law states what community rehabilitation organizations, medical institutions, self governing mass organizations, organizations for the disabled, employers and guardians mean to the patients with mental disorders in respect of rehabilitation.

(6) To specify protective measures for patients with mental disorders. It is stipulated in the Mental Health Law that health administrative departments of the People•s Government above the level of counties shall establish healthcare facilities to provide patients with severe mental disorders with basic public health services free of charge. Medical expenses for patients with mental disorders shall be paid by the basic medical insurance funds in accordance with the requirements in relation to social insurance as provided by the national government. In the event that patients with mental disorders still face difficulties in settling medical expenses even with the payment from the basic medical insurance or in the cases where such patients are unable to settle medical expenses through the basic medical insurance, departments of civil affairs shall give priority to offer medical aids and assistance to such individuals.

4. Housing: (1) the building area of each bed is not less than 35 square metres; (2) the net usable area for each bed in a ward is not less than 4 square metres; (3) the average site for outdoor activities of patients for each bed is not less than 2 square metres; (4) good ventilation, natural lighting and safety meet the requirements for a psychiatric hospital.

5. Equipment: The hospital is equipped with oxygen supplying device, ventilator, gastric lavage device, electric suction apparatus and other basic equipment. Simultaneously, the requirements for each unit regarding each bed can be satisfied and the hospital owns and develops other equipment corresponding to the departments of treatment.

6. It has established various rules and regulations and post responsibility system. It also has some regulations for technical operation regarding medical care formulated or recognized by the State and such regulations can be bound into book form.

7. The registered capital is in place while the amount is confirmed by the health administrative departments of all provinces, autonomous regions and municipalities directly managed by the Central government.

(2) Psychiatric hospitals of Grade II

1. Hospital beds: the total number of beds in psychiatric hospitals is 70 to 299.

2. Establishment of departments: (1) clinical departments: at least, psychiatric department (including emergency department and psychological consultation department), male psychiatric ward, female psychiatric ward, occupational and recreational therapy room and preventive health department are established; (2) medical technological departments: at least, pharmacy, laboratory, X-ray department, and sterile supply department are established.

3. Personnel: a bed shall be equipped with 0.44 medical staff; (2) there is at least 1 psychiatrist who is competent to be an associate chief doctor or above; (3) there is at least 1 doctor who is competent to be an attending doctor or above for each clinical department; (4) there is at least 1 nurse who is competent to be the chief nurse; (5) on average, there is at least 0.3 nurse for each bed.

4. Housing: (1) the building area of each bed is not less than 40 square metres; (2) the net usable area for each bed in a ward is not less than 4.5 square metres; (3) the average site for outdoor activities of patients for each bed is not less than 3 square metres; (4) good ventilation, natural lighting and safety meet the requirements for a psychiatric hospital.

5. Equipment: The hospital is equipped ith o[illegible] gen suppl ing device, ventilator, gastric lavage, electric suction apparatus, clean bench and other basic equipment. Simultaneousl , the requirements for each unit regarding each bed can be satisfied and the hospital o ns and develops other equipment corresponding to the departments of treatment.

6. It has established various rules and regulations and post responsibilit s stem. It also has some regulations for technical operation regarding medical care formulated or recogni ed b the State and such regulations can be bound into book form.

7. The registered capital is in place hile the amount is confirmed b the health administrative departments of all provinces, autonomous regions and municipalities directl managed b the Central government.

(3) Psychiatric hospitals of Grade III

1. Hospital beds: the total number of beds in ps chiatric hospitals is over 300.

6. It has established various rules and regulations and post responsibility system. It also has some regulations for technical operation regarding medical care formulated or recognized by the State and such regulations can be bound into book form.

7. The registered capital is in place while the amount is confirmed by the health administrative departments of all provinces, autonomous regions and municipalities directly managed by the Central government.

The •Accreditation Standard of Psychiatric Hospitals of Grade III (2011)Ž promulgated and implemented by the National Health and Family Planning Commission on February 9, 2012 and the •Implementing Rules Regarding the Accreditation Standard of Psychiatric Hospitals of Grade III (2011)Ž promulgated and implemented by the General Office of the National Health and Family Planning Commission on May 29, 2012 provide detailed provisions for the accreditation standard for psychiatric hospitals of Grade III and can be made reference to be used by professional medical institutions of mental health at all levels and of all types. The •Accreditation Standard of Psychiatric Hospitals of Grade III (2011)Ž contains 7 chapters and 62 sections and sets 332 accreditation standards and monitoring indices. In the •Accreditation Standard of Psychiatric Hospitals of Grade III (2011)Ž, the indices listed in Chapter 1 to Chapter 6 are used to conduct on-site appraisal for psychiatric hospitals of Grade III and is also used by the hospital for self-evaluation and improvement. The indices listed in Chapter 7 (Evaluation Index of Daily Statistics) are used for monitoring, tracing and evaluating the operation of psychiatric hospitals of Grade III, index for quality and safety of medical treatment. The main contents of the assessment criteria set out in the Implementing Rules Regarding the Accreditation Standard of Psychiatric Hospital of Grade III (2011) are as follows:

Name	Main content
Chapter I Adhering to the Non-profit Principle of Hospitals	€ the establishment, functions and tasks of the hospital in line with the positioning and requirements of the local healthcare plan and medical institution layout plan
	€ with scientific and standardized internal administration system
	€ undertaking public mental health services and such other mandatory tasks prescribed by the government
	€ emergency management
	€ clinic psychiatry education
	€ scientific research and achievements
Chapter II Services of Hospitals	€ diagnosis and treatment reservation
	€ management on outpatient process

Name

Main content

Name	Main content
	€ management and its continuous improvement for other special diagnosis and treatment
	€ medical record (case) management and its continuous improvement
Chapter V Nursing Management and Continuous Quality Improvement	€ establishment of organizational system for nursing management
	€ human resource management on nursing personnel
	€ clinical nursing quality control and its continuous improvement
	€ nursing safety management
	€ quality control of intensive care unit and its surveillance
Chapter VI Hospital Management	€ practicing in accordance with laws
	€ clarifying management responsibility and decision-making mechanism with management accountability system in place
	€ setting the development target as well as the medium and

Name	Main content
Chapter VII Assessment Criteria for Daily Statistics	€ basic monitoring indices for hospital operation € monitoring indices for medical quality and safety of inpatients € monitoring indices for rational use of medicines

The •Implementing Rules Regarding the Accreditation Standard of Psychiatric Hospitals of Grade III (2011) Ž shall be divided into basic terms (applicable to all psychiatric hospitals of Grade III), core terms (the 30 terms marked with •º Ž in each section therein, i.e. the most basic, the most common standard terms which are easiest to be done and are required to be done, including the system and work procedure for medical safety related matters and the accountability system for clinic application and administration of pharmaceuticals) and selectable terms (mainly referring to such projects that require examination and approval but cannot be immediately developed at the discretion of the hospital probably due to the restriction in the regional health planning and functional duties of hospitals, or due to being specially controlled by the government). A five-grade assessment is adopted to present the results of the accreditation, namely A (outstanding) (´ ø), B (good) (») , C (pass) (¥ ø), D (fail) (” ¥ ø) and E (not applicable, referring to such projects which are not approved or are agreed not to be provided at the discretion of health administrative departments after taking into consideration the functions and tasks of the hospital). The principle of the accreditation is that in order to attain grade B (good), the project must attain grade C (pass) first and meet the requirements under grade B (good) and in order to attain grade A (outstanding), the project must attain grade B (good) first and meet the requirements under grade A (outstanding). The Implementing Rules Regarding the Accreditation Standard of Psychiatric Hospitals of Grade III (2011) has 7(d)-589.3(has)-544.7(d(has)-51628.9(c)213.df 200-59-5

Policy Regarding Anti-corruption and Anti-commercial Bribery

The governmental departments of China have formulated the relevant laws and regulations for standardizing the anti-corruption and anti-commercial bribery in medical treatment and health industry. In accordance with theCode of Conduct for Practitioners in Medical Institutions (• < Ú ô } 8 [p ‰ • Í ‘), the practitioners in medical institutions should perform their duties honestly, be self-disciplined and abide by medical ethics. They develop and expand medical ethics. They are strictly self-discipline and do not ask for or illegally receive any property from patients. They do not make improper benefits by utilizing the convenience of their positions. They do not receive such rebates or commissions, in various form or titles, offered by personnel in production or operating an enterprise in respect of medical equipment and machinery, pharmaceuticals, chemical agents and others. They do not participate in such operational entertainment arranged, organized or paid by such personnel. They do not gain or acquire the basic medical protection fund by cheating, or they do not provide others with convenience for cheating or acquiring. They do not violate the laws by participating in advertisement for medical treatment and marketing and promotion of pharmaceuticals and machinery for medical treatment. They do not resell the registration number for treatment at a profit.

In accordance with theNotice on Printing and Distributing of the •Nine ProhibitionsŽ for Strengthening Ethical Conduct in the Healthcare Industry(• ë õ ™ ï v < [, £ • X ” X Ž Y ·] ‘) promulgated and implemented by the National Health and Family Planning Commission and the State Administration of Traditional Chinese Medicine on December 26, 2013, medical institutions are required to implement the policy of the •Nine ProhibitionsŽ (• X ” X Ž), including that it is prohibited to link the personal income of medical health personnel with the income of medical examination; it is prohibited to issue a bill by deducting a commission; it is prohibited to receive charges by violating laws; it is prohibited to receive donations and subsidy from the society by violating laws; it is prohibited to participate in marketing activities and illegally release advertisements for medical treatment; it is prohibited to be the party system with commercial aims; it is prohibited to privately purchase and use pharmaceutical products in violation of laws; it is prohibited to receive rebates; it is prohibited to receive •red packetsŽ from patients. As for those medical and health institutions which are in violation of the •Nine ProhibitionsŽ, the health and family planning administrative departments shall handle the case by issuing criticism to, requesting rectification within a time frame, lowering the level or degrading such institution, pursuant to the seriousness of the case. Should administrative punishment be inflicted to such institutions, warnings, orders to suspend the business should be granted to such institutions and even the revocation of the business licenses of such institutions would be made. As for those healthcare staff who are in violation of the •Nine ProhibitionsŽ, such staff shall receive criticism and education from all units or shall have their good results of medical performance appraisal for the current year to be cancelled, or have their salary cut, or have their employment being suspended, or shall be dismissed and wait to be hired, or shall be dismissed. In the event of serious cases, the health and family planning administrative departments shall order such institutions to suspend their business operations or revoke their business licenses or give other punishment. In the event of a suspected criminal case, such case shall be referred to a judicial organ for legal processing.

In accordance with the Implementing Opinions of the Ministry of Health and the State Administration of Traditional Chinese Medicine on the Launching of Specialized Compliance Project Regarding Commercial Bribery in Respect of the Procurement of Medicines [Å e 7 • • < ¹ M # … ë õ š • 7 # < ¹ … V ï 9 8 ! $ Y ° ˆ * Y ¼ D ‘) promulgated and implemented by the National Health and Family Planning Commission and the State Administration of Traditional Chinese Medicine on April 21, 2006 and the Notice of the Ministry of Health on Issuing the Provisions on the Establishment of Commercial Bribery Records in the Purchase and Sale of Medicines ë õ m < ¹ … V ï 9 8 ! $ ” ¾ } Y • › ‘) promulgated and implemented by the National Health and Family Planning Commission on December 25, 2013, the key points of launching specialized compliance projects regarding commercial bribery in respect of the procurement of medicines are: (1) the act of the leaders and the relevant personnel of medical institutions of receiving such property or rebate granted by the manufacturing and business enterprises and their marketing and sales

Interim Measures for the Administration of Medical Insurance Designated Medical Institutions and the Provision of Basic Medical Insurance for Urban Employees

According to The Interim Measures for the Administration of Medical Insurance Designated Medical Institutionsand the Provision of Basic Medical Insurance for Urban Employees, which were jointly promulgated by Ministry of Labor and Social Security (currently known as •Ministry of Human Resources and Social Security), National Health and Family Planning Commission, State Administration of Traditional Chinese Medicine and implemented on May 11, 1999, Medical Insurance Designated Medical Institution, which provide basic medical insurance for urban employees, shall be reviewed by the labor security administration department in a coordinating district and recognized by social insurance agencies. Qualifying Certificate as a Medical Insurance Designated Medical Institution shall be issued upon examination and approval by the aforesaid authorities.

Reform on Price of Medicine

Notice of Issuing Opinions on Reforming the Price Formation System of Medicine and Medical Services

According to the Notice on Issuing Opinions on Reforming the Price Formation System of Medicine and Medical Services promulgated and implemented on November 9, 2009 by the National Development and Reform Commission, the National Health and Family Planning Commission and the Ministry of Human Resources and Social Security, the following major opinions have been made in respect of reforming the price formation system of medicine and medical services: (i) Reform of the Management on the Price of Medicine. The classified management shall be imposed on the medicine. In particular, the department in charge of prices under the State Council shall take charge of formulating policy, principle and method for pricing the medicine, as well as fixing prices of the national essential drugs, the prescribed drugs of the drugs for the national essential medical security, and the special medicine the production and operation of which are with monopolized nature. All provincial, autonomous and municipal departments in charge of prices shall, in accordance with the national unified

method for medical services to enhance the guidance and coordination for the local formulation of medical service prices. The guiding prices for the essential medical services shall be formulated by the provincial or the municipal competent price department together with the National Health and Family Planning Commission and the Ministry of Human Resources and Social Security at the same grade.

Medicine Prices

Notice of Issuing the Opinions on Pushing Forward the Reform on Medicine Prices by the National Development and Reform Commission and other Departments

According to the Notice of Issuing the Opinions on Pushing Forward the Reform on Medicine Prices by the National Development and Reform Commission and other Departments promulgated by the National Development and Reform Commission, the National Health and Family Planning Commission, the Ministry of Human Resources and Social Security, the Ministry of Industry and Information Technology, the Ministry of Commerce and the China Food and Drug Administration on May 4, 2015 and implemented on June 1, 2015, apart from the anesthetics and the first class psychoactive drugs, the former prices of medicine formulated by the government are cancelled. As for the anesthetics and the first class psychoactive drugs, the National Development and Reform Commission shall still tentatively implement the management of the highest ex-works prices and the highest retail prices. As pointed out in the opinions, the Medical Insurance Department and the related departments shall jointly draw up the procedure, basis and methods and other rules for formulating the payment standard for the medicine under medical insurance, explore and establish the mechanism to guide the reasonable price formation for the medicine paid by the Medical Insurance Fund.

Relevant Stipulations of Price Reform for Public Hospitals

Opinions on the Pilot Comprehensive Reform of Public Hospitals at County Level promulgated and implemented by the General Office of the State Council on June 7, 2012, and Notice of the National Development and Reform Commission, the Ministry of Health, and the Ministry of Human Resources and Social Security on Promoting Medicine Price Reform in Public Hospitals at County Level promulgated and implemented by the National Development and Reform Commission, the National Health and Family Planning Commission, the Ministry of Human Resources and Social Security on September 3, 2012, advocate certain measures for promoting the pilot reform on public hospitals at county level, including the reform on the compensation system for the medical cost through drug-selling profits and the cancellation of the price mark-up of medicine. The decrease in the reasonable revenue of the hospital shall be compensated by adjusting the prices of medical technical services and increasing the government commitment etc. The standards for diagnosis charges, surgery charges and nursing charges shall be raised and the medical technical service fees shall be included in the scope of medical insurance payment policy, coupled with the promoting reform on the means of payment for medical insurance payment. The price adjustment is in line with the payment policy of medical insurance.

Guiding Opinions of the Price Bureau of Zhejiang Province on the Comprehensive Promotion of the Price Reform on the Medicine of Public Hospitals at County Level

Municipality (• Ó Ç 9 $ t ® m < ë] ¥ · ' Ã Ù é ‘) promulgated and implemented by the People•s Government of Chengdu Municipality on June 13, 2014, all public hospitals at the county level for Chengdu in its entirety shall completely implement the cancellation of medicine markups, adjust the prices for medical services and among such prices, the enhanced portion of the consultation and examination fees (holistic diagnosis and treatment fee for traditional Chinese medicine) regarding outpatient or emergency clinics, inpatient consultation and examination fees (holistic diagnosis and treatment fee for traditional Chinese medicine) and nursing fees shall be incorporated into the scope of the overall pooling funds for medical insurance. In accordance with the Notice of the Provincial Health and Family Planning Commission Regarding the Implementation Plan of the General Reform of Public Hospitals at the County Level of Sichuan Province Referred by the General Office of the People•s Government of Sichuan Province (Chuan Ban Fa [2014] No. 69) (• , ‡ ² [O A ´ l ® B 7 ï ² [[‰ Å ˜ , ‡ ² $ t ® m < ë] ¥ · ' ¼ D Ù é Y ·] ‘ (‡ l ï [2014]69 î)) promulgated and implemented by the People•s Government of Sichuan Province on August 7, 2014, it is stipulated in the Plan of the General Reform of Public Hospitals of Sichuan Province that: (1) the cancellation of medicine markups is consolidated; (2) the price of medical services shall be rationalized; the prices of the items regarding medical examination, surgery, nursing, bed and Chinese medicine shall be enhanced in appropriate manner; the prices of medicine and high-valued consumables, and the prices of examination using large medical equipment, treatment, laboratory and examination shall be reduced; the price adjustment policy is linked with the policy regarding medical insurance payment; the charges for the items of medical services upon adjustment shall be incorporated in the scope of medical insurance payment pursuant to the stipulations.

In accordance with Shenzhen Municipality•s Implementation Plan for Public Hospitals• Reform on the Separation of Medical Treatment and Medicine Sales (s• - 9 ® m < ë < ¹ ± š · ' ¼ D Ù é ‘) promulgated and implemented by the People•s Government of Shenzhen Municipality on June 7, 2012, it is stipulated in Shenzhen Municipality•s Implementation Plan for Public Hospital•s Reform on the Separation of Medical Treatment and Medicine Sales that: (1) the medicine markups are cancelled. (2) The compensation mechanism of public hospitals is improved and perfected. The charging standard regarding diagnosis and treatment services are raised by levels. The insurance package regarding the medical treatment of the insured is enhanced. In accordance with the Work Plan Regarding the Trial Points for the Reform on the Separation of Medical Treatment and Medicine Sales of Public Hospitals at the county level of Guangdong Province (Yue Jia Han [2013] No. 590) (• ? ² $ t ® m < ë < ¹ ø · ' Ã ^ * Ù é ‘ (½ L [2013]590 î)) promulgated and implemented by the Price Control Administration of Guangdong Province, the Guangdong Provincial Health Department, Guangdong Provincial Department of Human Resources and Social Security and Department of Finance of Guangdong Province on May 30, 2013, it is stipulated in the Reform on the Separation of Medical Treatment and Medicine Sales of Public Hospitals at the county level of Guangdong Province that: (1) public hospitals at the county level shall sell medicine to patients with zero profit; (2) the prices of the items related to medical technology and services including examination fee, nursing, treatment fee, surgery fee and Chinese medicine are enhanced in reasonable manner.

insurance shall, in compliance with the requirements of the reform on the means of payment for medical insurance, identify the specific means and standard of payment with the designated non-public medical institutions through negotiation to increase the application efficiency of the fund.

Guiding Price Catalog for Medical Services

On May 4, 2012, the National Development and Reform Commission, the National Health and Family Planning Commission and the State Administration of Traditional Chinese Medicine promulgated the Notice Concerning the Standardization of Price Management for Medical Services and Related Issues and announced the National Medical Services Price Project Standardization (2012 Version). The price projects of medical services announced by the project standardization shall be the basis of the costs charged by the various classes and types of NMIs for their medical services. Those project charges requiring merger or combination or the new medical service price projects shall be examined and approved by the provincial competent price department together with the departments including the health administration at the same grade.

On June 8, 2005, the Price Bureau of Zhejiang Province and the Zhejiang Health Department (currently known as •Zhejiang Health and Family Planning CommissionŽ, hereinafter referred to as the •Zhejiang HKPCŽ) promulgated the Prices (interim) of Medical Services in Zhejiang Province which stipulated the government guiding prices for the medical services in Zhejiang Province. All classes of medical institutions shall execute the corresponding prices stipulated in the said catalog. The appropriate downward price adjustment shall be permitted but no upward price adjustment shall be permitted. The Price Bureau of Zhejiang Province and the Health and Family Planning Commission of Zhejiang

Guidelines on Standardization of Basic Medical Insurance Medicine Catalogue and Treatment Programs and Service Facilities launched by Beijing Municipal Bureau of Labor and Social Security on March 21, 2003 covers into 4 main categories, namely general medical services, medical diagnosis and treatment by technology, clinical diagnosis and treatment, Chinese medicine and ethnomedicine, applicable to such medical services programs offered by designated medical institutions within the coverage of the basic medical insurance for the insured in Beijing Municipality. Medical services programs not included shall be reported by designated medical institutions in accordance with relevant requirements if they are intended to be incorporated into the list of programs covered by the medical insurance fund and the incorporation shall be subject to examination and approval.

The List of Treatment Programs Covered by Basic Medical Insurance of Sichuan Province promulgated by The Labor and Social Security Department of Sichuan Province, Sichuan Provincial Department of Finance, Sichuan Provincial Department of Health, Sichuan Provincial Price Bureau and Administration of Traditional Chinese Medicine of Sichuan on May 25, 2005 determines using the elimination method treatment programs not covered by the basic medical insurance and those covered in part. In the case that the medical program that the insured undergoes for treatment at the designated medical institutions is not covered by the basic medical insurance, the treatment costs incurred will not be indemnified by the insurance. In the event that the program is covered in part by the basic medical insurance, after the insured has paid the required proportion out-of-pocket, the remaining portion shall be paid in accordance with the requirements under the basic medical insurance. The payment for treatment programs not included in *The List of Treatment Programs Covered by Basic Medical Insurance of Sichuan Province* shall be paid in accordance with the requirements under the basic medical insurance.

Treatment Programs Covered by Urban Employee Basic Medical Insurance Scheme of Guangdong Province promulgated by the Guangdong Provincial Department of Labor and Social Security on December 6, 2000 sets out using the elimination method *The List of Treatment Programs Not Covered by Basic Medical Insurance* and *The List of Treatment Programs Covered Partly by Basic Medical Insurance*. If the treatment costs that the insured incurs in a treatment program do not fall within the coverage of basic medical insurance under *Treatment Programs Not Covered by Basic Medical Insurance*, the costs will not be indemnified by the basic medical insurance. For the treatment programs that fall within such coverage under *Treatment Programs Covered Partly by Basic Medical Insurance*, after the insured has paid the required proportion out-of-pocket, the remaining portion shall be paid in accordance with the requirements under the basic medical insurance. The coordinating local labor and social security department shall determine a suitable proportion for out-of-pocket payments after taking into account the economic development level and the affordability of the insured in that region. In principle, the percentage shall be within 10% - 30% of the costs incurred in the treatment program.

Rules on the Supervision over Pharmaceuticals in Medical Institutions

Drug Control Law of PRC and its Implementing Rules• and Measures for Supervision and Administration of Drugs of Medical Institutions (For Trial Implementation)

According to Drug Control Law of PRC, which was promulgated by Standing Committee on September 20, 1984 and amended on February 28, 2001, December 28, 2013 and April 24, 2015, Regulations for the Implementation of the Drug Administration Lawwhich was promulgated by State Council on August 4, 2002 and came into effect on September 15, 2002, and Measures for Supervision and Administration of Drugs of Medical Institutions (For Trial Implementation), which was promulgated by China Food and Drug Administration and came into effect on October 11, 2011, medical institutions must purchase drugs from enterprises qualified to produce and deal in drugs. Drugs used by medical institutions must be purchased uniformly by special departments in accordance with the provisions, and other departments and medical staff members of medical institutions are forbidden to purchase drugs on their own.

Regulations on Control of Narcotic Drugs and Psychotropic Substances

According to Regulations on Control of Narcotic Drugs and Psychotropic Substances, which were promulgated by the State Council on August 3, 2005 and revised on December 7, 2013, where a medical institution needs to use any narcotic drug or Class I psychotropic substance, it shall, upon approval by the competent health department, obtain the Seal Card for Purchasing and Using Narcotic Drugs and Class I Psychotropic Substances (hereinafter referred to as •the Seal CardŽ). The medical institution shall, on the strength of the Seal Card, purchase the narcotic drugs or Class I psychotropic substances from a designated wholesaler within the administrative area of the province, autonomous region, or municipality directly under the Central Government.

Rules on Medical Equipment and Treatment Provided by Medical Institutions

Administrative Measures on the Radiotherapy

According to the Administrative Measures on the Radiotherapy, which were promulgated by the National Health and Family Planning Commission on January 24, 2006 and came into effect on March 1, 2006, medical institutions engaged in the radiodiagnosis and radiotherapy shall be equipped with the conditions required for conducting radiodiagnosis and radiotherapy, and apply for the License for Radiotherapy issued by the competent public health administrative authorities. After obtaining the License for Radiotherapy, medical institution shall undertake registration of the relevant diagnosis and treatment subject with health administrative and registration authorities, which issued the Practice Permits for Medical Institutions. Medical institutions shall not conduct radiodiagnosis and radiotherapy if failing in obtaining License for Radiotherapy or not registering the diagnosis and treatment subject.

Regulations on Safety and Protection of Radioisotopes and Radiation-emitting Devices• and Measures for Administration of the Safety Licensing of Radioactive Isotopes and Radioactive Equipment

According to Regulations on Safety and Protection of Radioisotopes and Radiation-emitting Devices, which were promulgated by the State Council on September 14, 2005 and revised on July 29, 2014, and Measures for Administration of the Safety Licensing of Radioactive Isotopes and Radioactive Equipment, which were promulgated by Ministry of Environmental Protection on January 18, 2006 and revised on December 6, 2008, any unit which conducts activities of production, sale, and use of radioactive isotopes and radial equipment within the territory of PRC shall obtain the Radiation Safety Licenses in accordance with the provisions of the Measures.

Administrative Measures on the Deployment and Use of Large Medical Equipment

The Administrative Measures on the Deployment and Use of Large Medical Equipment, which were jointly promulgated by National Health and Family Planning Commission, National Development and Reform Commission and Ministry of Finance on December 31, 2004 and came into effect on March 1, 2005, provide that the management of large medical equipment is subject to allocation planning and License for the Deployment 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 above RMB5 million. Medical institutions that wish to purchase large medical equipment must 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. Mount guard of the large medical equipment (including doctors, operation staff, engineers and technicians and etc.) shall accept job training and obtain corresponding operating qualifications.

The Law of the People•s Republic of China on Maternal and Infant Healthcare, its Implementation Measures and Management Measures of Special Technology Services Licensing and Personnel Qualification of Maternal and Infant Care

According to the Law of PRC on Maternal and Infant Healthcare, which was promulgated by the Standing Committee and came into effect on October 27, 1994 and revised on August 27, 2009, and its Implementation Measures, which were promulgated by the State Council and came into effect on June 20, 2001, and Management Measures of Special Technology Services Licensing and Personnel Qualification of Maternal and Infant Care, which was promulgated by the National Health and Family Planning Commission and came into effect on August 7, 1995, medical and healthcare institutions engaged in pre-marital medical examination, genetic disease diagnosis, prenatal diagnosis, ligature operations or operations for termination of gestation shall be licensed by the relevant local administrative department of public health of the people•s government and obtain License of Maternal and Infant Health Care Technology Services.

Interim Provisions of Management of Physical Examination

According to Interim Provisions of Management of Physical Examination, which was promulgated by National Health and Family Planning Commission on August 5, 2009 and came into effect on September 1, 2009, when medical institutions apply to registration authority, which proved and issued Practice Permits for Medical Institutions to them, for

Rules on Medical Advertisement

Measures on Medical Advertisement Administration

According to Measures on Medical Advertisement Administration, which were promulgated by the State Administration of Industry and Commerce and National Health and Family Planning Commission on November 10, 2006 and came into effect on January 1, 2007, any medical institution that intends to publish any medical advertisement shall apply for medical advertisement examination to health administrative departments and administrative departments for traditional Chinese medicine prior to its publication, and obtain Medical Advertisement Examination Certification. The Medical Advertisement Examination Certification shall be valid for one year.

Rules on Medical and Nursing Personnel of Medical Institutions

Licensed Doctors

According to the Law on Medical Practitioners of PRC, which was promulgated by the Standing Committee of the National People•s Congress on June 26, 1998 and revised on August 27, 2009, the Interim Measures of Physician Practice Registration, which was promulgated by the NHFPC Planning Commission and came into effect on July 16, 1999, and the Tentative Provisions on the Scope of Practice in Relation to the Practice and Registration of Medical Practitioners promulgated and implemented by the NHFPC and the State Administration of Traditional Chinese Medicine on June 20, 2001, the State applies the system of registration for licensed doctors. Anyone who has obtained the qualifications of a licensed doctor or a licensed assistant doctor, upon registration with and obtaining the Doctor•s Practicing Certificate from corresponding health administration department, may conduct medical treatment, disease-prevention or healthcare related work at the places, for the areas of practice and within the scopes of practice as registered. No one may work as a doctor without a doctor•s license obtained through registration. Areas of practice refer to clinical medicine, Chinese medicine (including Chinese medicine, ethnomedicine and integrated Chinese-Western medicine), dental medicine and public health, whereas the scope of practice encompasses that for clinical medical practitioners, dental practitioners, public health practitioners and Chinese medical practitioners. The scope of practice for clinical medical practitioners includes mental health specialty. Medical practitioners shall not engage in professions other than those within the scope of practice for which they have registered.

On November 5, 2014, National Health and Family Planning Commission, National Development and Reform Commission, Ministry of Human Resources and Social Security, State Administration of Traditional Chinese Medicine, Insurance Regulatory Commission jointly promulgate Opinions on Promoting and Regulating Medical Practitioners• Practice with Different Medical Institutions (•the Opinions•). According to the Opinions, medical practitioners engaged in the practice of medicine, stomatology and Chinese Medicine may practice with different medical institutions (i.e., during the term of valid registration period, medical practitioners may practice in two or more than two medical institutions). Medical

practitioners• practice with different medical institutions shall be subject to registration management. However, where the medical practitioners are engaged in counterpart support between urban and rural hospitals, support at the grass-roots level, or practice among medical

special evaluation of the effects shall be made; or where the effects on the environment are very little and therefore it is not necessary to make an evaluation of them, a registration form of environmental effects should be filled out. The document for evaluation of the environmental effects of a construction project shall, in accordance with the regulations of the State Council, be submitted by the construction unit for examination and approval to the competent administrative department for environment protection.

According to Regulations on Administration of Environmental Protection Testing Acceptance on Completion of Construction Projects, which was promulgated by Ministry of Environmental Protection on December 27, 2001 and revised on December 22, 2010, upon the completion of a construction project, the construction unit shall apply with the competent administrative department of environmental protection for inspection and acceptance of the completed environmental protection of the construction project.

Regulations on the Management of Medical Waste, the Implementation Measures of the Management of Medical Waste

According to the Regulations on the Management of Medical Waste, which were promulgated by the State Council on June 16, 2003 and revised on January 8, 2001, and the Implementation Measures of the Management of Medical Waste, which were promulgated by National Health and Family Planning Commission on October 15, 2003 and came into effect on the same day, medical or health institution shall register medical wastes, manage medical wastes under classification and undertake management of duplicate forms for transfer of hazardous waste in accordance with the Catalogue of Classified Medical Wastes, and deliver medical wastes to a unit for centralized disposal of medical wastes and licensed by a relevant environment protection administrative department for dispose. Sewage generated by any health institution and excretion of its patients or suspected patients of infectious diseases shall be sterilized in strict accordance with the relevant provisions, and shall not be discharged into sewage disposal systems until the discharging standards are met.

The Administrative Measures on Licensing of Urban Drainage

The Administrative Measures on Licensing of Urban Drainage, which were promulgated by the Ministry of Housing and Urban-rural Development on January 22, 2015 and came into effect on March 1, 2015, provide that enterprises engaging in industry, construction, catering industry, medical industry and discharging sewage into the urban drainage network must apply for and obtain a License for Urban Drainage.

Rules on Pharmaceutical Distribution

Drug Control Law of the People•s Republic of China and its Implementing Rules

The Pharmaceutical Administration Law of PRC, which was promulgated by the Standing Committee on September 20, 1984 and amended on February 28, 2001, December 28, 2013 and April 24, 2015 sets forth the regulatory framework governing pharmaceutical manufacturers, pharmaceutical distributors, pharmacies in medical institutions, and the packaging, pricing advertising and the inspection of pharmaceuticals. The Pharmaceutical Administration Law also provides specific regulations on the relevant licenses and approvals

required for pharmaceutical manufacturing and related operating activities. The Regulations for the Implementation of the Pharmaceutical Administration Law of PRC, which were promulgated by the State Council on August 4, 2002 and came into effect on September 15, 2002, provide detailed implementing measures of the Pharmaceutical Administration Law.

Pursuant to the Pharmaceutical Administration Law and the Regulations for the Implementation of the Pharmaceutical Administration Law, the establishment of enterprises engaged in the pharmaceutical wholesale or retail business requires the approval of the relevant pharmaceutical regulatory departments, and such enterprises are required to obtain a Pharmaceutical Distribution Certificate. The term of validity of a Pharmaceutical Distribution Certificate is five years. Pharmaceutical distributors must keep authentic and complete records of the procurement and sales of pharmaceuticals. Medical institutions are subject to the examination and permission of the competent public health authorities in the dispensing of pharmaceutical preparations and must obtain the Pharmaceutical Preparation Certificate for Medical Institutions issued by the relevant pharmaceutical regulatory authorities.

Administrative Measures on the Supervision of the Distribution of Pharmaceutical Products

The Administrative Measures on the Supervision of the Distribution of Pharmaceutical Products, which were promulgated by China Food and Drug Administration on January 31, 2007 and came into effect on May 1, 2007, govern the procurement and sales of pharmaceutical products by pharmaceutical manufacturers and distribution enterprises as well as the procurement and storage of pharmaceutical products by medical institutions.

The Measures for the Classification and Administration of Prescription Pharmaceuticals and Non-prescription Pharmaceuticals (For Trial Implementation)

The Measures for the Classification and Administration of Prescription Pharmaceuticals and Non-prescription Pharmaceuticals (For Trial Implementation), which were promulgated by China Food and Drug Administration on June 18, 1999 and came into effect on January 1, 2000, set forth different systems for the control over prescription and non-prescription drugs. Prescription pharmaceuticals can only be dispensed, purchased and used after acquiring prescriptions dispensed by licensed physicians or licensed associate physicians. Non-prescription pharmaceuticals can be purchased and used at discretion without acquiring prescriptions dispensed by licensed physicians or licensed associate physicians. Medical institutions can decide or recommend the use of non-prescription pharmaceuticals with regard to medical necessary.

Regulations on Centralized Pharmaceutical Procurement by Medical Institutions

The Opinions on Further Regulating Centralized Pharmaceutical Procurement by Medical Institutions and the Interpretations of Issues Related to the Opinions on Further Regulating Centralized Pharmaceutical Procurement by Medical Institutions, which were jointly promulgated by the National Health and Family Planning Commission and other five departments on January 17, 2009 and June 19, 2009, respectively, as well as the Standards of Centralized Pharmaceutical Procurement Work for Medical Institutions, jointly promulgated by the National Health and Family Planning Commission and other six departments on July 7,

2010, stipulate that Medical institutions of other forms, such as for-profit medical institutions, are encouraged to participate in the centralized pharmaceutical procurement

the activities that such units engage in and be registered in accordance with relevant requirements. Such private non-enterprises units may not engage in profit-making operational activities, and the income legally obtained from activities provided in the Articles of Association in compliance with the relevant requirements stipulated by the national government shall only be used in activities provided therein.

RULES ON FOREIGN INVESTMENTS

Industry Catalog for Guiding Foreign Investment and Interim Provisions Guiding Foreign Investment Direction

According to the Industry Catalog for Guiding Foreign Investment (2015 Revised Version) (the •Industry CatalogŽ), which was jointly promulgated by the National Development and

Further Encouraging and Guiding Social Capital in Setup of Medical Facilities

According to the Opinions on Further Encouraging and Guiding Social Capital in Setup of Medical Facilities, Overseas medical facilities, enterprises and other economic organizations are permitted to establish medical facilities together with domestic medical facilities, enterprises or other economic organizations in the form of equity or cooperation joint venture, and the restrictions on equity proportion for overseas capital will be gradually removed.

Impact of Rules on Foreign Investments on our Group

As advised by Tian Yuan Law Firm, our PRC legal advisors, the Industry Catalog and the Interim Measures are not expected to have a material impact on our Group. According to Tian Yuan Law Firm, medical institutions are listed under the •restricted projectsŽ category for foreign investment, meaning that foreign investment in medical institutions is restricted to Sino-foreign equity joint venture or cooperative joint venture, though the Industry Catalog is silent on the maximum percentage ownership permitted to foreign investors. In this regard, the Interim Measures provide that the equity ownership in a Sino-foreign joint venture held by the foreign partner shall not exceed 70%. Tian Yuan Law Firm is of the view that because (i) as of the date of this Prospectus, our Company and each of our subsidiaries, which together own all of our current and pipeline healthcare facilities, is incorporated under the laws of the PRC, and (ii) prior to the Global Offering, each shareholder of our Company and of each of our subsidiaries is a PRC individual or an entity incorporated under the laws of the PRC, we are currently in compliance with the Industry Catalog and the Interim Measures. Tian Yuan Law

health education for workers, guard against labor accidents and reduce occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide workers with labor safety and health conditions stipulated under national regulations and necessary labor protection equipment, as well as regular health checks for workers that are engaged in operations with occupational hazards. Workers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. An employer must establish a vocational training system. Vocational training funds must be withdrew and used in accordance with national regulations and vocational training for workers must be carried out in a planned way based on the actual conditions of the employer.

Labor Contract Law of PRC

The Labor Contract Law of PRC, which was promulgated by the Standing Committee on June 29, 2007, came into effect on January 1, 2008, and amended on December 28, 2012, and the Implementation Regulations on Labor Contract Law, which were promulgated and came into effect on September 18, 2008, 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 employee after reaching an agreement upon due negotiations with the employee or by fulfilling the statutory conditions.

Social Security and Housing Funds

According to applicable laws and regulations, including the Law on Social Insurance of PRC, which was promulgated by the Standing Committee on October 28, 2010 and came into effect on July 1, 2011, the Regulations on the Administration of Housing Provident Fund, which were promulgated by the State Council and came into effective on March 24, 2002, workers shall participate in basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance and shall pay and deposit housing funds. An employing entity shall undertake social insurance registration and registration of payment and deposit of the housing provident fund; shall pay work-related injury insurance premiums and maternity insurance premiums, and shall pay and deposit housing funds for workers. The basic pension insurance premiums, basic medical insurance premiums and unemployment insurance premiums shall be paid jointly by the employing entities and the workers. If an employing entity does not pay the full amount of social insurance premiums and housing funds as scheduled, it may be ordered to make the payment or make up the difference within the stipulated period and imposed a fine of the overdue payment.

LEGAL SUPERVISION ON TAXATION IN THE PRC

Enterprise Income Tax

The Enterprise Income Tax Law, which was promulgated by the National People's Congress on March 16, 2007 and came into effect on January 1, 2008, and its Implementation Regulations, which were promulgated by the State Council on December 6, 2007 and came into effect on January 1, 2008, stipulate that the rate of enterprise income tax is 25%.

Business Tax

The Temporary Regulations on Business Tax, which were promulgated by the State Council on December 13, 1993, amended on November 10, 2008 and came into effect on January 1, 2009, provide that entities and individuals must pay business tax if they are engaged in the provision of services as prescribed in the Schedule of Items and Rates of Business Tax, transfer of intangible assets or sale of real estate. Healthcare services provided by hospitals, clinics and other medical institutions are exempt from business tax.

Value-added Tax

The Temporary Regulations on Value-added Tax of PRC, which were promulgated by the State Council on December 13, 1993, amended on November 10, 2008, and came into effect on January 1, 2009 and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax of PRC, which were promulgated by the Ministry of Finance and became effective on December 25, 1993, amended on December 15, 2008 and October 28, 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. For small-scale taxpayers engaged in selling goods or taxable services, a simplified method for the calculation of tax payable according to the sales volume and the rate leviable shall apply, the rate leviable on small-scale taxpayers is 3 percent.

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax, which were promulgated by the Ministry of Finance and the State Administration of Taxation, the government launched gradual taxation reforms starting from January 1, 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.

NOT-FOR-PROFIT ORGANIZATIONS

As advised by our PRC legal advisors, the not-for-profit organizations are private non-enterprise units established under the Provisional Regulations on Registration and Management for Private Non-Enterprise Units (O l ¢ † 8 î ¾ M # r â 7) (• Provisional Regulations on Private Non-Enterprise Units) for the provision of not-for-profit social welfare services, and theythether01-(the)-290-oa.

OUR HISTORY

Our histor can be traced back to 1996 hen our Compan as established as a joint stock cooperative enterprise in the PRC on Februar 7, 1996 b Mr. Guan Weili (**M . G an**), Ms. Wang Hong ue, Mr. Wang Xianjing (**M . Wang**) (the brother of Ms. Wang Hong ue and the brother-in-la of Mr. Guan) and Mr. Xia Aiguang (**M . Xia**) ho is independent from Mr. Guan, Ms. Wang Hong ue and Mr. Wang, and the found our Compan ith their o n financial resources. For details of Mr. Guan and Ms. Wang Hong ue, please refer to the section Directors, Supervisors and Senior Management of this Prospectus. We commenced our business primaril for the provision of ps chiatric care speciali ing in ps chiatric and mental health in Wen hou, Zhejiang province in 1996. On December 19, 2011, our Compan as converted into a limited liabilit compan under the PRC Compan La , and as then converted into a joint stock limited compan on October 15, 2014.

OUR MILESTONES

The follo ing sets forth the ke milestones of our Group since 1996:

Yea	Mile one
1996	Our Compan as established in Wen hou, Zhejiang province and commenced business under the name of Wen hou Kangning Mental Convalescent Hospital ( ] È 9 p ¹ Z Z p B < ë) primaril for the provision of ps chiatric medical treatment.
1998	Our Compan relocated to our first self-built and self-o ned building.
2004	Our Compan became one of the first batches of hospitals hich as a arded the Exemplar Hospitals Relied Upon b People Across the Nation (Œ 7 õ ‘ ó Ð j Í < ë).
	Our Compan as renamed as Wen hou Kangning Hospital ( ] È p ¹ < ë).
2006	Our Compan as recogni ed as a Grade B Class III ps chiatric hospital.
2011	Our first subsidiar , Qingtian Kangning, commenced business primaril for the provision of ps chiatric medical treatment.
	The ps chiatric department of our Compan as listed as one of the Ke National Hospital for Speciali ed Clinical Ps chiatr (7 • W ‘ Ã Y Å £ (Z Z Å)).
	Our Compan as converted into a limited liabilit compan and renamed as Wen hou Kangning Hospital Limited ( ] È p ¹ < ë Þ " ® !).

Year	Milestone
2012	€ Our Company established Cangnan Kangning, and commenced business primarily for the provision of psychiatric medical treatment.
	€ Our Company established Yongjia Kangning, and commenced businesses primarily for the provision of psychiatric medical treatment.
2013	€ Our Company established Yueqing Kangning, and commenced businesses primarily for the provision of psychiatric medical treatment.
	€ Our Company was recognized as a Grade A Class III psychiatric hospital.
2014	€ Our Company was converted into a joint stock limited company and was renamed as Wenzhou Kangning Hospital Co., Ltd. (Ê p ¹ < ë p … Þ " ® !).
2015	€ Our Company launched the entrustment management operational model with Yanjiao Furen Hospital.

OUR CORPORATE DEVELOPMENT

Background

In February 1996, our Company was established as a joint stock cooperative enterprise with a registered capital of RMB6.0 million, divided into 1,200 shares with a nominal value of RMB5,000 each, held as to 36% by Mr. Guan, 27% by Mr. Wang, 27% by Mr. Xia and 10% by Ms. Wang Hongyue.

In December 2009, Mr. Xia entered into agreements to transfer 10% and 17% of his equity interest in our Company to Ms. Wang Hongyue and Mr. Guan for a consideration of RMB600,000 and RMB1,020,000, respectively. The considerations were determined with reference to the then registered capital of our Company, and were settled on January 18, 2010. In addition, in December 2009, Mr. Wang entered into agreements to transfer 7% and 20% of his equity interest in our Company to Mr. Guan and Ms. Wang Lianyue for a consideration of RMB420,000 and RMB1,200,000, respectively. The considerations were determined with reference to the then registered capital of our Company, and were settled on January 18, 2010. As a result of the above transfers, our Company was held as to 60% by Mr. Guan, 20% by Ms. Wang Hongyue and 20% by Ms. Wang Lianyue.

In August 2010, our Company increased its registered capital from RMB6.0 million to RMB20.0 million and was subscribed by the then Shareholders on the basis of their respective shareholding by way of cash.

In December 2011, our Company was converted into a limited liability company under the PRC laws.

In March 2013 and April 2013, Defu Fund, Beijing CDH Wei*in and Beijing CDH Weisen (Beijing CDH Wei*in and Beijing CDH Weisen collectivel referred to as **Beijing CDH**), hich are independent third parties, made the first round of investment in our

Renai Kangning held 19,810,250, 15,384,541, 5,304,350, 3,794,500, 3,838,754, 2,667,605, 1,543,000, 258,000 and 199,000 Domestic Shares, representing approximately 37.52%, 29.14%, 10.05%, 7.19%, 7.27%, 5.05%, 2.92%, 0.49% and 0.38%, of the then equity interest in our Company, respectively.

As advised by our PRC legal advisors, each of the abovementioned changes in the shareholding structure of our Company was legally and properly completed and settled and complied with all applicable laws and regulations of the PRC. We have obtained all necessary approvals, permits, licenses, authorizations and consents from the relevant PRC governmental authorities with respect to such changes and such approvals, permits, licenses, authorizations and consents are valid, current, subsisting and irrevocable.

OUR PRINCIPAL SUBSIDIARIES

Qingtian Kangning

On April 1, 2011, Qingtian Kangning, a wholly-owned subsidiary of our Company, was established in the PRC with a registered capital of RMB1,000,000. The principal business of Qingtian Kangning is for the provision of psychiatric medical treatment and it commenced its business in April 2011.

Cangnan Kangning

On June 15, 2012, Cangnan Kangning, a wholly-owned subsidiary of our Company, was established in the PRC with a registered capital of RMB1,000,000. The principal business of Cangnan Kangning is for the provision of psychiatric medical treatment and it commenced its business in June 2012.

Yongjia Kangning

On December 12, 2012, Yongjia Kangning, a wholly-owned subsidiary of our Company, was established in the PRC with a registered capital of RMB1,000,000. The principal business activity of Yongjia Kangning is for the provision of psychiatric medical treatment and it commenced its business in December 2012.

Yueqing Kangning

On September 3, 2013, Yueqing Kangning, a wholly-owned subsidiary of our Company, was established in the PRC with a registered capital of RMB1,000,000. The principal business of Yueqing Kangning is for the provision of psychiatric medical treatment and it commenced its business in September 2013.

Judicial Appraisal Institution

On June 16, 2006, the Judicial Appraisal Institution, fully sponsored by our Company, was established in the PRC with a capital of RMB500,000. The principal business of the

Judicial appraisal institutions are mainly governed under the Judicial Appraisal Institution Registration and Management Law (! ,8ž › Ú ô î ¾ M # l ,) (the •JAI Law Ž), and it does not provide any rules on internal organization measures of the judicial appraisal institutions. As advised by our PRC legal advisors, the internal organization measures of the judicial appraisal institutions are governed by their articles of association which are required to be registered with the relevant PRC authority.

The committee of the Judicial Appraisal Institution (•JAI CommitteeŽ) is responsible for deciding all the major issues of the Judicial Appraisal Institution and is established under its articles of association (•JAI Articles Ž). As advised by our PRC legal advisors, based on the JAI Articles, the members of the JAI Committee shall consist of judicial appraisal practitioners.

The rights of the JAI Committee include the formulation and amendment of the JAI Articles, review of the financial budget and accounts and the approval of major expenditures, etc. The JAI Articles do not provide for any obligations of the JAI Committee. The JAI Committee can only convene a meeting when there are two-thirds or more of the judicial appraisal practitioners. The JAI Committee is the highest authority of the Judicial Appraisal Institution and is not subject to any reporting duty within the JAI.

The members of the JAI Committee consist of Mr. Gong Benhong, Mr. Tang Wei, Mr. Li Fangmin, Mr. Liu Wenguang, Mr. Chen Yuanling, Mr. Ye Minjie and Ms. Liu Linjing. As the members of the JAI Committee declared and agreed to vote in accordance with the instructions of our Company since September 23, 2014, our Company•s reporting accountants, PricewaterhouseCoopers, are of the view that the Judicial Appraisal Institution is considered as a wholly-owned subsidiary of our Company.

Shenzhen Yining

On September 22, 2014, Shenzhen Yining, a non-wholly-owned subsidiary of our Company, was established in the PRC with the registered share capital of RMB10,000,000. At the time of its establishment, our Company owned 70% equity interest in Shenzhen Yining and Shenzhenshi Yidi Investment Co., Ltd. (- 9 < Y ³ Þ " ® !) (•Shenzhenshi Yidi Ž), an independent third party, owned 30% of the equity interest in Shenzhen Yining. On June 16, 2015, Shenzhen Yining, our Company, Shenzhenshi Yidi and Shenzhen Dongwu Investment Group Co., Ltd. (- N ³ « Þ " ® !) (•Shenzhen Dongwu Ž) (an independent third party) entered into a capital increase agreement in respect of an increase in the registered capital of Shenzhen Yining for an amount of RMB40 million (the •Capital Increase AgreementŽ). Pursuant to the Capital Increase Agreement, our Company, Shenzhenshi Yidi and Shenzhen Dongwu further contributed RMB19 million, RMB9 million and RMB12 million to the registered capital of Shenzhen Yining, respectively. The above capital increase was completed on July 16, 2015, and the registered capital of Shenzhen Yining was increased from RMB10 million to RMB50 million and is held as to 52%, 24% and 24% by our Company, Shenzhenshi Yidi and Shenzhen Dongwu, respectively. Our Company entered into a share transfer agreement dated October 22, 2015 with Yining Investment to transfer the 52% equity interest held by our Company in Shenzhen Yining to Yining Investment for a consideration of RMB10.4 million. Shenzhen Yining is currently undergoing procedures for registering such change of its shareholder with the relevant government authorities. After the completion of

the above transfer, Shenzhen Yining will be held as to 52%, 24% and 24% by Yining Investment, Shenzhenshi Yidi and Shenzhen Dongwu, respectively. As of the Latest Practicable Date, Shenzhen Yining had not commenced its business and was expected to be primarily engaged in the provision of psychiatric medical treatment.

Linhai Kangning

On February 2, 2015, Linhai Kangning, a non-wholly-owned subsidiary of our Company, was established in the PRC with a registered share capital of RMB2,000,000. Our Company owns 80% equity interest in Linhai Kangning and Mr. Qu Kaisheng (¡ ñ ÷), an independent third party, owns 20% of the equity interest in Linhai Kangning. As of the Latest Practicable Date, Linhai Kangning had not commenced its business and was expected to be primarily engaged in the provision of psychiatric medical treatment.

Yining Investment

On September 23, 2015, Yining Investment, a wholly-owned subsidiary of our Company,

341,205 new Domestic Shares for a consideration of RMB55,098,148, RMB13,748,112 and

Name of Investors	Defu Fund	Beijing CDH Weixin	Beijing CDH Weisen
Cost per RMB1.00 registered capital[1] for the first round investment	RMB18.68	RMB18.68	RMB18.68
Cost per Domestic Share paid for the second round investment[2]	RMB28	RMB28	RMB28
Payment date of consideration for the first and second round investments	(1) May 24, 2013 (2) March 17, 2015	(1) May 24, 2013 (2) March 18, 2015	(1) May 24, 2013 (2) March 18, 2015
Basis of determination of the consideration for the first and second round investments	(1) The consideration was determined with reference to the then financial performance of our Group and was based on arm•s length negotiations between Mr. Guan Weili, Ms. Wang Hongyue and Ms. Wang Lianyue and the Pre-IPO Investors at the time of subscription. (2) The consideration was based on the then net present value of the Company.	(1) The consideration was determined with reference to the then financial performance of our Group and was based on arm•s length negotiations between Mr. Guan Weili, Ms. Wang Hongyue and Ms. Wang Lianyue and the Pre-IPO Investors at the time of subscription. (2) The consideration was based on the then net present value of the Company.	(1) The consideration was determined with reference to the then financial performance of our Group and was based on arm•s length negotiations between Mr. Guan Weili, Ms. Wang Hongyue and Ms. Wang Lianyue and the Pre-IPO Investors at the time of subscription. (2) The consideration was based on the then net present value of the Company.
Discount to the Offer Price for the first and second round investments	(1) The discount of approximately 63.7%[1] to the midpoint of the indicated Offer Price range of HK$32.1 to HK$38.7, on the basis of enlarged share capital immediately upon completion of the Global Offering. (2) The discount of approximately 2.9%[2] to the midpoint of the indicated Offer Price range of HK$32.1 to HK$38.7, on the basis of enlarged share capital immediately upon completion of the Global Offering.	(1) The discount of approximately 63.7%[1] to the midpoint of the indicated Offer Price range of HK$32.1 to HK$38.7, on the basis of enlarged share capital immediately upon completion of the Global Offering. (2) The discount of approximately 2.9%[2] to the midpoint of the indicated Offer Price range of HK$32.1 to HK$38.7, on the basis of enlarged share capital immediately upon completion of the Global Offering.	(1) The discount of approximately 63.7%[1] to the midpoint of the indicated Offer Price range of HK$32.1 to HK$38.7, on the basis of enlarged share capital immediately upon completion of the Global Offering. (2) The discount of approximately 2.9%[2] to the midpoint of the indicated Offer Price range of HK$32.1 to HK$38.7, on the basis of enlarged share capital immediately upon completion of the Global Offering.

Name of Investors	Defu Fund	Beijing CDH Weixin	Beijing CDH Weisen
Use of Proceeds and whether fully utilized for the first and second round investments	(1) Part of the proceeds were used for the capital increase and the remaining was included in the capital reserve. The proceeds were fully utilized. (2) Part of the proceeds were used for the capital increase and the remaining was included in the capital reserve. The proceeds were fully utilized.	(1) Part of the proceeds were used for the capital increase and the remaining was included in the capital reserve. The proceeds were fully utilized. (2) Part of the proceeds were used for the capital increase and the remaining was included in the capital reserve. The proceeds were fully utilized.	(1) Part of the proceeds were used for the capital increase and the remaining was included in the capital reserve. The proceeds were fully utilized. (2) Part of the proceeds were used for the capital increase and the remaining was included in the capital reserve. The proceeds were fully utilized.
Shareholding in the Company upon Listing (assuming the Over-allotment Option is not exercised)	21.85%	5.45%	3.79%
Strategic Benefit	In conjunction with their investments, the Pre-IPO Investors provided capital and strategic advice to our Company in relation to our Group•s business based on their extensive experience gained from advising companies in their investment portfolios, which our Directors believe have brought strategic benefits to our Group.		

Notes:

(1) Our Company was a limited liability company under the PRC laws when the Pre-IPO Investors made the first round investment in 2013, as a result of which our registered capital was increased to RMB28,023,978. On October 15, 2014, our Company was converted into a joint stock limited company under the PRC laws with a registered capital of RMB50.0 million, which was divided into 50,000,000 Domestic Shares of nominal value of RMB1.00 each. Solely for the purposes of illustrating the discount to the Offer Price for the first round of investment, the cost per RMB 1.00 registered capital for the first round investment, being RMB18.68, was adjusted to RMB10.47, being the cost per Share after conversion of our Company into a joint stock limited company.

(2) Our Company was a joint stock limited company when the Pre-IPO Investors made the second round investment in 2015.

Right of First Refusal between the Pre-IPO Investors, Mr. Guan Weili, Ms. Wang Hongyue and Ms. Wang Lianyue	If one of the Pre-IPO Investors proposes to sell or transfer, directly or indirectly, its Shares to a third party other than their related parties, the other Pre-IPO Investor is entitled to purchase such number of Shares proposed to be transferred at the same price offered to the third party if the other Pre-IPO Investor notifies the selling Pre-IPO Investor in writing within 30 days upon being notified of the proposed transfer. If the other Pre-IPO Investor decides not to exercise its right of first refusal or fails to notify the selling Pre-IPO Investor within the abovementioned time frame, or that all the Pre-IPO Investors propose to sell or transfer, directly or indirectly, their Shares, Mr. Guan Weili, Ms. Wang Hongyue and/or Ms. Wang Lianyue is/are entitled to have the option to purchase such number of the Shares proposed to be transferred at the same price offered to the third party.
Put Option	In case of any of the following: (i) at any time after April 22, 2017, (ii) any breach of the Agreements among Promoters or any violation of the Articles of Association by the Company or the Shareholders other than the Pre-IPO investors, which has caused or may potentially cause a material impact on the Group, or (iii) any untruthfulness, non-compliance or non-performance of the representations, warranties, undertakings and agreements made by our Company, Mr. Guan Weili, Ms. Wang Hongyue or Ms. Wang Lianyue under the CDH Investment Agreement or the Defu Investment Agreement, which has caused or may potentially cause a material impact on our Group, each of the Pre-IPO Investors has the right to sell all or any part of the Shares held by it in our Company to Mr. Guan Weili, Ms. Wang Hongyue and/or Ms. Wang Lianyue.
Exit Right	Where (i) most of Mr. Guan Weili, Ms. Wang Hongyue and Ms. Wang Lianyue and the Pre-IPO Investors approve the transactions of which to sell all or most of the Shares or business to any third parties or (ii) the Pre-IPO Investors approve in writing the transactions of which to sell all of the Shares of which the value is no less than RMB1.89 billion to any third parties during the period from July 1, 2014 to June 30, 2018, all the Shareholders shall procure our Board to approve such transaction. In respect of (ii) above, Mr. Guan Weili, Ms. Wang Hongyue and/or Ms. Wang Lianyue shall have the right of first refusal to purchase all of the Pre-IPO Investors' Shares on the same terms and conditions offered by the same third parties.

Anti-Dilution Right

The Pre-IPO Investors shall have the right to adjust their shareholding in the Company's registered capital according to the anti-dilution adjustment mechanism to avoid dilution of their shareholdings in our Company.

If our Company further increases its registered capital (including if an existing Shareholder makes further contribution to our registered capital) or issues new Shares (collectively, the **Additional Capital Increase**) and the valuation of our Company prior to the Additional Capital Increase is lower than the Valuation After Investment (as defined below), the Shareholders other than the Pre-IPO Investors shall not allow our Company to progress with such Additional Capital Increase, unless, the number of Shares of the Pre-IPO Investors are adjusted according to the following formula:

Number of Shares After Adjustment = (i) $\frac{A}{B}$, here

(i) = Shares held by the relevant Pre-IPO Investor prior to the Additional Capital Increase

A = Total investment by the relevant Pre-IPO Investor in our Company prior to the Additional Capital Increase divided by the relevant Pre-IPO Investor's shareholding percentage in our Company prior to the Additional Capital Increase (**Valuation After Investment**)

B = Valuation of our Company prior to the Additional Capital Increase

Profit Guarantee

2013 Adjustment: In the event that our Company's audited net profit after tax does not meet 90% of the profit target (as defined below) in 2013, the Pre-IPO Investors shall have the right to adjust their shareholding according to the formula below:

2013 Shareholding After Adjustment = $\frac{X \quad Y}{Z}$, here

X = Shareholding percentage of Defu Fund or Beijing CDH

Y = 2013 Target hich shall mean (i) if the closing (i.e. the closing of the Defu Investment Agreement and Beijing CDH Investment Agreement, hichever is earlier) occurs prior to or on April 26, 2013, the 2013 Target ill be RMB40,000,000; but (ii) if the closing (i.e. the closing of Defu Investment Agreement and Beijing CDH Investment Agreement, hichever is earlier) occurs after April 26, 2013, the 2013 Target ill be equal to RMB40,000,000 minus RMB1,000,000 for ever thirt (30) da s during the period from April 26, 2013 to the date of closing (i.e. the closing of the Defu Investment Agreement and Beijing CDH Investment Agreement, hichever is earlier).

Z = Audited Net Profit After Ta✕es of the Fiscal Year ended on December 31, 2013

2014 Adj men : In the event that (i) the audited net profit after ta✕es for the fiscal ear ended on December 31, 2013 is lo er than 95% of the 2013 Target, and the

Pre-emptive Right

For any further capital increase made by our Company, the Shareholders other than the Pre-IPO Investors shall irrevocably agree to waive their pre-emptive rights or any other rights (whatsoever statutory, contractual or otherwise, including the rights provided for under the PRC Laws) in respect of such capital increase. Our Company hereby grants each of the Pre-IPO Investors the right to subscribe any part of the capital increase (including the registered capital and capital reserves) to be further made by our Company based on their respective shareholding:

$$\text{Proportion of Shares to be allotted to each Pre-IPO Investor} = \frac{\text{the shareholding percentage of Defu Fund or Beijing CDH prior to the capital increase}}{\text{the shareholding percentage of the Pre-IPO Investors prior to the capital increase}}$$

If either Defu Fund or Beijing CDH waives its pre-emptive right to subscribe for additional shares, the other party is entitled to all or any of such additional shares belong to the party who has waived its pre-emptive right.

Liquidation Preference

In the event of liquidation (including but not limited to any deemed liquidation), if the value of the remaining assets and capital of our Company available for distribution is lower than RMB1,575,000,000:

(a) the Pre-IPO Investors shall have the right to receive their payments in cash prior to other Shareholders, with an amount equal to 1.5 times of their total investment, plus all overdue or accumulative dividends (•Priority Liquidation AmountŽ). The Priority Liquidation Amount shall be in proportion to their respective shareholding percentages in our Company out of the aggregate shareholding percentage of the Pre-IPO Investors at the time of such liquidation.

	(b) after the Priority Liquidation Amount has been allocated in full to the Pre-IPO Investors, any remaining assets or capital of our Company shall be allocated to all Shareholders (including the Pre-IPO Investors) according to their respective shareholding percentage in our Company at the time of such liquidation.
Director and Supervisor Nomination Rights	Each of Defu Fund and Beijing CDH is entitled to nominate one Director. Defu Fund and Beijing CDH together are entitled to nominate one Supervisor. In addition, as long as the Pre-IPO Investors hold any interest in our Company, each is entitled to appoint one observer, to attend any Shareholders meetings and Board meetings.
Veto/Protective Rights	Unanimous approval by all Directors nominated by the Pre-IPO Investors is required for matters including, without limitation, acquisition, reorganization or event which may lead to our capital changes, any expansion plan of our Company and any change or appointment of key management of our Company. The approval of at least one Director appointed by Defu Fund or Beijing CDH is required for all other matters of our Company. Certain matters which require simple majority approval in Shareholders• meeting as provided in the Articles of Association shall at least be approved by Defu Fund or Beijing CDH.
Information and Inspection Rights	The Pre-IPO Investors have the right to receive periodic financial information. The Pre-IPO Investors also have the right to reasonably request for information about, or answers to its enquiries relating to, the operations, business affairs and financial condition of our Group.

Pursuant to the supplemental agreement among the Promoters dated September 18, 2014 and the second supplemental agreement among the Promoters dated April 30, 2015, certain rights, including, without limitation, the right of first refusal and tag along rights, put option,

profits have met the profit targets in both 2013 and 2014 as provided under the Agreements Among the Promoter9(Pr)33.uanddingly, they will not exercise their respective right9(Pr)33.uof shareholding adjustment under the right9(P373.1(of)-466(pr)33.8(ofit)-373.1(guar)6.7(antee)56.8(.)-373.

Beijing CDH Weixin and Beijing CDH Weisen

Each of Beijing CDH Weixin and Beijing CDH Weisen is a limited liability partnership established on May 19, 2010 and August 6, 2010, respectively, under the laws of the PRC. The general partner is CDH Huatai Investment Management (Beijing) Co., Ltd. ({ / 6 ³ M #(/) Þ " ® !), the majority of which is owned by CDH Equity Investment Management (Tianjin) Co., Ltd. ({ / p Æ ³ M # (Â u) Þ " ® !) which is controlled by Tianjin Taiding Investment Co., Ltd.(Â u { ³ Þ " ® !). Both Beijing CDH Weixin and Beijing CDH Weisen are independent third parties other than their shareholdings in our Company.

Joint Sponsors• Confirmation

The Joint Sponsors have determined that the terms of the Pre-IPO Investments are under normal commercial terms and confirmed that the Pre-IPO Investments are in compliance with the Interim Guidance on Pre-IPO Investment issued by the Stock Exchange on October 13, 2010, Guidance Letters HKEx-GL44-12 (issued in October 2012) and HKEx-GL43-12 (issued in October 2012 and updated in July 2013), based on the review of the relevant documentation.

OUR SHAREHOLDING AND CORPORATE STRUCTURES

Our corporate and shareholding structure immediately before the completion of the Global Offering:

Notes:

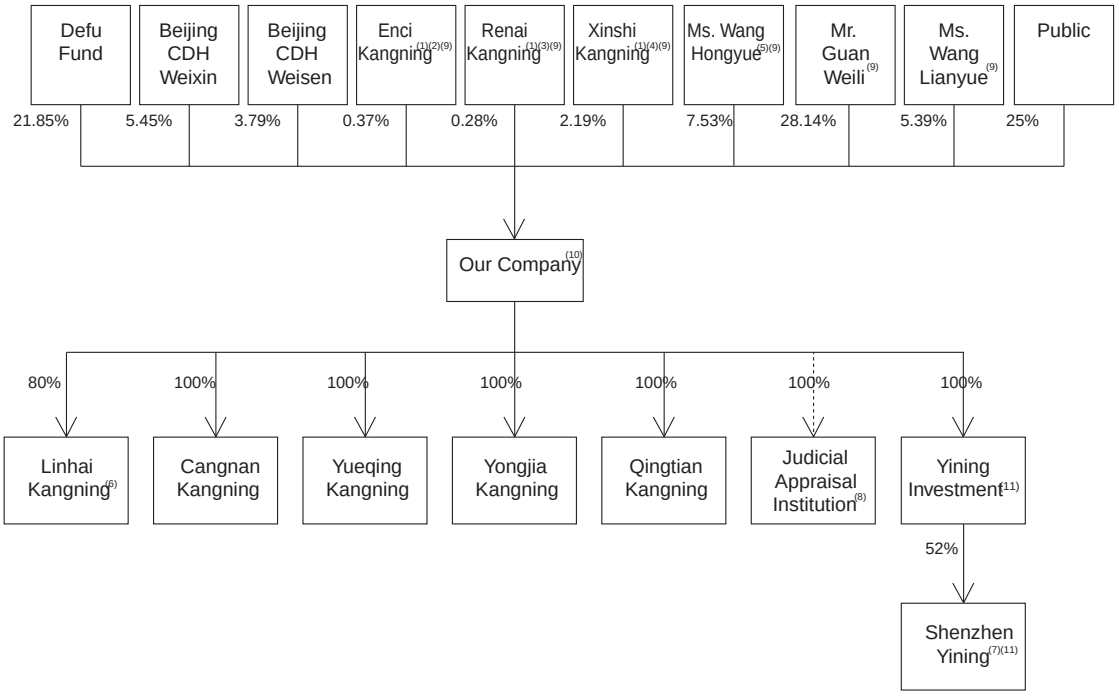
(1) Each of Xinshi Kangning, Enci Kangning and Renai Kangning (collectively referred to as the "Kangning Partnerships") was established in the PRC as a partnership on July 16, 2014, July 18, 2014

(9) Each of the Directors, Supervisors, and senior management members of our Company undertakes that, upon the Listing, pursuant to the PRC Company Law, he/she will continuously declare to our Company his/her interest in the Shares, and will comply with the following restrictions: (1) he/she shall not transfer his/her respective interests in the Shares within one year upon the Listing; (2) he/she shall not transfer more than 25% of his/her respective interests in the Shares each year after the first year of the Listing during his/her tenure; and (3) he/she will not transfer any of his/her respective interests in the Shares within six months after his/her departure from our Company.

(10) Our Company has also established five not-for-profit organizations. According to the articles of association of these five not-for-profit organizations, since our Company is not entitled to dividends return from these five not-for-profit organizations, they are not considered as subsidiaries of our Company. Please refer to the section headed •Regulatory Overview „ Not-For-Profit OrganizationsŽ in this Prospectus for further details. Our reporting accountants, PricewaterhouseCoopers, are of the view that any contributions made by our Company in respect of the establishment of the five not-for-profit organizations are not considered as equity investment but were recorded as •expensesŽ. Apart from these contributions, our Company has no further financial obligations to these not-for-profit organizations. In addition, any payments made by our Company on behalf of the five not-for-profit organizations are recoverable and are therefore recognized as •amounts due from related partiesŽ. For further details, please refer to the Accountants• Report included in Appendix I to this Prospectus for further details.

(11) Our Company entered into a share transfer agreement dated October 22, 2015 with Yining Investment to transfer the 52% equity interest held by our Company in Shenzhen Yining to Yining Investment for a consideration of RMB10.4 million. Shenzhen Yining is currently going through the procedures for registering such change of its shareholder with the relevant government authorities. After the completion of the above transfer, Shenzhen Yining will be held as to 52%, 24% and 24% by Yining Investment, Shenzhenshi Yidi and Shenzhen Dongwu, respectively.

Our corporate and shareholding structure immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised):



Notes:

(1)-(11) Please refer to the details contained in Notes (1) to (11) on the proceeding two pages.

OVERVIEW

We are the largest private psychiatric healthcare group in China as measured by revenue in 2014, with a market share of 5.8% of the private psychiatric healthcare market in China, and the second largest in the overall psychiatric healthcare market in China by the same metric, with a market share of 1.0%, according to the Frost & Sullivan Report. We operate and manage a network of healthcare facilities across various regions in China that primarily focus on providing psychiatric specialty care. As of the Latest Practicable Date, we had nine healthcare facilities in operation, including the only privately-owned Grade A Class III psychiatric specialty hospital in China. We had 2,210 beds in operation across our network as of June 30, 2015.

We operate in a rapidly-growing market with a strong demand for our services. According to the Frost & Sullivan Report, currently over 180 million people in China suffer from psychiatric disorders. However, much of this demand is unmet. According to the Frost & Sullivan Report, China has significantly lower ratios of psychiatrists and psychiatric beds per 10,000 persons compared to the median ratio of G7 countries, as well as significantly lower healthcare spending per capita (a)287 .5((a)287ending)-338.thcamanaeaaepoing tng psychiaer healthcarmarkeaex05.tvpe661-ry-grofo661-y78.6(ears3.961-378.661-3789(t)0(e)49.61-.6(6.7u489.8.6(fica Sulliva Repo64yom

hich e hold a 49% equit interest) that e manage through management agreements. In line ith our net ork e pansion, e more than doubled our operational capacit from 1,090 beds as of Januar 1, 2012 to 2,210 beds as of June 30, 2015. We have pipeline healthcare facilities in the Pearl River Delta Economic Region and the Yangt e Delta Economic Region.

We believe e have preeminent industr standing and e perience, hich together ith our

In addition, within the PRC psychiatric healthcare industry, there are significant market opportunities and an important social need for private hospital operators. Given that public psychiatric hospitals are unable to meet current and projected market demand, private psychiatric hospitals are expected to play an increasingly important role. According to the Frost & Sullivan Report, the overall market for private psychiatric healthcare institutions in China grew from RMB2.2 billion in 2010 to RMB5.1 billion in 2014, representing a CAGR of 23.8%, and is projected to grow from an estimated RMB6.2 billion in 2015 to RMB13.6 billion in 2019, representing a CAGR of 21.8%, which is significantly higher than that of public psychiatric healthcare institutions during the same period. According to the same source, the number of annual inpatients in the PRC psychiatric healthcare market increased from 1.17 million in 2010 to 2.07 million in 2014, representing a CAGR of 15.3%, and is projected to continue to grow at a CAGR of 16.7% from 2015 to 2019, reaching 4.50 million inpatients in 2019. In addition, with rapidly rising disposable income and demand for quality healthcare services, an increasing number of Chinese patients are willing to pay for premium healthcare services, which are generally offered by private psychiatric healthcare institutions as a matter of PRC government policy. For example, while private psychiatric healthcare providers accounted for approximately one out of every ten hospital beds in the PRC psychiatric healthcare market in 2014, they contributed nearly one-fifth of the total revenue in the same market, according to the Frost & Sullivan Report.

Furthermore, the PRC government has made significant efforts to support the development of the psychiatric healthcare sector and encourage private investment and involvement in this market. For example, the Mental Health Law of 2013 is considered a key milestone in the PRC psychiatric healthcare sector, and has significantly raised the profile of psychiatric healthcare as a key segment of the overall healthcare system in China. Among the comprehensive measures enacted by the Mental Health Law of 2013 are requirements for various levels of the PRC government to establish official plans and financial support to upgrade community-level infrastructure for psychiatric healthcare, including encouraging medical facility development and modernization and elevating the quality of facilities, personnel and equipment. In addition, public medical insurance coverage has been expanded as part of the PRC government•s efforts to establish a universal medical insurance system. Funding for public medical insurance programs in China has risen from RMB461.6 billion in 2009 to RMB1,079.5 billion in 2013, representing a CAGR of 23.7%, and is projected to reach RMB3,025.4 billion in 2019, according to the Frost & Sullivan Report. Such efforts significantly contributed to the growth of private psychiatric healthcare providers. During the Track Record Period, the amount of our medical bills settled through public medical insurance increased from RMB53.3 million in 2012 to RMB134.2 million in 2014, representing a CAGR of 58.7%. In line with the continued expected growth in public medical insurance funding, we anticipate that payments from public medical insurance will continue to account for a significant portion of our total payments received going forward.

The largest private psychiatric hospital operator in China

According to the Frost & Sullivan Report, in 2014, we operated the largest privately-owned hospital network in China that specializes in psychiatric healthcare as measured by revenue, and were the second largest in the overall psychiatric healthcare market in China by the same metric. We are the only privately-owned operator of a Grade A Class III psychiatric hospital, which is the highest attainable classification for all hospitals in China. In

addition, Wen hou Kangning Hospital has been entrusted ith distinguished government

In addition, e strive to ensure that our rapid e pansion efforts do not compromise the consistenc of our service qualit and our reputation for clinical e cellence. We believe our long histor and e perience in operating our healthcare facilit net ork and our pool of e perienced hospital administrators and doctors allo us to have an in-depth understanding of patient needs and anticipation of market trends. As a pioneer in the private ps chiatric healthcare sector in China, e are a market-leader in implementing ell-developed operating protocols and qualit controls. Over ears of prudent and comprehensive testing and refinement, e have formulated highl -standardi ed diagnosis, treatment, follo -up and internal revie procedures to focus on patient outcomes and service qualit . Our consistent high qualit services across our net ork also support the successful implementation of our e pansion strategies and achieve economies of scale. In addition, e advocate compassionate, patient-centric values in our operations, and have studied the practices of successful overseas ps chiatric healthcare providers and strive to implement global best practice guidelines in our field in terms of both clinical and operating protocol and facilit design. We believe our longstanding commitment to clinical outcomes and service qualit is a ke strategic advantage and is essential to our long-term gro th plans. Furthermore, e believe these values and protocols have been instrumental in our abilit to not onl recruit and develop skilled medical personnel, but also instill a culture of dedication to ps chiatric healthcare.

High- ali y w o kfo ce a gmen ed b y o ong eaching, aining and e ea ch cap abili ie and

engaged a team of leading ps chiatric healthcare e perts in the PRC to provide operational guidance and consultation services to our management staff and doctors. In addition, e maintain a dedicated research budget and encourage all of our doctors to participate in active research studies. Since 2014, e have authored si Scientific Citation Inde academic papers under the Wen hou Kangning Hospital name.

We believe such collaborations not onl enhance the training and development of our orkforce, but also strengthen our reputation and industr recognition as a speciali ed teaching and research hub, hich helps us attract top qualit talent in the ps chiatric healthcare industr . In addition, through our teaching and training programs, e have been able to cultivate relationships ith a promising ne t generation of doctors at an earl stage of their professional development, creating a proprietar pipeline of clinical talent for future recruitment. For e ample, in 2014, e began sponsoring scholarships for 28 selected medical students speciali ing in ps chiatr at Wen hou Medical Universit , and plan to further increase the annual scholarship class going for ard. In the same ear, e also began providing clinical ps chiatric training programs for undergraduate medical students of Wen hou Medical Universit . We believe such advantages are instrumental to our abilit to sustain our competitiveness and meet the gro ing demands of our business.

Ex e ienced managemen eam i h ind -leading ex e i e and e a ion

We attribute much of our operational and financial success to the members of our management team, ho laid the foundation for our business. Through their vision, e perience and entrepreneurial spirit, the have developed our net ork from a single hospital in Wen hou into a leading private ps chiatric healthcare group in China and the onl private operator of a Grade A Class III ps chiatric specialt hospital. We have enjo ed over 10 ears of leadership continuit under the core members of our management, each of hom has deep, e tensive kno ledge and e perience in the PRC ps chiatric healthcare field, ith an average of 24 ears of industr e perience. Several members of our management team are e perienced ps chiatric doctors, carr ing a ealth of both clinical and management e perience. Our chairman and one of our founders, Mr. Guan Weili, is a leading hospital administrator in China, ith appro imatel 25 ears of management and operational e perience in the ps chiatric healthcare field, and has received numerous national recognitions.

We believe the talent and e perience of our management team grant us considerable competitive advantages against public hospitals. For e ample, e believe that compared to public hospitals, e are able to enjo greater fle ibilit ith respect to operational aspects such as procurement and emplo ee incentivi ation, ithout compromising the soundness of our risk management. As a result, e believe that e have achieved effective cost controls, leading to our increasing profitabilit during the Track Record Period. We largel attribute these advantages to the e perience, guidance and continuit of our management team. We believe that under the continued leadership of our e perienced management, e are ell-positioned to further strengthen our reputation and presence through gro th and geographical e pansion.

OUR BUSINESS STRATEGIES

Strengthen our market-leading position by continuing to ramp up and expand our healthcare facility network across China to capture unmet demand for psychiatric healthcare

We intend to leverage our successful track record and extensive experience in the PRC psychiatric healthcare industry to continue to expand our healthcare facility network across China. To establish a national presence, we have prioritized expansion of our network in major population centers in various leading economic regions in China. For example, we have recently commenced operations of psychiatric healthcare facilities in Beijing, the Bohai Economic Rim and the Southwest China region, and have healthcare facilities under development in the Pearl River Delta Economic Region and the Yangtze Delta Economic Region. We intend for such healthcare facilities to eventually serve as regional centers of our network, with further expansion extending from each such regional center in a hub-and-spoke structure, similar to our Wenzhou Kangning Hospital serving as the hub for subsequent network growth in Zhejiang Province, which enabled us to consolidate our regional market share. We believe replicating our hub-and-spoke model in new markets will allow us to effectively gain patient referrals, improve resource allocation and generate operating leverage. See •Future Plans and Use of Proceeds.Ž

We have a proven track record of network expansion through various expansion models, which we believe allow us to limit our upfront capital investments and shorten the ramp-up periods. We believe that continuing to expand our network through such models will create a favorable balance of investment returns and operational risks for our Group. We may also continue to explore other business expansion opportunities where available, such as business acquisitions or a widely-accessible online platform, in order to quickly capture opportunities in areas with underserved psychiatric demand and strong growth potential.

Target the premium psychiatric healthcare market in China by upgrading our healthcare facilities and enhancing our premium service capacity

We intend to penetrate the premium psychiatric healthcare market in China, which offers significant opportunities in line with the growth in socioeconomic status and per capita disposable income. In particular, as public hospitals are discouraged 3.8(e)0(r)-41(pr)20.8(emium)-290.1

out and scale up premium healthcare services in other markets that we determine to have substantial, unmet demand for premium psychiatric healthcare, including those where certain of our existing healthcare facilities are located. See •Future Plans and Use of Proceeds.Ž As an established industry leader, we believe we will be able to successfully leverage our reputation and experience to capture growth opportunities in China•s premium psychiatric healthcare market.

Continue to attract, develop and retain a highly-skilled workforce to support our network expansion

We plan to continue to expand our workforce of talented hospital administrators, doctors and other medical staff in order to support the continued growth and expansion of our healthcare facility network. To this end, we plan to intensify our recruiting efforts for both experienced doctors and fresh graduates and further strengthen our reputation and appeal as an employer of choice in our field. For example, we will reinforce our partnerships with colleges and other higher level institutions, such as establishing a new psychiatric healthcare preparatory training program in conjunction with Wenzhou Medical University, in order to expand our pipeline of new medical professionals. We also plan to increase investment and participation in scientific research, which we believe will help raise our profile in the psychiatric healthcare industry and attract leading practitioners and specialists in the field to our network. See •Future Plans and Use of Proceeds.Ž With respect to management personnel, we intend to implement an internal rotation system to provide both development prospects and exposure to different environments for our healthcare facility administrators. We believe providing opportunities to grasp greater responsibilities and work with different employees will improve management capability. Furthermore, we may consider providing equity-based incentives to our core medical and management personnel to further bolster our appeal as an employer of choice.

Continue to enhance the quality of our medical treatments and service throughout our network by strengthening our research and training programs

In line with our corporate values, we intend to pursue not only the expansion and scaling up of our hospital network, but also the ability to provide the highest quality medical treatments and services in our industry. To achieve our vision, we intend to increase our research funding and, whether through hiring highly accomplished researchers or collaborating with top-tier research institutions, participate in research initiatives into the forefront areas of mental health research, such as biomarkers for the prediction, diagnosis, treatment and prognosis of schizophrenia and other psychiatric diseases. By incorporating new knowledge and findings into medical technologies and therapies, we believe we will be at the forefront of the clinical psychiatric treatment field. At the same time, we will also further strengthen our well-recognized teaching and training programs to elevate the treatment skills and service quality of our doctors and nurses. By ensuring that we have well-trained medical staff and advanced treatment techniques, we believe we will be able to further improve patient outcomes. See •Future Plans and Use of Proceeds.Ž

Continue to enhance information technology infrastructure

We plan to upgrade our information systems network and improve our management processes in order to enhance the service capacity at our healthcare facility network. First, we intend to develop a web-based service platform accessible to mobile and other Internet users in order to improve convenience, responsiveness and the overall medical treatment experience. For example, our patients will be able to make online appointments through the platform and have online communications with our medical staff as part of the follow-up process after being discharged from our healthcare facilities. We also plan to enhance our network information technology to broaden the accessibility of our services, such as by providing remote diagnostic and medical advice across a mobile platform, which we believe will also enable us to effectively capture market opportunities from a larger customer base and address privacy concerns that may arise with respect with in-person consultations. Furthermore, we intend to strengthen our network communication and knowledge sharing capacity in order to improve our management efficiency and ensure further consistency in service quality across our network of healthcare facilities. See •Future Plans and Use of Proceeds.Ž

OUR BUSINESS OPERATIONS

Our business primarily focuses on providing psychiatric medical treatment at our psychiatric specialty healthcare facilities. As of the Latest Practicable Date, our network consisted of nine healthcare facilities in operation, comprising seven psychiatric specialty hospitals and two psychiatric wards. We derive our revenue primarily from providing treatment and general healthcare services and from pharmaceutical sales at our healthcare facilities.

We have benefited from our business model of operating a network of psychiatric healthcare facilities rather than a single hospital, which creates various synergies, including efficient resource utilization, centralized procurement, operational experience-sharing, group-level training and research and medical staff mobility. Each of our healthcare facilities offers both inpatient and outpatient psychiatric healthcare services.

The table below sets forth, as of the dates indicated, certain operating data on our healthcare facilities[(1)]:

	As of or for the year ended December 31,			As of or for the six months ended June 30,
	2012	2013	2014	2015
Number of healthcare facilities	4	6	6	8
Number of beds in operation	1,360	1,680	1,900	2,210
Inpatient bed-days[(2)]	442,791	514,174	615,242	328,893
Outpatient visits[(2)]	103,928	114,293	119,425	60,944

Note:

(1) Does not include Beijing Yining Hospital, which commenced operations in August 2015 and for which we entered into management agreement in November 2015.

(2) Excluding Pingyang Changgeng Ward, Yanjiao Furen Hospital and Chengdu Renyi Ward.

We are in the process of developing a number of additional psychiatric healthcare facilities. See •„ Expansion of Our Healthcare Facility Network „ Pipeline Healthcare Facilities.Ž

Our Psychiatric Healthcare Facility Network

As of the Latest Practicable Date, our network of psychiatric healthcare facilities includes: (i) five owned psychiatric specialty hospitals, comprising Wenzhou Kangning Hospital, Qingtian Kangning Hospital, Cangnan Kangning Hospital, Yongjia Kangning Hospital and Yueqing Kangning Hospital and (ii) four healthcare facilities managed by us under management agreements, comprising Yanjiao Furen Hospital, Pingyang Changgeng Ward, Chengdu Renyi Ward and Beijing Yining Hospital. We also have three pipeline healthcare facilities as of the Latest Practicable Date, all of which are planned to be psychiatric specialty hospitals owned by us.

The map below sets out the locations of our healthcare facilities in operation and planned as of the Latest Practicable Date:

We have experienced significant growth over the Track Record Period, generating revenue of RMB170.8 million, RMB226.4 million, RMB296.3 million, RMB137.6 million and RMB160.7 million in 2012, 2013 and 2014 and the six months ended June 30, 2014 and 2015, respectively. The table below sets forth, for the periods indicated, a breakdown of our revenue by healthcare facility[1][2]:

	For the year ended December 31,						For the six months ended June 30,			
	2012		2013		2014		2014		2015	
Revenue	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	RMB•000	%	RMB•000	%	RMB•000	%	RMB•000	%	RMB•000	%
							(unaudited)			
Wenzhou Kangning Hospital	152,113	89.1	175,787	77.7	215,918	72.9	101,722	73.9	110,644	68.8
Qingtian Kangning Hospital	7,575	4.4	11,026	4.9	13,895	4.7	7,009	5.1	7,432	4.6
Cangnan Kangning Hospital	5,100	3.0	20,651	9.1	31,039	10.5	13,611	9.9	19,319	12.0
Yongjia Kangning Hospital	...	...	11,012	4.8	18,178	6.1	8,421	6.1	11,207	7.0
Yueqing Kangning Hospital	...	...	252	0.1	6,972	2.3	2,070	1.5	6,567	4.1
Pingyang Changgeng Ward[3]	6,025	3.5	7,635	3.4	10,294	3.5	4,762	3.5	5,574	3.5
Total revenue	170,813	100.0	226,363	100.0	296,296	100.0	137,595	100.0	160,743	100.0

Notes:

(1) We commenced operations at Yanjiao Furen Hospital and Chengdu Renyi Ward in April 2015, both of which are managed by us through management agreements. During the Track Record Period, Yanjiao Furen Hospital and Chengdu Renyi Hospital were still in ramp up stage and incurred losses. Therefore, we did not recognize any management fee income from Yanjiao Furen Hospital and Chengdu Renyi Hospital.

(2) Does not include Beijing Yining Hospital, which commenced operations in August 2015 and for which we entered into management agreement in November 2015.

(3) Our revenue from this healthcare facility consists of management service fee income, net of applicable expenses and other deductions. See •„ Our Psychiatric Healthcare Facility Network „ Our Managed Healthcare Facilities.Ž

Each of our healthcare facilities specializes in providing psychiatric healthcare, in particular through treatment and general healthcare services and pharmaceutical sales. The table below sets forth, for the years indicated, certain operating data on our inpatients and outpatients at our owned psychiatric 1(our)-iz hospitals:

	For the year ended December 31,			For the six months ended June 30,	
	2012	2013	2014	2014	2015
Owned psychiatric 1(our)-iz hospitals					
Inpatients					
Total inpatient bed-days	442,791	514,174	615,242	286,992	328,893
Average inpatient					

The table below sets forth, for the periods indicated, certain information on Wenzhou Kangning Hospital:

	For the year ended December 31,			For the six months ended June 30,	
	2012	2013	2014	2014	2015
Wenzhou Kangning Hospital					
Inpatients					
Effective service capacity[1]	347,780[2]	365,000	365,000	181,000	185,550
Total inpatient bed-days	389,008	346,206	354,944	170,093	175,128
Utilization rate[3] (%)	111.9%	94.9%	97.2%	94.4%	94.4%
Average inpatient spending per day per bed					
Treatment and general healthcare services (RMB)	220	291	383	382	393
Pharmaceutical sales (RMB)	53	68	77	74	83
Total (RMB)	273	359	460	456	476
Outpatients					
Number of outpatient visits	101,004	104,321	102,151	48,926	50,795
Average outpatient spending per visit					
Treatment and general healthcare services (RMB)	129	134	145	117	133
Pharmaceutical sales (RMB)	318	342	356	354	384
Total (RMB)	447	476	501	471	517

Notes:

(1) Represents the number of beds available at the beginning of each month of the period multiplied by the number of days in such month and aggregated over the course of the period in terms of bed-days.

(2) Does not include temporary beds that we set up at Wenzhou Kangning Hospital during a certain period of time in 2012 to serve excess demand in the region, which we believe was in line with our social responsibilities. As a result, our utilization rate in 2012 exceeded 100%. We did not have such temporary beds for any other hospital in any other period during the Track Record Period.

(3) Calculated as inpatient bed-days divided by effective service capacity, multiplied by 100%.

We began implementing general renovation and upgrade plans for Wenzhou Kangning Hospital in 2010, and in 2013 initiated the largest phase of such plans by commencing construction of a new wing of Wenzhou Kangning Hospital to further increase operational capacity, which required the demolition of certain existing buildings. We intend to dedicate a portion of the new wing to premium healthcare services targeted towards mid- to high-income patients. We expect operations at the new wing to commence in 2017. Upon completion of such upgrades under development, Wenzhou Kangning Hospital is expected to have an estimated total GFA of approximately 82,000 sq.m. and an operational capacity of 1,400 beds, along with a full-time staff of approximately 800 medical professionals. In addition, we are in the process of developing the Louqiao Medical Area, located in the Ouhai District of Wenzhou, which will primarily serve as an expansion of the geriatric psychiatry subdepartment of Wenzhou Kangning Hospital and will increase our overall operational capacity for Wenzhou Kangning Hospital by a further 150 beds. We expect to commence operations at the Louqiao Medical Area in 2016, at which time we will relocate operations for the geriatric psychiatry subdepartment of Wenzhou Kangning Hospital to the Louqiao Medical Area. We entered into a leasing agreement for the Louqiao Medical Area in December 2014, effective until April 2025, and prepaid 73 months of rental expenses under such lease in order to obtain more favorable rental rates. We expect construction of the new wing and the Louqiao Medical Area to further cost approximately RMB230 million in total, which we intend to finance primarily with cash inflows from operations and the expected proceeds from the Global Offering. As of June 30, 2015, we have incurred RMB80.1 million for the construction of the new wing and the Louqiao Medical Area. We also intend to allocate proceeds from the Global Offering to finance miscellaneous upgrades at Wenzhou

Ratings, Classification and Recognition

As a specialty hospital, Wenzhou Kangning Hospital is subject to rating and review by the Health and Family Planning Commission of Zhejiang Province. See •Regulatory Overview „ The Classification of Medical Institutions.Ž Wenzhou Kangning Hospital was initially rated as a Grade B Class III psychiatric hospital in 2006 and was upgraded to Grade A Class III in 2013, the highest grade attainable by hospitals in China.

Our achievements and capabilities with respect to Wenzhou Kangning Hospital have historically enjoyed significant recognition. For example, Wenzhou Kangning Hospital was designated as a Key National Hospital for Specialized Clinical Psychiatry (7 • W ‘ Ã Y Å £ (Z Z Å)) by the NHFPC in 2011, and remains the only privately-owned hospital in China with such recognition. In 2013 and 2015, the clinical psychology and behavioral medicine subdepartments of Wenzhou Kangning Hospital were respectively designated as Key Departments for Non-public Healthcare Facilities with Respect to Special Clinical Disciplines in Zhejiang Province (ê ² ¢ ® m < Ú ô W ‘ $ ª Å £). In 2003, Wenzhou Kangning Hospital became a teaching base for psychiatry department of Wenzhou Medical University, which reflects the strong reputation that we had already cultivated at a relatively early stage in our operational history. Wenzhou Kangning Hospital subsequently entered into cooperation relationships with Qiqihar Medical University in 2008 and Bengbu Medical College in 2009, which, along with its ongoing relationship with Wenzhou Medical University, has given Wenzhou Kangning Hospital strong ties to multiple medical colleges in the PRC. In both 2014 and 2015, Wenzhou Kangning Hospital gained TÜV SÜD certification for excellence in quality and strength of standardization after passing inspection and audit from the German TÜV SÜD certification body for international hospitals, which we intend to renew on an annual basis.

Our Other Owned Hospitals

As of the Latest Practicable Date, in addition to Wenzhou Kangning Hospital, we own four other psychiatric specialty hospitals, each of which we operate on property that we leased from independent third parties and, through investing in leasehold improvements, subsequently renovated and converted into hospitals that meet our quality standards. As of the Latest Practicable Date, we had not applied for our other psychiatric specialty hospitals to be graded under the relevant regulations for the classification of medical institutions. See •Regulatory Overview „ Regulatory Supervision of Healthcare Sector in China „ The Classification of Medical Institutions.Ž

Qingtian Kangning Hospital

We established Qingtian Kangning Hospital in April 2011 in Qingtian County, Lishui City, Zhejiang Province. Qingtian Kangning Hospital currently occupies property and land leased from an independent third party and has a GFA of approximately 5,828 sq.m. As of June 30, 2015, Qingtian Kangning Hospital had 155 beds in operation and 48 full-time employees, including 24 medical staff.

The table below sets forth, for the periods indicated, certain information on Qingtian Kangning Hospital:

	For the year ended December 31,			For the six months ended June 30,	
	2012	2013	2014	2014	2015
Qingtian Kangning Hospital					
Inpatients					
Effective service capacity[1]	36,620	43,820	51,120	23,985	28,060
Total inpatient bed-days	29,681	39,706	49,842	23,907	27,262
Utilization rate[2] (%)	81.1%	90.6%	97.5%	99.7%	97.2%
Average inpatient spending per day per bed					
Treatment and general healthcare services (RMB)	199	220	223	237	212
Pharmaceutical sales (RMB)	32	29	28	26	33
Total (RMB)	231	249	251	263	245
Outpatients					
Number of outpatient visits	1,982	3,177	4,366	2,150	2,339
Average outpatient spending per visit					
Treatment and general healthcare services (RMB)	9	9	14	16	12
Pharmaceutical sales (RMB)	376	344	317	319	311
Total (RMB)	385	353	331	335	323

Notes:
(1) Represents the number of beds available at the beginning of each month of the period multiplied by the number of days in such month and aggregated over the course of the period in terms of bed-days.
(2) Calculated as inpatient bed-days divided by effective service capacity, multiplied by 100%.

Cangnan Kangning Hospital

We established Cangnan Kangning Hospital in June 2012 in Cangnan County, Wenzhou. Cangnan Kangning Hospital currently occupies property and land leased from an independent third party and has a GFA of approximately 10,000 sq.m. As of June 30, 2015, Cangnan Kangning Hospital had 365 beds in operation and 104 full-time employees, including 51 medical staff.

The table below sets forth, for the periods indicated, certain information on Cangnan Kangning Hospital:

	For the year ended December 31,			For the six months ended June 30,	
	2012	2013	2014	2014	2015
Cangnan Kangning Hospital					
Inpatients					
Effective service capacity[1]	80,520	91,300	116,940	53,160	66,080
Total inpatient bed-days	24,102	81,534	112,605	51,598	62,988
Utilization rate[2] (%)	29.9%[3]	89.3%	96.3%	97.1%	95.3%
Average inpatient spending per day per bed					
Treatment and general healthcare services (RMB)	211	214	224	209	245
Pharmaceutical sales (RMB)	21	23	32	29	31
Total (RMB)	232	237	256	238	276
Outpatients					
Number of outpatient visits	942	4,635	7,064	3,329	4,311
Average outpatient spending per visit					
Treatment and general healthcare services (RMB)	16	20	23	23	24
Pharmaceutical sales (RMB)	368	358	408	380	419
Total (RMB)	384	378	431	403	443

Notes:
(1) Represents the number of beds available at the beginning of each month of the period multiplied by the number of days in such month and aggregated over the course of the period in terms of bed-days.
(2) Calculated as inpatient bed-days divided by effective service capacity, multiplied by 100%.
(3) We opened Cangnan Kangning Hospital in June 2012 and had not yet ramped up its operations by the end of 2012, resulting in a relatively low utilization rate for such year.

Yongjia Kangning Hospital

We established Yongjia Kangning Hospital in December 2012 in Yongjia County, Wenzhou. Yongjia Kangning Hospital currently occupies property and land leased from independent third parties and has a GFA of approximately 3,637 sq.m. As of June 30, 2015, Yongjia Kangning Hospital had 208 beds in operation and 57 full-time employees, including 26 medical staff.

The table below sets forth, for the periods indicated, certain information on Yongjia Kangning Hospital:

	For the year ended December 31,			For the six months ended June 30,	
	2012	2013	2014	2014	2015
Yongjia Kangning Hospital					
Inpatients					
Effective service capacity[1]	...	54,820	73,095	33,535	37,560
Total inpatient bed-days	...	45,895	71,098	32,551	36,324
Utilization rate[2] (%)	...	83.7%	97.3%	97.1%	96.7%
Average inpatient spending per day per bed					
Treatment and general healthcare services (RMB)	...	199	209	211	260
Pharmaceutical sales (RMB)	...	28	29	28	25
Total (RMB)	...	227	238	239	285
Outpatients					
Number of outpatient visits	...	2,084	3,874	1,933	2,265
Average outpatient spending per visit					
Treatment and general healthcare services (RMB)	...	14	11	11	14
Pharmaceutical sales (RMB)	...	323	352	320	360
Total (RMB)	...	337	363	331	374

Notes:
(1) Represents the number of beds available at the beginning of each month of the period multiplied by the number of days in such month and aggregated over the course of the period in terms of bed-days.
(2) Calculated as inpatient bed-days divided by effective service capacity, multiplied by 100%.

Yueqing Kangning Hospital

We established Yueqing Kangning Hospital in September 2013 in Yueqing City, Wenzhou. Yueqing Kangning Hospital currently occupies property and land leased from an independent third party and has a GFA of approximately 9,500 sq.m., which can accommodate further expansion of operational capacity. As of June 30, 2015, Yueqing Kangning Hospital had 160 beds in operation and 70 full-time employees, including 36 medical staff.

The table below sets forth, for the periods indicated, certain information on Yueqing Kangning Hospital:

	For the year ended December 31,			For the six months ended June 30,	
	2012	2013	2014	2014	2015
Yueqing Kangning Hospital					
Inpatients					
Effective service capacity[1]	...	3,080	36,540	15,700	28,960
Total inpatient bed-days	...	833	26,753	8,143	27,191
Utilization rate[2] (%)	...	27.1%[3]	73.2%	51.9%	93.9%
Average inpatient spending per day per bed					
Treatment and general healthcare services (RMB)	...	278	212	207	199
Pharmaceutical sales (RMB)	...	35	28	29	26
Total (RMB)	...	313	240	236	225
Outpatients					
Number of outpatient visits	...	76	1,970	663	1,234
Average outpatient spending per visit					
Treatment and general healthcare services (RMB)	...	14	29	45	34
Pharmaceutical sales (RMB)	...	111	285	179	347
Total (RMB)	...	125	314	224	381

Notes:
(1) Represents the number of beds available at the beginning of each month of the period multiplied by the number of days in such month and aggregated over the course of the period in terms of bed-days.
(2) Calculated as inpatient bed-days divided by effective service capacity, multiplied by 100%.
(3) We opened Yueqing Kangning Hospital in September 2013 and had not yet ramped up its operations by the end of 2013, resulting in a relatively low utilization rate for such year.

Our Managed Healthcare Facilities

As of the Latest Practicable Date, we manage four healthcare facilities through management agreements.

Yanjiao Furen Hospital

We started to manage Yanjiao Furen Hospital, a not-for-profit hospital owned by independent third parties, in April 2015. The hospital is located in Sanhe, Yanjiao Economic Development Zone, Hebei Province near the Beijing border. Yanjiao Furen Hospital has a GFA of approximately 7,619 sq.m., with 100 beds in operation, and both inpatient and outpatient capability. As of June 30, 2015, Yanjiao Furen Hospital had 89 full-time employees, including 46 medical staff. Two additional hospital structures are currently under construction, which upon completion in the second half of 2015, are expected to increase Yanjiao Furen Hospital•s GFA to approximately 15,132 sq.m. and total operational capacity

receipt of management service fees from a not-for-profit hospital does not violate any relevant PRC laws and regulations. See •Regulatory Overview „ Regulatory Supervision of Healthcare Sector in China „ Reform of Medical Institutions „ Several Policies and Measures Regarding the Promotion of Accelerating the Development of the Medical Institutions Run by Social Capital.Ž

During the term of the agreement, we shall bear all construction, renovation and improvement costs of the hospital as needed to convert the relevant property into a psychiatric specialty hospital. With respect to the assets and liabilities, we agreed that all assets acquired and liabilities incurred before April 1, 2015 shall be fully owned and borne by the hospital owners, while all assets acquired and liabilities incurred on or after April 1, 2015 shall be fully owned and borne by us. Upon the expiration of the term of the agreement, we are entitled to the movable fixtures on properties of the hospital while the hospital retains ownership of the underlying property.

The parties agreed to customary termination rights, including upon mutual agreement or material default. In addition, we are entitled to terminate the agreement if the hospital fails to meet the minimum performance target for seven consecutive years or if the accumulated loss of the hospital reaches RMB20 million. If any party terminates the agreement before the

January 2014, a one-time increase of RMB200,000 per year for an expansion of the ward (x) 72% of the patient examination fee, (y) the cost of certain operational fees of the ward, including for utilities, supplies and consumables, employee and patient meals, emergency service fees, professional medical liability insurance premiums, compensation for medical incidents and other related logistics fees, and (z) the salary, bonus and other employee benefits

of the doctors, nurses and other medical staff of the ward. The management service fee for Chengdu Renyi Ward is calculated on a quarterly basis. In addition, in the event that a quarterly loss is generated, we are required to contribute the balance of the loss attributable to us with the income from the ensuing quarter before receiving such income allocable to us for the latter quarter.

The term of our management agreement with Chengdu Renyi Ward is from October 2014 to September 2024, and will automatically be renewed for one year unless either party provides at least two months written notice prior to the applicable expiration date. Neither party is entitled to early termination unless the other party breaches the agreement or if the ward incurs a loss for six consecutive months. Early termination without cause requires the terminating party to pay the other party an amount equal to such party•s costs incurred for the ward plus three times the monthly average revenue of the ward for the past 12 months.

Beijing Yining Hospital

Beijing Yining Hospital commenced operations in August 2015. Located in Beijing•s Haidian District, Beijing Yining Hospital is an upscale psychiatric specialty hospital featuring exclusively premium services for higher-income patients. As of the Latest Practicable Date, Beijing Yining Hospital has a GFA of approximately 4,197 sq.m., with 38 beds in operation and 20 full-time medical staff.

We entered into a joint venture agreement in May 2015 with Beijing Jialikang Hospital Management Consulting Co., Ltd., an independent third party that is engaged in the healthcare investment and consulting businesses. Under the agreement, we hold a 49% equity interest in the hospital and contribute RMB14.7 million to its registered share capital. We have financed our portion of the investment in Beijing Yining Hospital primarily with cash inflows from operations. We also paid on behalf of the hospital certain pre-operating costs of RMB24.8 million prior to the commencement of its operations, including rental expenses, leasehold improvement costs and other capital expenditure. After the hospital commenced operations in August 2015, we expect that it will fully repay to us for such pre-operating costs paid on behalf of the hospital. Such repayment will consist of (i) RMB20.0 million to be paid from capital contributions upon the incorporation of the hospital entity and (ii) the remaining amount to be paid within a period of approximately three years from the cash generated from the hospital•s operations. As of the Latest Practicable Date, RMB12.9 million has been repaid to us. As of June 30, 2015, RMB23.4 million in total expenditure had been incurred with respect to the development of Beijing Yining Hospital. We have the right to appoint two directors to the five-member board of the hospital. Both we and the joint venture partner are responsible for helping the hospital obtain all regulatory approvals, licenses and permits necessary to operate the hospital.

As part of the joint venture agreement to establish Beijing Yining Hospital, we also agreed not to make investments in any business that may compete with the hospital in Beijing,

In November 2015, we entered into a management agreement with our joint venture partner and Beijing Yining Hospital under which we provide management services to the hospital in return for management service fees. According to the agreement, we are responsible for: (i) recommending doctors and other medical staff to be employed at the hospital; (ii) providing training and operational guidance to medical staff; (iii) procuring that the hospital•s practices and employees comply with applicable regulations; and (iv) appointing a management-level hospital administrator to oversee day-to-day operations. The term of the agreement expires in 2025. The agreement is subject to automatic renewal for one year upon the expiration of the initial agreement period and any subsequent renewed period. Parties to the agreement may decline to renew with two months written notice.

Our management service fee for Beijing Yining Hospital is calculated as follows: (i) we receive a management service fee of RMB1.7 million for the remainder of the year 2015 and RMB3.4 million for the year 2016, payable by our joint venture partner; (ii) for subsequent periods of the agreement, our annual management service fee is calculated as (x) 20% of the annual minimum performance target plus (y) 50% of the amount in excess of such target, payable by the hospital. The annual minimum performance target represents net profit of the hospital and begins at RMB2.0 million for the year 2016, increases to RMB4.0 million for the year 2017, and subsequently increases by a predetermined amount between RMB0.4 million and RMB0.7 million per year until the year 2025, for which the minimum performance target is RMB8.4 million. If we fail to reach the minimum performance target for the year 2016, our management service fee for such year will be reduced by 50%. For subsequent periods, if we fail to reach the minimum performance target in any year, we do not receive any management service fee for such year.

The parties agreed to customary termination rights. In addition, if the hospital fails to meet minimum performance targets for each of the first three years of operation, or for three out of any five consecutive years of operation, both the hospital and the third party have the right to terminate the agreement.

Expansion of Our Healthcare Facility Network

We carefully research and review expansion opportunities and undertake comprehensive vetting of potential targets. As of the Latest Practicable Date, we have three planned healthcare facilities.

Expansion Strategies

We prudently research and review potential expansion opportunities and carefully consider a number of factors in such assessment, including, among others, the local demand for psychiatric healthcare, quality of facilities required, estimated breakeven and investment payback period, potential market growth, policy initiatives and regulatory and licensing issues. We also emphasize identifying opportunities that we believe fit our business expansion models, which we have historically had success with. Historically, we have expanded our network primarily through organic growth by establishing new hospitals, and have recently started to utilize management agreements to manage third party hospitals in which we may hold non-controlling equity interest or psychiatric departments and/or make equity investments to establish jointly-owned psychiatric healthcare facilities. We expect to continue

to leverage these models for a significant portion of our further expansion plans. Historically, the investment payback period for our healthcare facilities has ranged from approximately one to three years. Based on knowledge and experience gained from our past expansion efforts, we

Linhai Kangning Hospital

We plan to establish Linhai Kangning Hospital in Linhai City, Taizhou, Zhejiang Province as a psychiatric specialty hospital. We incorporated Linhai Kangning, the subsidiary operating the hospital, in February 2015 and held 80% of the equity interest as of the Latest Practicable Date. In September 2013, we entered into an agreement to lease the land and property for Linhai Kangning Hospital from an independent third party. We subsequently began constructing leasehold improvements and applying for relevant permits and licenses to ensure that such property will be fully suited to serve as a psychiatric specialty hospital that meets our standards. We expect our portion of the total investment in Linhai Kangning Hospital to be RMB20.0 million, which we have financed primarily with cash inflows from operations. As of June 30, 2015, we had incurred RMB18.7 million for our investment and expenses in Linhai Kangning Hospital. We expect to commence operations at Linhai Kangning Hospital in December 2015 or early 2016, with initially 35 full-time medical staff and 80 beds. We plan to ramp up its operations to 80 full-time medical staff and 200 beds by 2018.

Hangzhou Yining Hospital

We plan to establish Hangzhou Yining Hospital in Hangzhou•s Yuhang District as a psychiatric specialty hospital. We expect to incorporate the subsidiary operating the hospital in December 2015. In November 2014, we entered into an agreement to lease the land and property for Hangzhou Yining Hospital from an independent third party. We plan to begin constructing leasehold improvements in the second half of 2015 and to apply for the relevant permits and licenses to ensure that such property will be fully suited to serve as a psychiatric specialty hospital that meets our standards. We expect our total investment amount in Hangzhou Yining Hospital to be RMB30.0 million, of which we expect to fund RMB20.5 million from the expected proceeds from the Global Offering and the remaining portion from cash inflows from operations. As of June 30, 2015, we had incurred RMB0.5 million for our investment and expenses in Hangzhou Yining Hospital. We expect to commence operations at Hangzhou Yining Hospital in 2016, with initially 45 full-time medical staff and 100 beds. We plan to ramp up its operations to 80 full-time medical staff and 220 beds by 2018.

Shenzhen Yining Hospital

We plan to establish Shenzhen Yining Hospital in Shenzhen as a psychiatric specialty hospital. We incorporated Shenzhen Yining, the subsidiary operating the hospital, in 2014 and held 52% of the equity interest as of the Latest Practicable Date. We are in the site selection process and plan to begin constructing leasehold improvements and applying for relevant permits and licenses after we enter into a leasing agreement. We expect our portion of the total investment in Shenzhen Yining Hospital to be RMB50.0 million, of which we expect to fund RMB38.0 million from the expected proceeds from the Global Offering and the

Our Services and Treatment Departments

We advocate compassionate, patient-centric values in our business practices, which we incorporate into our day-to-day operations. We carefully study advanced overseas psychiatric healthcare systems for guidance and inspiration as to the best practices in our field. In particular, we have studied and implemented certain practices of top psychiatric healthcare facilities in Taiwan, which we believe is a well-developed psychiatric healthcare market, that reflect the patient-first approach that we strive to promote. For example, we have designed our psychiatric healthcare facilities with carefully designed interiors in order to convey to patients and their families the feeling of entering and living in a friendly environment. To that end, we ensure that hospital rooms and facilities offer ample space, quality furniture and extensive access to natural light and leisure activities. We also maintain restaurants, communal areas

Geriatric Psychiatry Subdepartment

Our geriatric psychiatry subdepartment serves elderly patients who often have special treatment and other needs compared to the general psychiatric patient population. Conditions treated in this subdepartment include, among others, senile dementia, vascular dementia, geriatric depression, geriatric sleep disorders, elderly schizophrenia and mental disorders attributable to physical illness.

Treatments provided in the geriatric psychiatry subdepartment include medical treatment, special occupational and recreational therapy, group therapy, EEG biofeedback therapy, cognitive training, traditional Chinese medicine therapy, herbal fumigation treatment and others. We also strive to provide a high quality patient treatment experience to our elderly patients. To that end, our geriatric psychiatry facilities at Wenzhou Kangning Hospital offer therapeutic traditional fumigation chambers, a dedicated spa, special heating and bathing facilities and various other facilities and services designed to care for elderly patients.

Behavioral Medicine Subdepartment

Our behavioral medicine subdepartment primarily focuses on the diagnosis and treatment of alcohol addiction, illicit and prescription drug addiction and psychotropic substance poisoning, as well as the mental health complications that arise from or relate to the above conditions. We utilize advanced methods and technology in our analysis process, including various qualitative and quantitative tests such as high performance liquid chromatography to identify each component in a patient•s blood work. We also aim to provide effective alleviation of physical and mental withdrawal symptoms by rationally combining Chinese and Western medicine in a holistic manner, in conjunction with behavioral therapy, psychotherapy and psychosocial intervention as part of the relapse prevention system. To these ends, we also conduct motivational interview therapy, family therapy, addiction group psychotherapy, addicts anonymous self-help groups and crisis intervention.

Research efforts with respect to the behavioral medicine subdepartment focus on psychoactive substances and diagnosis and treatment of substance-induced psychotic disorders. In 2015, our behavioral medicine subdepartment was designated as a Key Department for Non-public Healthcare Facilities with Respect to Special Clinical Disciplines in Zhejiang Province (ê ² ¢ ® m < Ú ô W ‘ $ ª Å £).

Psychosomatic Disorder Subdepartment

Our psychosomatic disorder subdepartment primarily focuses on two functions: (i) early evaluation and treatment of mental disorders and (ii) diagnosis and treatment of neurological diseases attributable to mental disorders, mental disorders attributable to physical illness and joint mental and physical disorders. In both cases, this subdepartment focuses on early diagnosis and treatment, which we believe is conducive towards higher recovery rates as well as reducing relapse rates. With respect to first-episode schizophrenia, we focus on studying the underlying biological causes, clinical characteristics, individualized drug treatment, psychosocial rehabilitation of mental disorders and other aspects in order to develop intervention methods specifically suited to addressing first-episode schizophrenia.

Clinical Psychology Subdepartment

Our clinical psychology subdepartment serves as a key base for the research and teaching functions of Wenzhou Kangning Hospital, as well as for psychological crisis intervention. Medical students from the various universities and other institutions that we partner with primarily study and train in this subdepartment. The primary focus of the clinical psychology subdepartment is to provide medical treatment and psychotherapy addressing the psychological aspects of various neurotic disorders, affective/mood disorders, sleep disorders, eating disorders, stress-related disorders and child and adolescent mental disorders. Doctors, counselors and nurses collaboratively provide diagnosis and treatment services to patients, including for, among other things, anxiety disorders, sleep disorders, adolescent psychology and marriage counseling. In 2013, our clinical psychology subdepartment was designated as a Key Department for Non-public Healthcare Facilities with Respect to Special Clinical Disciplines in Zhejiang Province (ê ² ¢ ® m < Ú ô W ‘ $ ª Å £).

Rehabilitation Department

The rehabilitation department, which is a stand-alone department only available at Wenzhou Kangning Hospital, consists of inpatient rehabilitation facilities and occupational therapy centers, with comprehensive facilities and integrated functions. Inpatient rehabilitation services include EEG biofeedback training transcranial magnetic stimulation and electromagnetic field treatment. Occupational therapy services include physical exercise treatment, arts and calligraphy treatment, musical, cultural and entertainment treatment and at-home treatment.

Judicial Appraisal Institution

The Judicial Appraisal Institution, which is a stand-alone institution available at Wenzhou Kangning Hospital, focuses on identifying and tracking mental health status in individuals. We founded the Judicial Appraisal Institution in 2006. Its core functions are: (i) identification of psychiatric status, (ii) identification of legal capacity, (iii) identification of legal relationship, (iv) evaluation of psychiatric disability level, (v) identification of mental disability and (vi) identification of mental disability for medical parole.

Other Departments

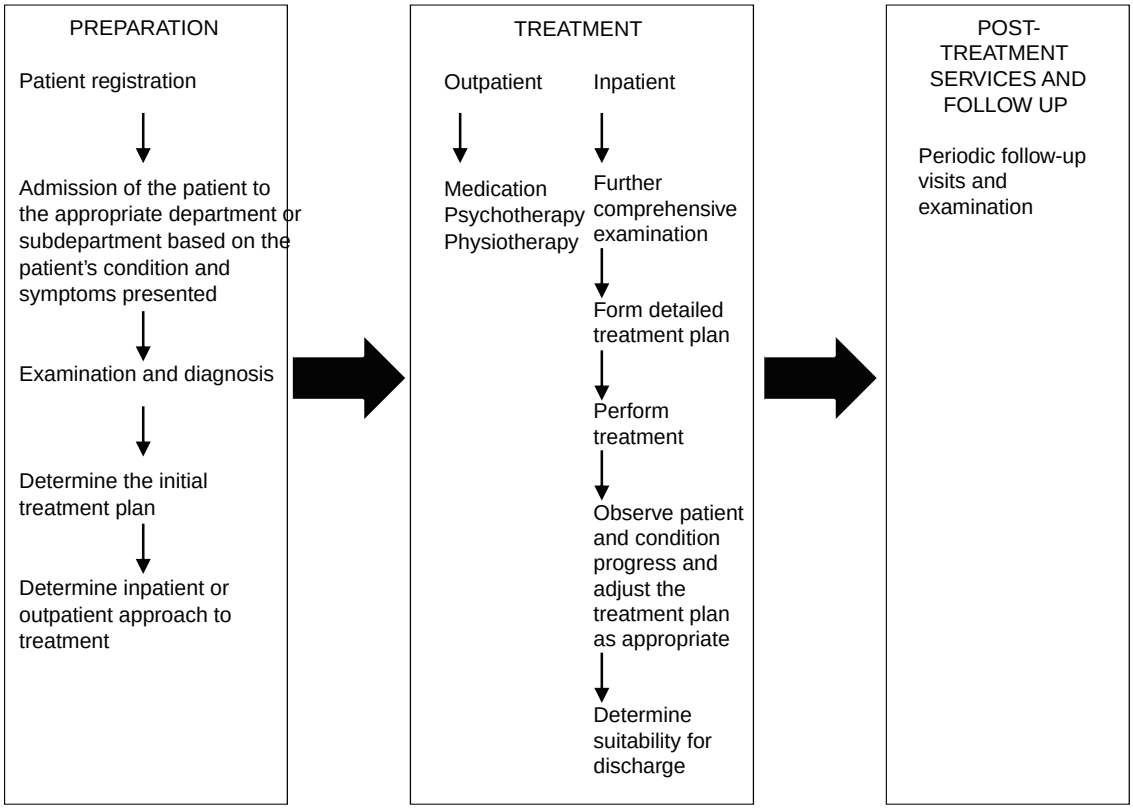
As a Grade A Class III Hospital, we operate Wenzhou Kangning Hospital as a full-service hospital offering comprehensive healthcare services in support of its psychiatric healthcare capabilities. Accordingly, in addition to the operations of the psychiatric departments, Wenzhou Kangning Hospital also provides a number of other general and specialized medical services through other departments, including emergency, surgery, orthopedics, obstetrics and gynecology, dermatology, stomatology and hemodialysis. Moreover, Wenzhou Kangning Hospital operates a number of laboratories on-site, including for pharmacy and radiology, as well as a clinical laboratory and a special examination and inspection laboratory. While the services provided at the non-psychiatric departments of

Wenzhou Kangning Hospital are accessible to the general public, their primary purpose is to provide supplementary healthcare services to psychiatric patients on-site. As we continue to implement upgrades and other ramping up activities to increase patient treatment capacity at Wenzhou Kangning Hospital, we expect to generate increased revenue from its other departments in line with the growth in overall patient volume.

Our Yanjiao Furen Hospital operates an internal medicine department as a complementary component to its psychiatric healthcare focus. As of the Latest Practicable Date, aside from Wenzhou Kangning Hospital and Yanjiao Furen Hospital, we do not have any non-psychiatric departments at any of our other healthcare facilities in operation. Revenue from non-psychiatric healthcare services amounted to RMB30.1 million, RMB33.0 million, RMB38.9 million and RMB21.0 million in 2012, 2013 and 2014 and the six months ended June 30, 2015, respectively, representing 17.6%, 14.6%, 13.1% and 13.1% of our total revenue in the same period, respectively.

Our Psychiatric Treatment Process

Based on years of industry experience and accumulated know-how, we have developed and implemented highly standardized treatment procedures across the psychiatry department, and continuously review such procedures for areas of potential improvement. Our treatment process focuses on individualized treatment by providing patients with the most suitable doctors and qualified nurses at every treatment stage in order to maximize their prospects of recovery. The following diagram illustrates our typical treatment process:



Our ps chiatric treatment process begins ith patient registration at an of our healthcare facilities. In the case of Wen hou Kangning Hospital, the patient is then admitted to the appropriate ps chiatric subdepartment based on an initial anal sis of the patient's condition and s mptoms. In the case of our other healthcare facilities, the patient is then admitted to the general ps chiatr department.

Ne t, the doctor conducts an initial e amination and diagnosis of the patient b (i) asking about the medical histor of the patient, (ii) conducting a ps chiatric e am, ph sical e am, laborator e am and other supplemental e aminations and (iii) here appropriate, conducting a mental health assessment. After obtaining the preliminar diagnostic result, the doctor determines the appropriate treatment plan and hether such plan should be carried out

due to various private, personal or family reasons and occasionally due to the fact that the guardian is not available or contactable, we report such cases to the government authority in charge of public safety for review. Upon receipt of our report, the government authority generally initiates an administrative process to determine whether an involuntary admission shall be ordered. According to the Mental Health Law of 2013, a judicial appraisal upon the patient•s condition from a qualified judicial appraisal institution is required for the authority to determine whether an involuntary admission is necessary. We only accept application for involuntary admission after the government authority formally lodges an admission application with us which needs to be supported by the judicial appraisal conclusion. After the adoption of the Mental Health Law of 2013 on May 1, 2013, we admitted 49, 85 and 65 inpatients on an involuntary basis in 2013, 2014 and the six months ended June 30, 2015, respectively.

OUR OTHER ACTIVITIES AND FUNCTIONS

We undertake various activities at and through our psychiatric healthcare facilities that are outside the scope of normal, revenue-generating business activities.

Medical Research

As the owner and operator of a leading, top-rated psychiatric hospital, we strive to contribute quality research and advancements in the medical fields in which we operate. Wenzhou Kangning Hospital provides research hospital functions and all of its full-time doctors are encouraged to contribute to research studies based on the work they perform for

Teaching and Training

One of our core goals is to contribute to the progress and advancement of psychiatric healthcare in China as a whole. To that end, we have actively pursued partnerships and collaborations with a variety of major institutions for teaching and training purposes. We began undertaking teaching hospital activities in 2003, when we established a cooperation partnership with Wenzhou Medical University to serve as a teaching base for psychiatry, and since then have accepted a generally increasing number of medical students per year for clinical internships and apprenticeships, most recently reaching approximately 750 in 2014. We later expanded our partnerships to include Bengbu Medical College and Qiqihar Medical University, resulting in us having close relationships with multiple medical colleges in the PRC. In 2014, we also began providing clinical psychiatric training for undergraduate medical students of Wenzhou Medical University. Furthermore, Wenzhou Kangning Hospital serves as a training base for the Zhejiang Standardized Resident Doctors of Psychiatry Institution and for the National Mental Consultant Qualification Examination.

In addition to undertaking teaching and training functions for other organizations, we also engage in active teaching and training for all of our full-time doctors and medical staff. Through establishing the infrastructure and corporate culture for promoting teaching and training activities, we believe we are able to elevate the knowledge and technical skill of our medical staff, as well as raise our industry profile as a center of skills-based development, which benefits our ability to recruit and retain quality medical professionals and students.

Community Outreach Programs and Corporate Social Responsibility

We have been a responsible member of the Wenzhou community, as well as in Zhejiang Province more broadly, and believe that our corporate social responsibility efforts reflect our corporate values. We actively strive to be socially responsible and believe in giving back to local communities and supporting charitable causes. We frequently engage in community outreach efforts on both a voluntary basis and as required by government as part of social responsibility for being a Grade A Class III hospital. We are well-regarded in Wenzhou and the surrounding area for our social outreach efforts, particularly with respect to partnering with various institutions in order to offer free or low cost medical examination and screening services to underprivileged populations. We aim to continue to proactively organize community clinic activities and promote mental illness prevention. Moreover, we actively …engage in emergency relief efforts and dispatch medical teams to render on-site assistance for natural disasters, such as the 2008 earthquake in Wenchuan, Sichuan Province.

Furthermore, we make frequent donations to charities that aim to cover healthcare costs incurred by patients who are unable to pay their out-of-pocket medical bills. In 2012, 2013 and 2014 and the six months ended June 30, 2015, such charitable contributions amounted to RMB2.1 million, RMB2.4 million, RMB1.8 million and RMB0.8 million, respectively. However, as we also receive a portion of the payments for our medical bills from charities, a small amount of our payments from charities are attributable to our own donations.

EMPLOYEES

Our number of full-time employees increased from 849 as of December 31, 2012 to 973 as of December 31, 2013, remained at 973 as of December 31, 2014 and increased to 1,138 as of June 30, 2015. The table below sets forth the total number of our employees by function as of June 30, 2015:

	As of June 30, 2015
Management[(1)]	10
Administrative staff	107
Doctors [(1)]	171
Other medical staff [(1)]	507
Others	343
Total	1,138

Note:
(1) Includes six management members who also serve as doctors and other medical staff.

Qualification of Our Medical Professionals

The qualification and expertise of doctors at our psychiatric healthcare facilities is vital to the quality of healthcare services we are able to provide to our patients, and in turn have a significant impact on our competitiveness and reputation.

In China, licensed doctors are subject to various trainings and periodic assessment of their professional skills, achievements and professional ethics by institutions or organizations entrusted by the public health department. There are three professional qualification ranks for doctors in China, which are, from lowest to highest rank: (i) junior qualification for resident doctors (ë < ª), (ii) medium qualification for attending doctors (ô 7 < ª) and (iii) senior qualification for associate chief doctors (ô , < ª) and chief doctors (ô , < ª). See •Regulatory Overview „ Rules on Medical and Nursing Personnel of Medical Institutions.Ž The table below sets forth, as of the dates indicated, the number of each rank of doctors employed by us at each of our psychiatric healthcare facilities:

	As of December 31,			As of June 30,
	2012	2013	2014	2015
Chief doctors and associate chief doctors	22	23	23	26
Attending doctors	36	39	38	55
Resident doctors	66	67	89	94
Total	124	129	150	175

In terms of area of specialt , our doctors are classified into (i) ps chiatric doctors, ho provide ps chiatric medical services to patients; (ii) non-ps chiatric doctors, ho are general specialists or surgical specialists that provide non-ps chiatric medical services to patients; and (iii) ancillar doctors, ho provide ancillar medical services to patients, such as medical imaging e aminations. The table belo sets forth, as of the dates indicated, a breakdo n of our doctors:

	A of Decembe 31,			A of J ne 30,
	2012	2013	2014	201 5
Ps chiatric doctors	64	74	85	99
Non-ps chiatric doctors	44	40	48	55
Ancillar doctors	16	15	17	21
To al	**124**	**129**	**1 0**	**17 5**

During the Track Record Period, e did not have an doctors engaged in multi-site practice at other medical institutions. Going for ard, as e continue to e pand our business, e ma e plore opportunities in multi-site practice for our doctors in order to broaden their coverage and more efficientl allocate our medical resources.

We utili e a centrali ed clerical management s stem to handle qualification registration for our medical professionals and to maintain license records. The human resources department conducts periodic e aminations to ensure each medical professional's practice is ithin the scope of his or her license. It also reminds doctors to appl for ne t professional rank hen the become eligible.

Rec i men and Benefi

A central consideration in our recruitment process for both ne and e perienced medical personnel is to identif doctors and staff ho are illing and able to conscientiousl fulfill their professional duties as medical practitioners and to do so ith respect and compassion for patients and their families.

Our recruitment process begins at the medical graduate-level, here e focus on candidates majoring in fields such as ps chiatr , ps cholog and nursing, including those ho have studied or received training in equivalent fields overseas. Our candidate selection process emphasi es factors such as talent, academic performance, moral character, dedication to ps chiatric healthcare as a career and fitness ithin our corporate culture. In 2014, e began sponsoring scholarships for 28 selected medical students speciali ing in ps chiatr at Wen hou Medical Universit , and plan to increase the annual scholarship class going for ard. Such scholarships cover one-half of tuition fees and provide certain additional incentives for academic achievement in return for the students agreeing to join our Group after graduation for a period of five ears, assuming that the successfull meet our academic standards. We believe that b sponsoring talented students ith a demonstrated dedication to ps chiatr , e ill be able to establish a strong pipeline of future doctors to join our healthcare facilit net ork.

We also recruit high-caliber medical personnel from other public and private hospitals in China. When evaluating such candidates, our key criteria include strong medical ethics, sound technical skills and successful achievement of a certain degree of academic standing or expertise in the psychiatric healthcare field. We impose particularly high standards when recruiting senior medical personnel.

We provide competitive employment packages, including stable salaries, bonuses and benefits. We allocate a significant portion of total employee compensation to performance-based bonuses, which we believe provides strong performance incentives. Benefits include paid vacation leave, which includes holiday leave, sick leave, personal leave, maternity leave, and family visitation, as well as social insurance as mandated by the PRC Social Insurance Law. Social insurance comprises the Five Insurances and One Fund (五险一金) and consists of pension, basic medical insurance, maternity insurance, work-related injury insurance and unemployment insurance, plus housing provident fund.

Training and Development

We believe that prioritizing the highest quality training and development practices will enable us to maintain and strengthen our position as a center for research and specialists in psychiatric medical treatment. As a result, we dedicate significant attention to providing high-quality training and development to our doctors and other medical staff.

We utilize a variety of channels to promote training, research, knowledge-sharing and research article publication. For example, we actively encourage and provide training and development for our employees, including both general skills and specialized skills training specific to the employee•s role and responsibilities. Individuals whom we have identified as having particularly high potential and aptitude are afforded management courses and short-term study opportunities, which we believe allows them to maximize their operational capability and management skill.

We encourage active participation in academic conferences both domestic and abroad, as well as submission of academic papers for publication. Our doctors are required to publish research and treatment results, which we believe is instrumental to keeping our staff appraised of the latest developments and best practices in their respective fields. We also encourage our staff to cultivate their talent by taking advantage of our open-door policy of allowing doctors and nurses to transfer between our healthcare facilities and external facilities operated by third parties, which we believe fosters adaptability to new environments and broadens the scope of training opportunities.

Furthermore, we plan to implement a rotation system between our healthcare facilities for our management-level staff in order to expand opportunities to gain experience in different environments and with different colleagues. We believe these programs also provide us with clearer outlook on our competitive positioning and needs.

Retention

We believe that we are able to maintain high retention rates for our personnel due to (i) our ability to provide the resources and platforms for self-improvement and career advancement, (ii) our extensive training, research and teaching opportunities, both internally and with external partners and (iii) our competitive compensation and benefits packages. The table below sets forth, for the years indicated, the retention rate of our medical personnel across our network:

	For the year ended December 31,			For the six months ended June 30,
	2012	2013	2014	2015
	%			
Retention rate[(1)]	78.9%	81.7%	85.4%	93.9%

Note:

(1) Calculated as the total number of medical personnel who resigned during a financial period (excluding

S anda di ed Medical Se ice

To ensure the high-quality of our services, we standardize our treatment services and operating protocol across all of our psychiatric healthcare facilities. Our standardized treatment services and operating protocol primarily comprise: (i) standardized clinical workflow to receive, diagnose and treat incoming patients; (ii) standardized recording of medical history, diagnosis and treatment, including with respect to symptoms presented, family history, psychiatric examination results, treatment regimen, etc., all of which must be

Product Safety

We do not manufacture any of our own pharmaceuticals and other medical consumables and instead rely on third party suppliers to fulfill our procurement needs. We exercise a stringent and prudent approach to selecting our pharmaceutical suppliers. Our selection criteria include a variety of factors, including quality, service, overall track record, product selection and price. We generally work with reputable suppliers that are able to meet the requirements of our purchases. Upon delivery, inspections are conducted by our staff to ensure strict quality control, including examination as to expiration dates, packaging, product description and other quality indicators. Each of our healthcare facilities has quality control staff responsible for such tasks. In case of defective or otherwise unsatisfactory products, we are able to return such products to the supplier, according to the terms of our supply contracts and historical experience with our suppliers.

During the Track Record Period, we did not encounter any product quality issues or receive any defective products that would have a material adverse effect on our business, financial condition or results of operations.

Industry Regulation Standards

The PRC maintains strict standards for medical institutions and professionals. Medical institutions in the PRC are graded based on the assessment of competent authorities. Medical professionals are also subject to extensive regulations on their qualification and face potential liabilities and disciplinary action for malpractice. Moreover, the National Health and Family Planning Association has promulgated certain measures governing various aspects of psychiatric medical institutions, including their services. See •Regulatory Overview „ Regulatory Supervision of Healthcare Sector in China „ Rules on Mental Health Area.Ž

Management of Complaints and Claims

In the normal course of our business operations, we receive patient complaints from time to time, which may range from mild to severe in urgency and seriousness. To ensure prompt and proper handling of patient complaints, we have implemented internal guidelines and standardized practices which we require our staff to strictly follow. We have a complaint management office at Wenzhou Kangning Hospital and m52 pnated medical staff at our other healthcare facilities to serve as the frontline review team for complaints received at each facility. This review team reports to Mr. Wang Qian, our deputy general manager, who has more than 25 years of experience in the medical industry. Upon the receipt of a complaint, such review body will intervene if the relevant medical staff cannot resolve the matter properly. The complaint management office or the m52 pnated medical staff will carefully review the facts and allegations, interview the relevant doctors and staff, propose a reasonable solution internally and then present the findings and, where appropriate, a proposal to the complainant. In order to maintain sound patient relationships and to be mindful of our reliance on our reputation which may be affected by word-of-mouth patient feedback, we seek to resolve complaints and incidents reasonably and amicably as soon as possible. Serious medical complaints are reported by the complaint management office or the m52 pnated medical staff to the administrator of the respective healthcare facility, who then determines whether the complaint is of a severity that requires direct attention and intervention by the

highest level of our Group's management. We generall seek to efficientl handle complaints in a timel manner, though resolution of material medical incidents generall requires a longer settlement period. We strive to follo -up ith such incidents proactivel to ensure proper and efficient handling of such cases through judicial, administrative or meditation proceedings or through private negotiation and settlement.

MARKETING AND PRICING

We primaril rel on our reputation as a leading ps chiatric healthcare facilit net ork in China and ord-of-mouth to attract patients. We also generate name recognition and good ill through our social programs and communit outreach initiatives. See Our Other Activities and Functions Communit Outreach Programs and Corporate Social Responsibilit . As a result, e utili e a disciplined and prudent approach to marketing and generall onl engage in limited marketing activities.

P ice Con ol and P icing

We are generall entitled to set fees for our medical services and pharmaceutical products at our o n discretion. Ho ever, to maintain our market position, compete effectivel ith public hospitals in the areas here e operate and benefit from enhanced reimbursement coverage from public medical insurance programs, e price our services and products based on the pricing policies of public hospitals, hich are generall subject to national and local pricing regulations. For e ample, in 2013, our Wen hou Kangning Hospital voluntaril joined a government-led program aimed to reform the pricing mechanism of medical products and services in Wen hou. As part of the program, b electing to sell pharmaceuticals at the procurement bidding price for public hospitals ithout an mark-up, e are permitted to implement up to a 30% price increase on certain of our medical services covered b public medical insurance. Ho ever, the higher priced services are onl eligible for reimbursement through such program if the pricing of our services and products remain compliant ith the pricing guidance adopted under such programs. See Regulator Overvie Regulator Supervision of Healthcare Sector in China Reform on Price of Medicine. We subsequentl e panded our participation in such programs to Ping ang Changgeng Ward in late 2013, Yongjia Kangning Hospital in 2014 and Cangnan Kangning Hospital in earl 2015. Revenue from pharmaceutical sales attributable to such pricing regime amounted to RMB63.5 million in 2014 and RMB38.2 million in the si months ended June 30, 2015, representing 82.1% and 90.4% of our total revenue from pharmaceutical sales in the same period, respectivel . As a result, despite being a privatel -o ned hospital operator, PRC regulations and insurance programs e ert significant influence over the pricing of our services and products.

OUR CUSTOMERS

During the Track Record Period, our five largest customers contributed 4.0%, 3.8%, 3.9% and 3.9% of our total revenue in 2012, 2013, 2014 and the si months ended June 30, 2015, respectivel . During the Track Record Period, our largest customer, Ping ang Changgeng Ward, from hich e derived management service fee revenue contributed 3.5%, 3.4%, 3.5% and 3.5% of our total revenue in 2012, 2013, 2014 and the si months ended June 30, 2015, respectivel . Other than Ping ang Changgeng Ward, all of our other customers during the

OUR SUPPLIERS

We primarily rely on our suppliers for (i) various pharmaceutical products, medical equipment and medical consumables and (ii) construction and renovation services with respect to our healthcare facilities.

In 2012, 2013 and 2014 and the six months ended June 30, 2015, our five largest suppliers together accounted for 62.6%, 65.5%, 56.7% and 63.4% of our total purchases of pharmaceutical products, medical consumables and construction and renovation services, respectively, and our single largest supplier accounted for 32.8%, 29.5%, 23.2% and 30.7% of our total purchases of pharmaceutical products, medical consumables and construction and renovation services during the same period, respectively. As of the Latest Practicable Date, none of our Directors or any shareholder, who to the knowledge of our Directors, owns more than 5% of our issued share capital immediately following completion of the Global Offering (but without taking into account the exercise of the Over-allotment Option) nor any of their respective associates has any interest in any of our five largest suppliers.

We have a stringent system for selecting reliable, high-quality suppliers. We select and appraise our suppliers based on pricing, reputation, service quality, delivery schedule and product and service offerings. We routinely review and assess our suppliers• performance and follow-up on their qualification status with respect to any necessary renewals or new qualifications required in order to ensure the legality and quality of our supplies. Our suppliers generally grant us credit periods ranging from 75 to 180 days or more, which reflects our sound reputation for reliability and liquidity.

We have entered into long-term contracts with certain of our suppliers. For example, in May 2013, we entered into a long-term supply agreement with Sinopharm, which became our second largest supplier of pharmaceuticals and medical consumables in 2013 and our largest supplier for such products in 2014. Under the terms of our agreement with Sinopharm: (i) pharmaceuticals subject to national and provincial drug catalogs maintained by the PRC government authorities are sold to us by reference to the procurement bidding price of public

In addition, during the Track Record Period, our largest supplier for services has been Kunpeng Construction Group Co., Ltd. (• Kunpeng Ž), a contractor for construction services. Substantially all of our procurement from Kunpeng occurred in 2014, primarily in connection with the upgrades under development for Wenzhou Kangning Hospital. Under the terms of our agreement with Kunpeng: (i) Kunpeng will undertake construction of the upgrade and

COMPETITION

The ps chiatric healthcare industr in China is highl fragmented. We compete ith a number of private and public healthcare providers in the ps chiatric healthcare industr both in local regions here e operate and at a national level. At the national level, our principal competitors primaril include public hospitals, most notabl Shanghai Mental Health Center (j 9 Z Z [• Đ) and Beijing Anding Hospital (/ Ä › < ë). We also compete ith regional pla ers here e have substantial operations. To a lesser degree, e also indirectl compete ith ps chiatric healthcare facilities overseas, in particular in Tai an, Hong Kong and Singapore, hich ma attract patients in the PRC ho ish to receive ps chiatric treatment abroad, or hich ma seek to establish branch or partnership operations in the PRC.

Participants in the ps chiatric healthcare industr generall compete on the bases of perceived e pertise, availabilit of specialists, price, qualit of service, and for inpatients, living conditions. Ps chiatric healthcare facilities also compete ith each other as ell as universities and other institutions for talented orkforces, in particular ith respect to doctors of various levels, nurses and ne medical graduates.

We ma also face competition from ne er entrants in the industr in hich e operate, though there are significant barriers to entr , including the high cost of recruiting talented doctors and other medical staff from established industr participants and the e tensive e perience and speciali ation that hospital managers are required to have.

Furthermore, e endeavor to keep ourselves informed and up to date regarding best practices in the ps chiatric healthcare industr , as ell as the professional medical service industr more generall , including ith respect to, among other things, standards of service, latest medical studies, technologies and developments, trends in patient e pectations, etc. To this end, e encourage our doctors and other staff to activel follo the latest ne s and developments in the sectors in hich the operate. We also keep ourselves up to date on the practices of industr participants overseas, ith prudent consideration for an significant cultural differences hich ma serve as barriers to effective implementation in our o n practices.

INFORMATION TECHNOLOG

Our business relies on efficient, uninterrupted operation of our information technolog s stems. Our information s stems primaril include hospital information s stems (HIS), electronic medical records (EMR), laborator information s stems (LIS), picture and archiving communication s stems (PACS) and office automation (OA). We engage independent third parties to develop and implement our information s stems, hich are then maintained b our information technolog team to support our business operations.

All of our healthcare facilities are interconnected by way of the HIS network, allow data-sharing at the Group level and facilitating more informed decision making at the central management level. We plan to implement upgrades and other improvements to our information technology system in order to support our business development. In particular, we believe that utilizing an advanced information system will facilitate our treatment procedures, improve medical staff efficiency and reduce operating costs.

We have developed and made available an online service platform accessible to the public. Existing and prospective patients can book appointments through the platform, communicate with doctors, request medical reports and pay their medical bills. We are current working to expand both accessibility of the platform to mobile users as well as the scope of services and information available.

INTELLECTUAL PROPERTY

We have registered or applied for registration of certain trademarks in the PRC and Hong Kong relating to the names and logos of certain of our properties, our Company and our subsidiaries. As of the Latest Practicable Date, we have (i) one trademark registered in the PRC, (ii) 11 pending trademark applications in the PRC, (iii) two pending trademark applications in Hong Kong and (iv) six registered domain names. See •Appendix VII „ Statutory and General Information „ 2. Further Information about our Business „ B. Our Intellectual Property Rights.Ž

As of the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and we believe that we have taken reasonable measures to prevent infringement of our own intellectual property rights. Our Directors confirm that we did not infringe any other third-parties• intellectual property rights during the Track Record Period that would have a material adverse impact on our operations and financial position and, as of the Latest Practicable Date, we did not have any pending or threatened claims against us or any of our subsidiaries relating to the infringement of any intellectual property rights owned by third parties.

PROPERTIES

As of June 30, 2015, we held building ownership rights to a portion of Kangning Hospital with a total GFA of approximately 14,677 sq.m., and the underlying land-use rights with a total site area of approximately 18,760.02 sq.m.

As of June 30, 2015, we leased or occupied properties with an aggregate GFA of approximately 121,202.34 sq.m. under 14 lease agreements. We primarily use such properties for the operation of our self-operated psychiatric specialty hospitals, as well as for office premises and staff dormitories.

For our four self-operated psychiatric specialty hospitals located on leased properties, namely Qingtian Kangning Hospital, Cangnan Kangning Hospital, Yongjia Kangning Hospital and Yueqing Kangning Hospital, we have entered into underlying property lease agreements from third parties. The material terms of such agreements are as follows: (i) lease durations range from eight to 15 years; (ii) fixed annual rental fee; (iii) rental fees typically must be paid in advance; (iv) we are permitted to invest leasehold improvement into leased buildings in order to renovate and convert such buildings into psychiatric hospitals, for which we bear the associated costs. Upon lease termination, we are permitted to remove such leasehold improvements prior to returning the leased properties to the lessor. We are required to notify the lessor at least three months prior to the scheduled expiration dates whether we wish to renew the lease agreements. Due to our strong track record and industry reputation, we do not expect to face significant obstacles towards renewing such agreements with the relevant counterparties, while retaining flexibility to relocate such operations elsewhere if desired. Generally, our lease agreements do not provide any party with the right to terminate prior to the scheduled expiration dates, and if either party breaches prior to expiration, such party is liable for paying penalties and any loss suffered by the other party as a result of the breach. Certain lease agreements permit early termination with three months written notice and consent of the counterparty.

We have had certain incidents of non-compliance with respect to two of our hospitals. See •Business „ Legal Compliance and Proceedings „ Non-compliance IncidentsŽ and •Risk Factors „ Risks Relating to Our Business and Industry „ We are not in material compliance with certain regulatory requirements with respect to two hospitals that utilize leased properties.Ž

AWARDS AND RECOGNITION

We have earned significant acclaim for our high-quality, patient-centric services and various contributions to the PRC psychiatric healthcare industry. The table below sets forth recent major awards and recognition conferred on us:

Year	Recipient	Award and Recognition	Award Issuing Body
2012	Wenzhou Kangning Hospital	Leading Medical Administration Group of Zhejiang Province (ê ² < A ˆ * ‹ † «)	Zhejiang Provincial Health Department (ê ² [B)
2012, 2014	Wenzhou Kangning Hospital	National Trustworthy Hospital (Œ 7 õ 3 õ ‘ ó Ð < ë)	Chinese Hospital Association (• 7 < ë X 6)
2012	Wenzhou Kangning Hospital	Zhejiang Red Cross Merit Award (ê ² Î d ¿ ù ” ¤)	Zhejiang Red Cross (ê ² Î d ¿ 6)
2014	Wenzhou Kangning Hospital	Zhejiang Innovative Charity Project Award (ê ² < 6 K Z £ ê ° f ô - ¤)	Zhejiang Charity Federation

LICENSES, PERMITS AND APPROVALS

During the Track Record Period, we have not been in compliance with all material requisite licenses, permits and approvals that are required for our operations. See •„ Legal Compliance and Proceedings „ Non-compliance Incidents.Ž

The table below sets forth the material licenses, permits and approvals we held that are necessary for our operation as of the Latest Practicable Date:

License	Healthcare Facility	Effective Date	Expiration Date
Medical Institution Practicing License	Wenzhou Kangning Hospital	April 15, 2015	November 24, 2029
Medical Institution Practicing License	Qingtian Kangning Hospital	March 27, 2015	March 26, 2019
Medical Institution Practicing License	Cangnan Kangning Hospital	June 13, 2012	June 12, 2027
Medical Institution Practicing License	Yueqing Kangning Hospital	August 29, 2013	August 29, 2018
Medical Institution Practicing License	Yongjia Kangning Hospital	December 29, 2014	December 31, 2017

In addition to the above licenses and certificates, we have also obtained other licenses and permits relevant to our business operations, such as License for the Deployment of Large Medical Equipment (} è < \ £ ê ã Ä ¢ Ç), License for Radiotherapy (ó › b ¢ Ç), Radiation Security License (g › Ä Œ ¢ Ç) and Judicial Appraisal Institution License (! , á › ¢ Ç). See •Regulatory Overview „ Regulatory Supervision of Healthcare Sector in China.Ž

Our PRC legal adviser, Tian Yuan Law Firm, has confirmed that, except as disclosed in •„ Properties,Ž •„ Environmental MattersŽ and •„ Legal Compliance and Proceedings,Ž as of the Latest Practicable Date, we were in compliance in all material respects with applicable PRC laws and PRC and local regulations. See •Appendix IV „ Summary of Principal Legal and Regulatory Provisions „ Laws and Regulation of the PRC.Ž

In the event of any material non-compliance, we may encounter difficulties in continuing to conduct our normal business operations, and our business, financial condition and results of operations could be materially and adversely affected. See •Risk Factors „ Risks Relating to Our Business and Industry „ We conduct our business in a heavily regulated industry, in particular with respect to Grade A Class III hospitals such as our Wenzhou Kangning Hospital, and cannot assure you that we will be able to obtain or renew the various licenses, permits, approvals and certificates required for our operations.Ž

WORKPLACE HEALTH AND SAFETY

We are subject to the health and safety requirements of the PRC. We have instituted internal policies and systems in place designed with a view to implementing and ensuring compliance with such requirements. We believe that we are, and have been, in compliance with such requirements during the Track Record Period up to the Latest Practicable Date. Potential liabilities to our employees are covered by insurance, which we are required by law to purchase. During the Track Record Period, our employees did not experience any material accidents in the course of our business operations.

RISK MANAGEMENT AND CORPORATE GOVERNANCE

We are dedicated to the establishment and maintenance of a robust internal control system. We have adopted and implemented risk management policies and corporate governance measures in various aspects of our business operations

Financial Reporting Risk Management

We have adopted comprehensive accounting policies in connection with our financial reporting risk management. We provide ongoing training to our finance staff to ensure that these policies are well-observed and effectively implemented.

As of December 31, 2014, our finance team consisted of 13 employees, and is headed by our chief financial officer, Ms. Wang Hongyue, who has extensive experience in public company financial reporting. Other senior members of our finance department are all experienced in finance and accounting.

Human Resource Risk Management

We have established internal control policies covering various aspects of human resource management, such as recruiting, training, work ethics and legal compliance. We adopt high standards in recruitment with strict procedures to ensure the quality of new hiring, and implement rigorous training and research programs, which we believe are effective in equipping them with the skill set and work ethics that we require of our employees. See •„ Employees.Ž

Our employee handbook contains summaries of the relevant laws and regulations governing our business and industry, as well as guidelines regarding best commercial practice, work ethics and the prevention of fraud, negligence, anti-bribery and corruption. We have also made available an anonymous reporting channel through which actual or potential violations of our internal policies or illegal acts at all levels of our Group can be timely reported to management and appropriate measures can be taken to minimize damage.

Legal Compliance Risk Management

Compliance with PRC laws and regulations, especially laws and regulations governing the healthcare industry, as well as the prevention and addressing of liabilities arising from potential medical incidents, are major focus areas of our operational risk management. We

We have an independent medical qualit management committee at the Group level, comprising the head administrator of each healthcare facilit as ell as the heads of various departments in our net ork. The medical qualit management committee is responsible for conducting a monthl revie and assessment of the compliance and reasonableness of pharmaceutical prescriptions on a random sampling basis. An irregularities hich ma indicate instances of prescription abuse or corruption are immediatel reported to the audit department at our headquarters for further revie .

We have established a histle blo er program, including a dedicated hotline and an email address, to receive reports of corruption charges, ith the option of anon mit . We have also established stringent investigation protocols. We have a ero-tolerance polic to ards acceptance of an bribes b our doctors and medical staff. An emplo ee found in breach of our anti-briber and corruption polic ill be dismissed.

With respect to procurement, e require collective decision-making at the management level for purchases e ceeding RMB100,000 and require that our suppliers agree to anti-briber and corruption provisions in suppl agreements ith us.

Info ma ion and Pa ien Da a Ri k Managemen

We have adopted measures, hich our information management department is responsible for implementing and revie ing, to protect patient data in accordance ith relevant la s and regulations and to prevent technical issues in our net ork infrastructure and information management s stem. As of December 31, 2014 our information management team consisted of si emplo ees, led b our deput general manager, Mr. Wang Qian, ho has over 20 ears of e perience in the information technolog industr .

To strengthen patient privac , e have adopted internal policies to ensure that authori ation to access various information s stems is tailored to emplo ee seniorit and department function so that certain information can onl be obtained on an as-need basis. We also use monitoring s stems to monitor the data operating status of the server and alert relevant departments to abnormal situations. Furthermore, most of our full-time emplo ees are required to sign confidentialit agreements under hich the undertake to keep confidential an patient data and operational, financial and other information that the obtain b virtue of their emplo ment ith us.

Ongoing Mea e o Moni o he Implemen a ion of Ri k Managemen Policie

Our audit committee and senior management monitor the implementation of our risk management policies across our Group on an ongoing basis to ensure that our internal controls and risk management policies are effective in identif ing, managing and mitigating risks involved in our operations.

Co po a e G e nance

We are committed to a high standard of corporate governance and prudent management. We believe that e ercising a high standard of corporate governance ill serve to enhance the interests of our Shareholders. Our Board has established procedures on corporate governance that ill compl ith the requirements of the Code on Corporate governance Practices in Appendi 14 to the Listing Rules.

INSURANCE

We currentl purchase medical liabilit insurance (醫療責任保險) for all of our o ned ps chiatric specialt hospitals, generall rene able on a semi-annual basis for Wen hou Kangning Hospital and an annual basis for our other hospitals. We e pect to include our planned ps chiatric specialt hospitals in our insurance coverage upon the commencement of

We do not maintain product liabilit insurance for our medical devices and equipment, nor do e maintain business interruption insurance or ke emplo ee insurance for our e ecutive officers. We believe that our policies ith respect to insurance are in line ith industr practice in the PRC. Ho ever, e cannot assure ou that e ill have sufficient insurance coverage for all liabilities, losses or damages that ma arise in our business operations. See Risk Factors Risks Relating to Our Business and Industr We ma not carr adequate insurance for the professional and other liabilities hich ma arise in our business.

During the Track Record Period, there ere no significant or unusual e cess or deductible amounts under these policies and the Directors are of the vie that the insurance coverage under these policies is adequate and customar for our industr .

ENVIRONMENTAL MATTERS

We are conscious of our environmental protection obligations and activel seek to implement eco-friendl technologies and solutions here feasible. With respect to medical aste management, e have engaged qualified third parties to arrange proper disposal for all of our healthcare facilities in accordance ith applicable la s and regulations.

During the Track Record Period, e have not been in full compliance ith environmental la s and regulations. See Legal Compliance and Proceedings Non-compliance Incidents. In 2012, 2013 and 2014 and the si months ended June 30, 2015, our total cost of compliance ith applicable environmental la s and regulations as RMB0.4 million, RMB0.5 million, RMB0.4 million and RMB0.6 million, respectivel .

Our PRC legal adviser, Tian Yuan La Firm, has confirmed that, e cept as disclosed in Legal Compliance and Proceedings Non-compliance Incidents, our operations as of the Latest Practicable Date ere in compliance ith applicable PRC environmental and safet la s and related PRC and local regulations in all material respects.

LEGAL COMPLIANCE AND PROCEEDINGS

Non-compliance Inciden

During the Track Record Period, e had certain non-compliance incidents that arose in the operation of our business. The table belo sets forth the material incidents, the reason for non-compliance, legal consequences and penalties (including ma imum potential penalties) and measures taken or to be taken:

Inciden of Non-compliance	Rea on fo Non-compliance	Legal Con e ence (Incl ding Maxim m Penal ie) and Vie of PRC Co n el	Remedial Mea e Taken/To be Taken
1. *Lea ed e a Q a Ka H a*	We had not conducted environmental protection verification, hich e ere required to complete prior to opening Qingtian Kangning Hospital. Such non-compliance as due to our management focusing primaril on the commercial aspects of our efforts to e pand and scale up our healthcare facilit net ork and failing to devote sufficient attention to the underl ing legal requirements.	We ma be requested to cease our operations until e are compliant ith the environmental protection verification and ma be fined up to RMB500,000. Based on (i) the representation from the Compan , (ii) the confirmation obtained from the relevant government authorit on Januar 30, 2015 and (iii) the Undertaking Letter the Controlling Shareholders have given in favor of the Compan in regard to an loss e ma sustain as a result of such non-compliance, our	

Inciden of Non-compliance	Rea on fo Non-compliance	Legal Con e ence (Incl ding Maxim m Penal ie) and Vie of PRC Co n el	Remedial Mea e Taken/To be Taken
	We had not conducted fire safet verification for Qingtian Kangning Hospital due to our improper use of the propert underl ing the hospital hich as oned for industrial use until October 2015 hen our landlord obtained the approval for converting the oning at the land to hospital use. Solel as a result of the previous oning defect, e are unable to appl for fire safet verification from the Fire Safet Bureau of Qingtian Count . Such non-compliance as due to our management focusing primaril on the commercial aspects of our efforts to ex pand and scale up our healthcare facilit net ork and failing to devote sufficient attention to the underl ing legal requirements.	We ma be requested to cease our operations and ma be fined up to RMB300,000. Based on (i) the representation from the Compan and (ii) the Undertaking Letter the Controlling Shareholders have given in favor of the Compan in regard to an loss e ma sustain as a result of such non-compliance, our PRC legal advisors are of the vie that such propert defects ill not have an material impact on the business operations of our Group.	Based on an intervie ith the responsible officer of the Fire Safet Bureau of Qingtian Count conducted on Ma 14, 2015, the relevant government authorit is a are of the lack of fire safet verification and e ere not subject to an penalt in the past. Tian Yuan La Firm, our PRC legal advisors, is of the vie that because (i) according to relevant fire protection regulations, fire safet bureaus at the count -level and above are responsible for inspecting the fire safet status of constructed properties and (ii) the intervie ee, as an official representative of the relevant fire safet bureau, had the proper authorit to provide the relevant verbal confirmation ith respect to the fire safet status of Qingtian Kangning Hospital. We have also activel liaised ith the Fire Safet Bureau of Qingtian Count and (a) voluntaril requested such authorit to inspect the fire safet conditions of the hospital, (b) received recommendations to enhance the fire safet condition of the hospital, and (c) implemented these measures as requested b such authorit . Our Directors are of the vie that the relevant properties are safe to occup as the building as designed and constructed in compliance ith applicable fire safet standards and it has not ex perienced an safet issue. On August 10, 2015, e obtained confirmation from the Fire Safet Bureau of Qingtian Count certif ing, after inspection, that the fire safet measures at Qingtian Kangning Hospital conform ith such authorit 's recommendations, and are compliant ith its fire safet standards and that in consideration of the above, (i) e ill be allo ed to continue to use the properties underl ing Qingtian Kangning Hospital and (ii) such authorit ill conduct the fire safet verification after e complete the oning conversion.

Incidence of Non-compliance	Reason for Non-compliance	Legal Consequence (Including Maximum Penalties) and View of PRC Counsel	Remedial Measures Taken/To be Taken
			On October 13, 2015, we obtained the verbal confirmation from the Department of Public Security and Fire Safety of Zhejiang Province that (i) the fire safety bureau at county level has the administrative authority over fire safety matters within its jurisdiction; (ii) it does not supervise day-to-day operations of local fire safety matters; and (iii) historically it has not reviewed or revoked relevant decisions made by the relevant fire safety bureau at county level. Our PRC legal advisors are of the view that the official, as the representative of the Department of Public Security and Fire Safety of Zhejiang Province, is the competent authority to issue such verbal confirmation. As advised by our PRC legal advisors, according to Fire Protection Law of PRC, Provisions on the Supervision and Administration of Fire Protection of Construction Projects and Fire Protection Regulations of Zhejiang Province, the fire safety authority at the county level has the administrative authority over fire safety matters within its jurisdiction under the supervision of the fire safety authority at the provincial level. Based on the verbal confirmation obtained from the Department of Public Security and Fire Safety of Zhejiang Province on October 13, 2015 and in accordance with the above-mentioned PRC laws and regulations, our PRC legal advisors are of the view that the likelihood of the confirmation from the Fire Safety Bureau of Qingtian on August 10, 2015 being revoked by the Department of Public Security and Fire Safety of Zhejiang Province is remote.

Incidence of Non-compliance	Reason for Non-compliance	Legal Consequence (Including Maximum Penalties) and View of PRC Counsel	Remedial Measures Taken/To be Taken
			Our landlord has obtained the approval of converting the zoning of the land underlying Qingtian Kangning Hospital from industrial use to hospital use in October 2015. Upon the completion of such conversion, we have subsequently applied for fire safety verification for Qingtian Kangning Hospital, which we expect to be able to complete by the first quarter of 2016. We and our Controlling Shareholders have undertaken to disclose the progress of the zoning conversion and the fire safety verification for Qingtian Kangning Hospital in our annual and interim reports following the Listing.

Inciden of Non-compliance	Rea on fo Non-compliance	Legal Con e ence (Incl ding Maxim m Penal ie) and Vie of PRC Co n el	Remedial Mea e Taken/To be Taken
2. *Lea ed e e a Ca a Ka H a*	We had not completed the fire safet verification for Cangnan Kangning Hospital, hich e ere required to obtain from the relevant government authorit prior to opening Cangnan Kangning Hospital. Solel as a result of the defective propert title as set out belo , e are unable to appl for fire safet verification from the Fire Safet Bureau of Cangnan Count . Such non-compliance as due to our management focusing primaril on the commercial aspects of our efforts to e pand and scale up our healthcare facilit net ork and failing to devote sufficient attention to the underl ing legal requirements.	We ma be requested to cease our operations and ma be fined up to RMB300,000. Based on ritten confirmation obtained from the Fire Safet Bureau of Cangnan Countr on Ma 28, 2015, our PRC legal advisors are of the vie that the likelihood of being ordered to relocate the current Cangnan Kangning Hospital prior to the relocation of Cangnan Kangning Hospital is remote if e are able to rectif the fire safet deficiencies and implement fire safet management measures in accordance ith the requirements set forth b the Fire Safet Bureau of Cangnan Count . Our PRC legal advisors are of the vie that the confirmations obtained on Ma 28, 2015 and Jul 10, 2015 from the Fire Safet Bureau of Cangnan Count and the confirmation obtained on March 31, 2015 from the Housing and Urban and Rural Planning and Construction Bureau of Cangnan Count permitting us to continue to use the current properties underl ing Cangnan Kangning Hospital until the ne hospital commences operations ill not be affected b the relativel long relocation period, and that although the properties underl ing Cangnan Kangning Hospital have defective title, such authorities are nevertheless the competent authorities to confirm our continued use of such properties until relocation is complete.	On Ma 28, 2015, e obtained confirmation from the Fire Safet Bureau of Cangnan Count that the are a are that the underl ing propert for Cangnan Kangning Hospital cannot fulfill the fire safet verification requirement, and taking into consideration that (i) e are in the process of appl ing and preparing for the establishment of a ne Cangnan Kangning Hospital, and (ii) e agreed to rectif the fire safet deficiencies, the ill continue to allo us to use the current propert of Cangnan Kangning Hospital before relocation of the hospital is completed. In addition, e did not e perience an safet issue in regard to our use of properties at Cangnan Kangning Hospital. On Jul 10, 2015, e obtained confirmation from the same authorit certif ing, after inspection, that the fire safet measures at Cangnan Kangning Hospital conform ith such authorit 's recommendations, and are compliant ith its fire safet standards and that in consideration of the above, e ill be allo ed to continue to use the properties underl ing Cangnan Kangning Hospital until the ne hospital commences operations. Our PRC legal advisors are of the vie that the Fire Safet Bureau of Cangnan Count is the competent authorit to issue such confirmation.

Incidence of Non-compliance	Reason for Non-compliance	Legal Consequence (Including Maximum Penalties) and View of PRC Counsel	Remedial Measure Taken/To be Taken
			On October 13, 2015, we obtained the verbal confirmation from the Department of Public Security and Fire Safety of Zhejiang Province that (i) the fire safety bureau at county level has the administrative authority over fire safety matters within its jurisdiction; (ii) it does not supervise day-to-day operations of local fire safety matters; and (iii) historically it has not reviewed or revoked relevant decisions made by the relevant fire safety bureau at county level. Our PRC legal advisors are of the view that the official, as the representative of the Department of Public Security and Fire Safety of Zhejiang Province, is the competent authority to issue such verbal confirmation. As advised by our PRC legal advisors, according to Fire Protection Law of PRC, Provisions on the Supervision and Administration of Fire Protection of Construction Projects and Fire Protection Regulations of Zhejiang Province, the fire safety authority at the county level has the administrative authority over fire safety matters within its jurisdiction under the supervision of the fire safety authority at the provincial level. Based on the verbal confirmation obtained from the Department of Public Security and Fire Safety of Zhejiang Province on October 13, 2015 and in accordance with the above-mentioned PRC laws and regulations, our PRC legal advisors are of the view that the likelihood of the confirmation from the Fire Safety Bureau of Cangnan County on July 10, 2015 being revoked by the Department of Public Security and Fire Safety of Zhejiang Province is remote.

Incidence of Non-compliance	Reason for Non-compliance	Legal Consequence (Including Maximum Penalties) and View of PRC Counsel	Remedial Measures Taken/To be Taken
			We have adopted plans to relocate Cangnan Kangning Hospital to another location in Cangnan County. As of the Latest Practicable Date, we are in the process of identifying suitable land in Cangnan County. Based on our current development schedule, we expect to be able to complete the land identification approval process by mid-2016 and the land acquisition process by mid-2017. The processes of identifying the necessary land involve extensive site and feasibility research, and land acquisition requires inspection and approvals from multiple government departments, which are beyond our control in terms of timing. We will then initiate design, construction and infrastructure installation for the new hospital, which our conservative estimates will require at least 18 months, resulting in completion of construction at around the end of 2018. Following that, we will conduct inspections and various other procedures to finalize the hospital for opening, which we expect to complete by mid-2019. Finally, we will then relocate patients and medical staff to the new hospital, which we intend to complete by the third quarter of 2019. As we have obtained confirmations from each of the Fire Safety Bureau and Housing and Urban and Rural Planning and Construction Bureau of Cangnan County that the respective authorities will allow us to continue to use the current properties underlying Cangnan Kangning Hospital until relocation is completed, we expect to be able to promptly relocate all patients from the current Cangnan Kangning Hospital to the new property once such site is operational. As a result, we expect that such relocation will not result in an material lost revenue.

Incidence of Non-compliance	Reason for Non-compliance	Legal Consequence (Including Maximum Penalties) and View of PRC Counsel	Remedial Measures Taken/To be Taken
			The gross profit of Cangnan Kangning Hospital amounted to RMB1.7 million, RMB9.6 million, RMB15.1 million, RMB6.5 million and RMB10.6 million in 2012, 2013 and 2014 and the six months ended June 30, 2014 and 2015, respectively, accounting for 3.1%, 11.8%, 14.1%, 12.8% and 17.4% for our total gross profit in the same period, respectively. In light of the confirmation received from the regulatory authority, the expected costs of complying with the requirements set forth in such confirmation and our plan to relocate Cangnan Kangning Hospital, our Directors are of the view that we would not be subject to an material adverse effect in relation to the title defects of the properties of Cangnan Kangning Hospital.
	The landlord did not obtain		
defe0.1(the)-290.1(title)cts of Cangnl borit ma..1(to)-22.470aln		R .1(t/T)7383(Cangndue.1(to)-29.8(orth)-29)-290.1(tir)12.7(ectoman290lli(g(se	

Incidence of Non-compliance	Reason for Non-compliance	Legal Consequence (Including Maximum Penalties) and View of PRC Counsel	Remedial Measure Taken/To be Taken
			As advised by our PRC legal advisors,

Incidence of Non-compliance	Reason for Non-compliance	Legal Consequence (Including Maximum Penalties) and View of PRC Counsel	Remedial Measures Taken/To be Taken
3. Failure of a certain number of employees to participate in social insurance and housing provident funds.	We failed to make mandatory contributions to social insurance and housing provident funds for certain of		

Inciden of Non-compliance	Rea on fo Non-compliance	Legal Con e ence (Incl ding Maxim m Penal ie) and Vie of PRC Co n el	Remedial Mea e Taken/To be Taken
			In addition, e have opened accounts for social insurance and housing provident funds ith the relevant regulator authorities as of the Latest Practicable Date, and have required all of our emplo ees to cooperate and compl ith the legal requirements of contributing to such funds. Starting in August 2015, e (i) have made contributions ith respect to all applicable emplo ees, (ii) ill continue to make full provisions in regard to the difference in the actual contribution amount and the legall prescribed contribution amount until March 2016 and (iii) ill full settle the amount of such difference at the statutoril permitted time for social insurance and Jul 2016 for housing provident funds. We are not able to adjust the contribution amount to the legall prescribed level until such time due to restrictions set forth b the local regulator authorities, hich establish var ing fiscal ears for such contributions and disallo an adjustment until the start of the ensuing fiscal ear.(2)

N e:

(1) For Wen hou Kangning Hospital, such confirmation as issued on March 6, 2015 b the Wen hou Human Resources and Social Securit Bureau of the Wen hou Municipal Social Insurance Administration Center and on March 9, 2015 b the Lucheng Management Department of the Wen hou Municipal Housing Fund Administration Center. For Cangnan Kangning Hospital, such confirmation as issued on Februar 12, 2015 b the Cangnan Count Human Resources and Social Securit Bureau and on Ma 8, 2015 b the Cangnan Branch of the Wen hou Municipal Housing Fund Administration Center. For Qingtian Kangning Hospital, such confirmation as issued on Januar 29, 2015 b each of the Qingtian Count Human Resources and Social Securit Bureau and the Qingtian Count Social Insurance Administrative Bureau and on April 13, 2015 b the Qingtian Branch of the Lishui Municipal Housing Fund Administration Center. For Yongjia Kangning Hospital, such confirmation as issued on Februar 12, 2015 b the Yongjia Count Human Resources and Social Securit Bureau and on Ma 15, 2015 b the Yongjia Branch of the Wen hou Municipal Housing Fund Administration Center. For Yueqing Kangning Hospital, such confirmation as issued on Februar 28, 2015 b the Yueqing Municipal Human Resources and Social Securit Bureau and on Ma 12, 2015 b the Yueqing Branch of the Wen hou Municipal Housing Fund Administration Center.

(2) The fiscal ears established b the local regulator authorities for social insurance contributions are: (i) ith respect to Wen hou Kangning Hospital, April 1 to March 31, (ii) ith respect to Qingtian Kangning Hospital, Januar 1 to December 31 and (iii) ith respect to Cangnan Kangning Hospital, Yongjia Kangning Hospital and Yueqing Kangning Hospital, Jul 1 to June 30.

In e nal Con ol Finding and Rec ifica ion Mea e

We have engaged a reputable internal controls consultant hich revie ed our internal controls. With respect to the material non-compliance incidents identified above, the internal controls consultant recommended certain rectification measures, including conducting prudent revie of future properties before entering into propert agreements, including legal due diligence ith respect to the nature, designated usage and title certificates of such properties.

On Ma 25, 2015, our central management completed the implementation of the updated policies regarding the protocol for establishing ne healthcare facilities based on the recommendation of our internal control consultant. Specificall , such policies require that prior to entering into an arrangement in regard to propert use for a ne hospital, e shall conduct research and verification procedures to ensure that:

(i) the target propert is in material compliance ith (x) all applicable business, land and building rights and certificates, ( ) fire and environmental protection requirements and ( ) other ke inspection requirements, such as applicable fees and tax es and commercial registration;

Based on (i) the facts and circumstances leading to our non-compliance incidents as described in Non-compliance Incidents, (ii) the remedial actions taken to address such incidents and (iii) the foregoing internal control measures, our Directors are of the vie , and the Joint Sponsors, after considering the facts and revie ing the above internal control measures, are satisfied, that (a) the above measures ill effectivel ensure a proper internal

MEDICAL INCIDENTS

Due to the nature of the healthcare industr and the inherent risks in treating patients, especiall ps chiatric patients, ith var ing degrees of general medical conditions, e have e perienced certain material instances of medical incidents at our healthcare facilities involving patient death or resulting in monetar compensation of RMB50,000 or above.

We believe the medical incidents that e have historicall e perienced are commensurate ith risks inherent in our business and industr . For e ample, according to the Frost & Sullivan Report, in 2012, 2013 and 2014, inpatient deaths represented appro imatel 0.42%, 0.45% and 0.50%, respectivel , of total admitted inpatients for all hospitals in China, and appro imatel 0.32%, 0.33% and 0.30%, respectivel , of total admitted inpatients for ps chiatric specialt hospitals in China. B comparison, our number of patient deaths represented appro imatel 0.05%, 0.08%, 0.05% and 0.04% of the total number of inpatients admitted to our healthcare facilities in 2012, 2013, 2014 and the si months ended June 30, 2015, respectivel . Since June 30, 2015 and up to the Latest Practicable Date, e did not e perience an patient fatalit . Our significantl lo er patient fatalit rates reflect our continued efforts to treat the safet of our patients and emplo ees ith the utmost priorit , as ell as our efforts to fine-tune our treatment protocols and procedures over ears of operations to ensure that the incorporate the best practices in our industr . In addition, in 2013, Wen hou Kangning Hospital as rated as a Grade A Class III ps chiatric hospital, the highest grade attainable b hospitals in China. We believe that such grade reflects our compliance ith the stringent regulations applicable to us as ell as our substantial efforts to continuousl improve and maintain hat e believe are the best practices for safet of medical facilities in our field.

We have obtained ritten confirmations from the relevant health authorities for each of our healthcare facilities that (i) (a) such healthcare facilit as not involved in an significant medical incidents in hich it as found to be primaril responsible for the incident or (b) such healthcare facilit did not have an material incidents of medical negligence or malpractice and (ii) such authorit had not imposed an material administrative penalties on the healthcare facilit [(1)]. Our PRC legal advisors are of the vie that each such authorit is a competent authorit to issue such confirmation for the respective healthcare facilit because according to the Medical Institution Regulations (醫療機構管理條例) and its implementation rules, health administration departments at the count -level and above are responsible for supervising and regulating medical institutions located ithin the administrative districts of such departments. During the Track Record Period and up to the Latest Practicable Date, none of our doctors or medical staff ere involved in an disciplinar proceedings or other ise determined to be liable for an medical malpractice incidents.

N e:

(1) For Wen hou Kangning Hospital, such confirmation as issued b the Wen hou branch of the NHFPC on March 9, 2015. For Cangnan Kangning Hospital, such confirmation as issued b the Cangnan Count Health Department on Februar 13, 2015. For Qingtian Kangning Hospital, such confirmation as issued b the Qingtian Count Health Department on Februar 15, 2015. For Yongjia Kangning Hospital, such confirmation as issued b the Yongjia Count Health Department on June 16, 2015. For Yueqing Kangning Hospital, such confirmation as issued b the Yueqing branch of the NHFPC on Ma 8, 2015. For Ping ang Changgeng Ward, such confirmation as issued b the Ping ang branch of the NHFPC on Jul 8, 2015. For Chengdu Ren i Ward, such confirmation as issued b the Jinniu District Health Department of Chengdu on Jul 8, 2015. For Yanjiao Furen Hospital, as confirmation as issued b the Sanhe Municipal Health Department on Jul 8, 2015.

The table belo sets forth, for the periods indicated, the number of and the compensation paid in relation to material medical incidents at our healthcare facilities:

Fo he y ea ended Decembe 31,						Fo he eigh mon h ended A g 31,	
2012		2013		2014		201 5	
N mbe of ma e ial medical inciden	To al compen a ion paid	N mbe of ma e ial medical inciden	To al compen a ion paid	N mbe of ma e ial medical inciden	To al compen a ion paid	N mbe of ma e ial medical inciden	To al Compen a ion paid

Healthcare Facility Involved	Settlement Method	Nature of Incident	Date of Incident	Compensation Paid by Us
				RMB
Yueqing Kangning Hospital	Private negotiation / settlement	Patient fatality due to stroke	July 2014	135,000
Wenzhou Kangning Hospital	Mediation	Patient fatality due to sudden cardiac death	October 2014	200,000
Wenzhou Kangning Hospital	Private negotiation / settlement	Patient fatality due to agranulocytosis	February 2015	200,000
II. Incidents for which we were not primarily liable(2)				
Wenzhou Kangning Hospital	Litigation	Patient injury due to brain injury following sudden cardiac arrest(3)	June 2012	343,491
Wenzhou Kangning Hospital	Mediation	Patient injury due to falling when attempting to flee the hospital (4)	August 2012	141,801
Wenzhou Kangning Hospital	Mediation	Patient fatality due to heart failure following acute pneumonia (5)	October 2013	64,000
Wenzhou Kangning Hospital	Mediation	Patient fatality due to pleuris , peritonitis and septic shock(6)	January 2014	280,000
Yongjia Kangning Hospital	Mediation	Patient injury due to being attacked by another patient (7)	February 2014	50,000
Wenzhou Kangning Hospital	Mediation	Patient fatality due to suicide after experiencing obstipation(8)	July 2014	62,893
Yongjia Kangning Hospital	Mediation	Patient fatality due to sudden cardiac death or SCD after falling off the bed(9)	January 2015	230,000

Note:

(1) As advised by Tian Yuan Law Firm, our PRC legal advisors, according to the Interim Measures on Medical Malpractice (醫療事故技術鑒定暫行辦法), (x) primary liability is defined as where the injury and its effects are found to have been mainly caused by medical negligence, with other factors playing a secondary role and ( ) secondary liability is defined as where the injury and its effects are found to have been primarily caused by other factors, with medical negligence playing a secondary role.
For medical incidents for which we were not primarily or secondarily liable, we from time to time pay no-fault compensation to the counterparties of such incidents, especially those resulting in fatality, as part of our efforts to undertake social responsibility and to expedite the resolution of an potential claims from such parties. In such incidents, we were not at fault based on the findings of the relevant mediating body or based on the settlement agreement with the counterpart of the incident.

(2) Based on findings of the relevant judicial or mediating body, as applicable. According to a written confirmation issued by the Wenzhou branch of the NHFPC on March 9, 2015, we were not found to be primarily responsible for any of these medical incidents. In each of these incidents, we (i) were found to be secondarily liable by the relevant body or (ii) believe we were secondarily liable due to the relevant body's finding that there was a degree of causation between the hospital's fault or breach of duty and the patient injury or fatality.

(3) On June 8, 2012, an outpatient admitted to Wen hou Kangning Hospital suffered from stomach pain and as diagnosed ith kidne stones. After sta ing at Wen hou Kangning Hospital for t o hours, the patient e perienced sudden cardiac arrest due to cerebral ischemia and h po ia, requiring resuscitation and resulting in ongoing brain injur . The patient filed a complaint to the people's court of Lucheng District of Wen hou Cit and requested a medical accident appraisal. The appraisals ere conducted b the Wen hou Medical Association (溫州市醫學會) and the Zhejiang Medical Association (浙江省醫學會), hich concluded that there as causation bet een our fault and the injur sustained b the patient and the hospital as secondaril responsible for the injur . We believe such fault as due to inadequate inquir b the e amining ph sician as to the patient's medical histor . Based on the conclusion, the people's court of Lucheng district of Wen hou Cit ordered us to pa a compensation of RMB343,491.41 to the patient, hich e full settled in Jul 2014.

(9) On December 26, 2014, a patient as admitted to Yongjia Kangning Hospital and diagnosed ith an acute stress reaction, for hich she subsequentl received treatment and sho ed improvement. On Januar 3, 2015, she fell off her bed onto the hospital floor and died due to sudden cardiac death. The famil of the patient and Yongjia Kangning Hospital applied for mediation from the Yongjia Medical Disputes People's Mediation Committee (永嘉縣醫療糾紛人民調解委員會). The committee preliminaril concluded that there as a certain degree of causation bet een our fault and the injur sustained b the patient. We believe such fault as due to inadequate overnight patrols b our medical staff. We subsequentl entered into a mediation agreement ith the patient's famil in Januar 2015 and agreed to pa compensation of RMB230,000. We full settled such compensation in Januar 2015.

We strictl adhere to the Medical Malpractice Rules (醫療事故處理條例) as promulgated b the State Council in our handling of medical incidents that arise in our operations. Upon the occurrence of a medical incident, our frontline medical staff immediatel report it to the deput head of administration for Wen hou Kangning Hospital or the head of administration for our other hospitals, as applicable, and to the patient's famil . For material medical incident that involves patient death or ma potentiall result in monetar compensation of RMB50,000 or above, medical services department of Wen hou Kangning Hospital ill then coordinate a team to investigate the cause of the incident in an of our medical facilities, and reports the findings to the medical qualit revie committee (as discussed belo). The medical qualit revie committee then discusses the findings and makes a determination as to the proper course of handling. At the same time, our medical qualit revie committee are required to report the material medical incidents to the relevant healthcare authorities ithin 12 hours after it becomes a are of such incidents. Preliminar findings and settlement results of such medical incidents ill be reported to the relevant healthcare authorities on monthl basis. The medical services department subsequentl communicates ith the patient's famil regarding the findings, and depending on the circumstances of the incident, ma offer to resolve the incident through judicial, administrative or meditation proceedings or through private negotiation and settlement. All records of medical incidents, procedures taken, findings, and resolution proceedings are kept b our medical services department.

We established a medical qualit revie committee in November 2011 to address and prevent medical incidents. The committee meets on a quarterl basis to discuss healthcare qualit issues and potential safet ha ards, as ell as henever there has been a material medical incident or patient death at an of our healthcare facilities. In such meetings, the committee is responsible for (i) conducting further revie and anal sis of incidents that have occurred, (ii) anal ing issues identified from the incidents to understand the underl ing reasons and propose and e ecute rectification measures, (iii) detecting eaknesses in our healthcare service and management procedures, (iv) proposing solutions to the administrators of each healthcare facilit and (v) follo ing up ith the relevant departments to ensure timel rectification of an eaknesses. Due to the e treme importance that e place on addressing and preventing medical incidents, the committee is led b senior members of our Group, including Ms. Wang Lian ue, our e ecutive Director and general manager, and Mr. Wang Qian, our deput general manager. Ms. Wang and Mr. Wang each have more than 20 ears of e perience in the healthcare industr and orked as professional medical personnel prior to serving in hospital management. The committee reports directl to our central management, hich further revie s findings and recommendations from the committee.

Our medical qualit revie committee has led efforts to strengthen our risk management and improve our operating protocols, hich e continuousl refine based in part on e perience gained from medical incidents that have occurred. Historicall , e have required researching and implementing improvements to our operating protocols as soon as practicable follo ing a material medical incident, and have generall completed such implementation ithin three months after the relevant incident. We categori e such measures into four categories: (i) treatment protocols, (ii) patient monitoring protocols, (iii) safet of healthcare facilit premises and (iv) securit and monitoring of patient ards. Specific measures adopted

the amount of applicable compensations ithout resulting in an material and adverse effect on our business, financial condition and results of operations, e decided to pa an applicable compensation using our o n financial resources instead of resorting to insurance and as a result such incidents have not affected our premiums. As of the Latest Practicable Date, e have purchased medical liabilit insurance coverage for all of our o ned ps chiatric specialt hospitals and generall require our managed healthcare facilities to purchase medical institution liabilit insurance.

Save as other ise disclosed above in this subsection, during the Track Record Period and up to the Latest Practicable Date, e did not have an other medical incidents (i) hich involved patient fatalit , (ii) hich involved material monetar settlement of more than RMB50,000, or (iii) in hich e ere found to be at fault b a relevant judicial, administrative or meditating authorit or based on a settlement reached ith the counterparties to such incidents. In addition, as of the Latest Practicable Date, e did not have an ongoing or unsettled medical incidents that ould have a material adverse effect on our business, financial condition or results of operations. Ho ever, the ps chiatric healthcare industr remains one in hich the risk of patient fatalit cannot be eliminated entirel . See Risk Factors Risks Relating to Our Business and Industr We are exposed to inherent risks of medical incidents and legal proceedings arising from our operations, and resolving such incidents and proceedings could result in significant costs and materiall and adversel affect our reputation and business.

CONTROLLING SHAREHOLDERS

Immediatel follo ing completion of the Global Offering (ithout taking into account an H Shares hich ma be allotted and issued upon an e ercise of the Over-allotment Option), Mr. Guan Weili (**M . G an**) and Ms. Wang Lian ue (**M . Wang**) ill directl hold appro imatel 28.14% and 5.39% of our issued share capital, respectivel . Mr. Guan and Ms. Wang are spouses and the ill together be interested in more than 30% of our issued share capital, and hence, for the purpose of the Listing Rules, the are acting in concert and therefore ill be considered as a group of Controlling Shareholders. Mr. Guan and Ms. Wang are our e ecutive Directors, and for their background, please refer to the section headed Directors, Supervisors and Senior Management in this Prospectus.

Neither our Controlling Shareholders nor an of our Directors as, as of the Latest Practicable Date, interested in an business, other than our Group, hich, competes or is likel to compete, either directl or indirectl , ith our Group's business and hich requires disclosure pursuant to Rule 8.10 of the Listing Rules.

NON-COMPETITION

Non-Compe i ion Ag eemen

We entered into the Non-Competition Agreement ith the Controlling Shareholders on Ma 11, 2015, under hich the Controlling Shareholders agreed not to, and to procure his/her respective close associate(s) (as appropriate) (other than our Group) not to, either directl or indirectl , compete ith our principal business (hich is primaril to provide ps chiatric specialt care through managing healthcare facilities and hospitals, the **P inci al B ine**) and granted to our Group the option for ne business opportunities, option for acquisitions

Incidents of Non-compliance	Reasons for Non-compliance	Legal Consequence (Including Maximum Penalties) and Views of PRC Counsel	Remedial Measures Taken/To be Taken
			As advised by our PRC legal advisors,