



# Honliv Healthcare Management Group Company Limited

## 宏力醫療管理集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 9906

# GLOBAL OFFERING



Sole Sponsor



交銀國際  
BOCOM International

Joint Global Coordinators



交銀國際  
BOCOM International



招銀國際  
CMB INTERNATIONAL

# IMPORTANT

*If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.*



## Honliv Healthcare Management Group Company Limited 宏力醫療管理集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

### GLOBAL OFFERING

Number of Offer Shares	: 150,000,000 Shares (subject to adjustment and the Over-allotment Option)
Number of International Offer Shares	: 135,000,000 Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	: 15,000,000 Shares (subject to adjustment)
Maximum Offer Price	: HK\$2.30 per Offer Share, plus brokerage fee 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)
Nominal Value	: HK\$0.0001 per Share
Stock Code	: 9906

Sole Sponsor



Joint Global Coordinators



Joint Bookrunners



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss whatsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between BOCOM Securities (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, July 2, 2020 and, in any event, not later than Friday, July 3, 2020. The Offer Price will be not more than HK\$2.30 and is currently expected to be not less than HK\$1.80, unless otherwise announced. If, for any reason, the Offer Price is not agreed by Friday, July 3, 2020 between BOCOM Securities (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Applicants for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$2.30 for each Offer Share, together with a 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee, subject to refund if the Offer Price should be lower than HK\$2.30 as finally determined.

BOCOM Securities (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, such notice will also be available at the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.honlivhp.com](http://www.honlivhp.com).

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe or purchase, and to procure applicants for the subscription or purchase of, the Hong Kong Offer Shares, are subject to termination by BOCOM Securities (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. For more details, see the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S under the U.S. Securities Act and the applicable laws of each jurisdiction where those offers and sales occur.

June 24, 2020

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Latest time to complete electronic applications under

**White Form eIPO** service through the  
designated website [www.eipo.com.hk](http://www.eipo.com.hk)<sup>(4)</sup> . . . . . 11:30 a.m. on Tuesday, June 30, 2020

Application lists open<sup>(2)</sup> . . . . . 11:45 a.m. on Tuesday, June 30, 2020

Latest time for lodging **WHITE** and **YELLOW**

Application Forms . . . . . 12:00 noon on Tuesday, June 30, 2020

Latest time for giving **electronic application**

**instructions** to HKSCC<sup>(3)</sup> . . . . . 12:00 noon on Tuesday, June 30, 2020

Latest time to complete payment of **White Form eIPO**

applications by effecting internet banking transfer(s)  
or PPS payment transfer(s) . . . . . 12:00 noon on Tuesday, June 30, 2020

Application lists close<sup>(2)</sup> . . . . . 12:00 noon on Tuesday, June 30, 2020

Expected Price Determination Date<sup>(5)</sup> . . . . . Thursday, July 2, 2020

Announcement of

- the Offer Price
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allotment of the Hong Kong Public Offering

will be published on the website of the Stock Exchange  
at [www.hkexnews.hk](http://www.hkexnews.hk) and our website

at [www.honlivhp.com](http://www.honlivhp.com) from . . . . . Thursday, July 9, 2020

Results of allocations in the Hong Kong Public Offering

will be available at [www.iporeresults.com.hk](http://www.iporeresults.com.hk)  
(alternatively: English <https://www.eipo.com.hk/en/Allotment>;  
Chinese <https://www.eipo.com.hk/zh-hk/Allotment>)

with a “search by ID” function from . . . . . Thursday, July 9, 2020

Despatch of Share certificates and refund cheques in

respect of wholly or partially successful applications  
on or before<sup>(6)</sup> . . . . . Thursday, July 9, 2020

Dealings in Shares on the Stock Exchange expected to

commence at . . . . . 9:00 a.m. Friday, July 10, 2020

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## EXPECTED TIMETABLE<sup>(1)</sup>

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*Notes:*

- (1) Unless otherwise stated, all times and dates refer to Hong Kong local times and dates. 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) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force and/or Extreme Conditions in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 30, 2020, the application lists will not open and close on that day. For further information, see the paragraph headed “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus. If the application lists do not open and close on Tuesday, June 30, 2020 the dates mentioned in this section may be affected. A press announcement will be made by us in such event.
- (3) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the paragraph headed “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (4) You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://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 prior to 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.
- (5) We expect to determine the Offer Price upon agreement with BOCOM Securities (for itself and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, July 2, 2020 and, in any event, not later than Friday, July 3, 2020. If, for any reason, the Offer Price is not agreed between BOCOM Securities (for itself and on behalf of the Underwriters) and us by Friday, July 3, 2020, the Hong Kong Public Offering and the International Offering will not proceed. Notwithstanding that the Offer Price may be fixed at below the maximum offer price of HK\$2.30 per Share payable by applicants for Hong Kong Offer Shares under the Hong Kong Public Offering, applicants for the Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$2.30 for each Share, together with the brokerage fee of 1%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027% but will be refunded the surplus application monies as provided in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.
- (6) **Share certificates for the Hong Kong Offer Shares will only become valid certificates of title if (i) the Global Offering has become unconditional, and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms before 8:00 a.m. on Friday, July 10, 2020. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.** 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 identify card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identify 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 would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identify 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.

Applicants who apply on **WHITE** Application Forms or through **White Form eIPO** service for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering may collect refund cheques (where applicable) and Share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, July 9, 2020 or any other date notified by us in the newspaper as the date of despatch of Share certificates/e-Refund payment instructions/refund cheques. Individual applicants who are eligible for personal collection must not authorize any other person to make their collection on their behalf. Corporate applicants who are eligible for personal collection must attend by their authorized representatives, each bearing a letter of authorization from such corporation stamped with the corporation’s chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Uncollected Share certificates and refund cheques will be dispatched by ordinary post at the applicant’s own risk to the address specified in the relevant Application Forms. For further information, see the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering may collect their refund cheques (if any) but may not collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participant’s stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms for Hong Kong Offer Shares is the same as that for applicants who apply on **WHITE** Application Forms.

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus for details.

Applicants who apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated **White Form eIPO** Service Provider through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) may collect their Share certificate(s) (where applicable) in person from our Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Hong Kong Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, July 9, 2020, or such other date as notified by our Company as the date of despatch/collection of share certificates/e-Refund payment instructions/refund cheques. Applicants who paid the application monies from a single bank account may have e-Refund payment instructions (if any) despatched to the application payment account on Thursday, July 9, 2020. Applicants who used multi-bank accounts to pay the application monies may have refund cheques (if any) despatched to the address specified in their application instructions to the designated **White Form eIPO** Service Provider on or before Thursday, July 9, 2020, by ordinary post and at their own risk.

Uncollected Shares certificates and/or refund cheques (if any) will be despatched by ordinary post at an applicant’s own risk to the addresses specified in the Application Forms promptly after the expiry of the time for their collection. Further information is set out in the paragraph headed “How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus.

If you have applied for fewer than 1,000,000 Hong Kong Offer Shares, your Share certificates and/or refund cheques will be despatched by ordinary post at your own risk to the address specified on the Application Form.

e-Refund payment instruments/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applicants in the event that the Offer Price is less than the price payable on application.

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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and 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. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than in Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in any other jurisdiction are subject to restrictions and may not be made except as permitted under the applicable securities laws of any such jurisdiction 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 Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives, or any other person or party involved in the Global Offering.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

We operate one of the largest for-profit private general hospitals in China, Henan Honliv Hospital. According to the Frost & Sullivan Report, among all the for-profit private general hospitals in China, our hospital ranked the third (on par with three other hospitals) in terms of number of beds in operation as of December 31, 2019, the fifth in terms of number of inpatient visits in 2019, and the ninth in terms of number of outpatient visits in 2019. In addition, our hospital is the largest for-profit private general hospital in Central China in terms of number of outpatient visits and inpatient visits in 2019, and in terms of number of beds in operation as of December 31, 2019, according to the Frost & Sullivan Report.

Operating since December 2006, our hospital is the first for-profit private general hospital established in Henan Province and one of the first few large private general hospitals in China focusing on county-level healthcare service market, according to the Frost & Sullivan Report. Our hospital was Class-II hospital during the Track Record Period and had been upgraded to Class-III hospital in January 2020. Class-III hospitals are typically larger in scale and have larger number of beds compared to Class-II and Class-I hospitals. A Class-III rating under the NHC classification system recognizes our hospital’s scale and capability and carries significant competitive advantages. According to the Frost & Sullivan Report, our hospital is the only Class-III private hospital in Xinxiang City, Henan Province. The Class-III hospitals are further graded into three sub-levels (A, B and C) based on the assessment of the competent authorities and Class-III-A hospitals are the highest ranking hospitals among Class-III hospitals. As of the Latest Practicable Date, we had not filed the application for assessment on sub-grades.

Benefiting from favorable government policies that encourage the development of the private hospital sector in China, our hospital has expanded rapidly in the past decade and grew to a large general hospital with 30 clinical departments, 13 medical technology departments and 1,500 beds in operation as of December 31, 2019, and we have initiated a two-phase construction plan to further expand our hospital. Located in Changyuan, a county-level city in Henan Province, our hospital primarily provides services to patients in Changyuan County, Hua County, Fengqiu County, Yanjin County, Dongming County, Yuanyang County and Puyang County, a region with a population of over 5.8 million as of December 31, 2018. During the Track Record Period, our hospital had 2,933,498 outpatient visits and 167,586 inpatient visits, respectively.



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## SUMMARY

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We are committed to providing high-quality, differentiated and safe healthcare services to our patients. Our professional medical staff consists of highly qualified and experienced medical professionals specialized in their respective fields. We equip our hospital with advanced equipment and diagnostic instruments with an aim to provide our patients with accurate diagnoses and effective treatments. As an early entrant in China's private general hospital market, we believe that our long-time commitment to and extensive experience in providing high-quality healthcare services to local communities have boosted our reputation and earned recognition among patients, other hospitals and healthcare practitioners in China.

Leveraging our experience in successfully operating our hospital, we have expanded our business by providing hospital management services to an independent third-party hospital, Jutan Hospital, starting from 2016. Jutan Hospital has achieved significant growth under our management and was successfully upgraded to Class-II hospital from Class-I in January 2019.

### OUR STRENGTHS

We believe that the following competitive strengths help differentiate us from our competitors:

- One of the largest for-profit private general hospitals in China with first-mover advantage
- Strategically positioned to capture growth of county-level healthcare service market
- Experienced medical professionals and structured training programs
- Smart hospital backed by advanced technology systems and equipment
- Proven track record in hospital management business
- Experienced and dedicated management team

### OUR STRATEGIES

Our goal is to become a leading private hospital group in China. We intend to achieve our goal by implementing the following strategies:

- Expand through organic growth
- Expand through greenfield and brownfield investments
- Continue to recruit, train and retain high-quality medical professionals
- Focus on social responsibility and further improve the quality and efficiency of our healthcare services

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## SUMMARY

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### OUR BUSINESS MODEL

During the Track Record Period, we generated substantially all of our revenue from the provision of treatments and general healthcare services and pharmaceuticals sales at our hospital, Henan Henliv Hospital.

#### General Healthcare Services

We generate our revenue primarily from providing diagnosis, treatment and general healthcare services and from pharmaceuticals sales at our hospital, Henan Honliv Hospital. Our hospital provides a full spectrum of general healthcare services with 30 clinical departments, of which the core clinical departments include obstetrics and gynecology, cardiovascular, orthopedics, nephrology and rheumatology, neonatal, neurology, gastroenterology, pediatrics, neurosurgery, oncology, cardiac surgery and thoracic surgery.

#### Hospital Management Services

Leveraging our experience in successfully operating our hospital, we have expanded our business to providing hospital management services. We entered into the Management Agreement with Jutan Hospital and its organizer on June 14, 2016, pursuant to which we provide hospital operation and management services in return for management fees fixed at 5% of Jutan Hospital's annual revenue pursuant to the Management Agreement. Our Managed Hospital is a not-for-profit private general hospital that offers medical diagnosis, treatment and preventative care services at Neixiang County, Nanyang City, Henan Province and was successfully upgraded from Class-I to Class-II hospital in January 2019 under our management.

#### Information of Business Revenue Stream

The following table sets forth the components of our revenue for the years indicated:

	Year ended December 31,					
	2017		2018		2019	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Treatments and general healthcare service .....	319,088	66.6%	332,744	67.0%	354,924	66.8%
Pharmaceutical sales .....	158,176	33.0%	161,461	32.5%	173,404	32.7%
Hospital management services.....	1,660	0.4%	2,346	0.5%	2,780	0.5%
<b>Total .....</b>	<b>478,924</b>	<b>100.0%</b>	<b>496,551</b>	<b>100.0%</b>	<b>531,108</b>	<b>100.0%</b>

## SUMMARY

The following table sets forth the breakdown of the gross profit and gross profit margin of our treatments and general healthcare services and pharmaceutical sales for the periods indicated<sup>(1)</sup>:

	Year ended December 31,					
	2017		2018		2019	
	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)
Treatments and general healthcare service <sup>(2)</sup>	113,566	35.6%	113,386	34.1%	125,552	35.4%
Pharmaceutical sales <sup>(3)</sup>	44,404	28.1%	44,234	27.4%	41,824	24.1%

*Notes:*

- (1) The relevant numbers were unaudited and are presented herein for illustrative purposes only. The medical professionals providing treatment and healthcare services and those prescribing and dispensing medications to patients often overlap, but for different patients, the level of such overlapping might also be different. As such, we are unable to accurately allocate our cost of sales (particularly the employee benefit expenses incurred in relation to such medical professionals) between the treatment and general healthcare services and the pharmaceutical sales.
- (2) The gross profit of our treatments and general healthcare services was calculated by allocating all of our remaining costs of sales (after deducting the procurement costs of pharmaceuticals from our pharmaceutical sales) to its costs, which include, among others, costs incurred in relation to our hospital management services.
- (3) The gross profit of our pharmaceutical sales was calculated by deducting the procurement costs of pharmaceuticals from our pharmaceutical sales for the respective years, without taking into account allocations of, among others, the employee benefit expenses incurred in relation to the employees providing the pharmaceutical sales business, to its costs.

The gross profit margin of our treatments and general healthcare services generally remained stable during the Track Record Period. The gross profit margin of our pharmaceutical sales business generally decreased during the Track Record Period, primarily because our hospital followed the pricing guideline of the relevant government authorities to lower the prices of certain pharmaceuticals during the period. As a Medical Insurance Designated Medical Institution, we may only sell pharmaceuticals to our patients at the retail prices listed in certain catalogs promulgated by government authorities. Such retail prices are determined according to the supplier's bidding prices in the centralized pharmaceutical procurement process for public hospitals in Henan Province. As a result, public hospitals in Henan Province are not allowed to make a profit on the sale of pharmaceuticals as there is no mark-up between the the retail and procurement prices for the pharmaceuticals they sell to their patients. As a for-profit private hospital, we are not required to participate in the centralized pharmaceutical procurement process and are allowed to make a profit on pharmaceutical sales through controlling our procurement costs of pharmaceuticals. Please refer to the paragraphs headed "Regulatory Overview — Laws and Regulations on Pharmaceutical Distribution — Regulations on Centralized Pharmaceutical Procurement by Medical institutions" and "Business — Pricing and Pricing Control" in this prospectus for details.

## SUMMARY

### Key Operating Data

The following table sets forth the key operational information of our hospital as at or for the periods indicated:

	Year ended December 31,		
	2017	2018	2019
Outpatient visits <sup>(1)</sup> .....	947,269	960,458	1,025,771
Average spending per outpatient visit (RMB) .....	201.7	209.9	226.3
Inpatient visits.....	55,175	55,724	56,687
Average spending per inpatient visit (RMB) .....	5,186.7	5,250.2	5,240.8
Average length of stay per inpatient visit (days) <sup>(2)</sup> .....	9.2	9.3	9.0
Number of inpatient surgeries .....	11,322	11,584	11,894
Number of beds in operation as of the end of the relevant period .....	1,500	1,500	1,500
Bed occupancy rate <sup>(3)</sup> .....	93.1%	94.5%	94.8%
Total medical professionals <sup>(4)</sup> as of the end of the relevant period	1,142	1,181	1,192
Of which, chief doctors .....	27	29	27
Of which, associate-chief doctors .....	51	48	47
Of which, attending doctors.....	139	130	150
Of which, resident doctors.....	108	99	75
Of which, other medical professionals.....	817	875	893

*Notes:*

- (1) Outpatient visits included patient visits for our medical examination services, which amounted to 31,360, 35,002 and 39,516 for 2017, 2018 and 2019, respectively.
- (2) Average length of stay per inpatient visit is calculated by dividing the aggregate hospitalization days of all discharged inpatients at the hospital divided by total number of discharged inpatients during the relevant period.
- (3) Bed occupancy rate was calculated by dividing aggregate length of stay (in terms of days) for all inpatient visits during the relevant period by the product of (i) number of beds in operation multiplying (ii) aggregate number of days during the relevant period.
- (4) Other medical professionals include doctors, licensed nurses, pharmacists, medical technicians and patient service staff working in supporting departments.

The increase in the average spending per outpatient visit in 2019 as compared to that in 2018 was primarily due to the improved coverage scope of medical insurance programs, our improved service quality and broader service scope while the slight decrease in the average spending per inpatient visit for the same period was primarily because the price limits for some of the pharmaceuticals we offered to inpatients were lowered in 2019.

## SUMMARY

### OUR CUSTOMERS AND SUPPLIERS

For our general healthcare services, our customers are primarily patients who receive medical care and related services at our hospital. We also provide medical examinations, disease screening and other services to governmental and corporate customers in Changyuan County. For our hospital management services, our Managed Hospital is our customer. As of the Latest Practicable Date, our hospital was a Medical Insurance Designated Medical Institution and eligible for public medical insurance coverage. In 2017, 2018 and 2019, our revenue attributable to social insurance programs was RMB107.9 million, RMB134.7 million and RMB148.8 million, respectively, accounted for approximately 22.5%, 27.1% and 28.0% of our total revenue in the same periods, and payments we received from social insurance programs amounted to RMB104.8 million, RMB110.8 million and RMB175.7 million, respectively, accounted for approximately 21.9%, 22.3% and 33.1% of our total revenue in the same periods, respectively. The discrepancies between our revenue attributable to social insurance programs and payments we received from the same during the Tack Record Period were primarily due to the delay in settlement by social insurance programs. Please refer to the paragraph headed “Financial Information — Discussion of Selected Items from the Consolidated Statement of Financial Position — Trade receivables” in this prospectus for details.

The following table sets forth the revenue of our hospital contributed by patients covered by social insurance programs and not covered by social insurance programs, respectively, for the periods indicated:

	Year ended December 31,					
	2017		2018		2019	
	Amount (RMB'000)	% of revenue of our hospital	Amount (RMB'000)	% of revenue of our hospital	Amount (RMB'000)	% of revenue of our hospital
Revenue from patients covered by social insurance programs <sup>(1)</sup> .....	184,189	38.7%	220,072	44.5%	277,621	52.5%
Revenue attributable to social insurance programs <sup>(1)</sup> .....	107,915	22.6%	134,714	27.3%	148,824	28.2%
Revenue from co-payments from patients <sup>(1)</sup> .....	76,274	16.0%	85,358	17.3%	128,797	24.4%
Revenue from patients not covered by social insurance programs <sup>(1)</sup> .....	293,075	61.4%	274,133	55.5%	250,708	47.5%
<b>Total revenue of our hospital .....</b>	<b>477,264</b>	<b>100.0%</b>	<b>494,205</b>	<b>100.0%</b>	<b>528,328</b>	<b>100.0%</b>

Note:

(1) The numbers were unaudited.

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## SUMMARY

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Our hospital's revenue from patients covered by social insurance programs increased while the revenue from patients not covered by social insurance programs decreased throughout the Track Record Period, primarily because the coverage of social insurance programs had been continuously expanding during the same periods as a result of the integration of NRCMIP and URMIBIP in Henan province in 2017.

As a Medical Insurance Designated Medical Institution, we may only charge fees for provision of healthcare services in accordance with the pricing guidelines set by the relevant authorities and sell pharmaceuticals to our patients at the retail prices listed in certain catalogs promulgated by government authorities. Please refer to the paragraph headed "Business — Pricing and Pricing Control" in this prospectus for details. Therefore, for the same treatment and general healthcare services provided, and for the same medications prescribed, our hospital charges the patients the same price, without considering whether the relevant patients are covered by social insurance programs or not. We believe that there would not be significant differences in the gross profit generated from these two groups of patients.

We procure pharmaceuticals and medical consumables from qualified suppliers selected based on their product offerings, quality, pricing, service, overall track record, and reputation, among others. In 2017, 2018 and 2019, our five largest suppliers of pharmaceuticals, medical equipment and medical consumables accounted for approximately 46.1%, 46.8% and 50.8%, respectively, of our total purchases.

### SUMMARY FINANCIAL INFORMATION

The tables below include, for the periods indicated, selected financial data derived from the section headed "Historical Financial Information of the Group" of the Accountant's Report contained in Appendix I to this prospectus, and these should be read in conjunction with the financial statements in the Accountant's Report contained in Appendix I to this prospectus, including the related notes.

## SUMMARY

### Consolidated Statements of Comprehensive Income

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Revenue.....	478,924	496,551	531,108
Cost of sales.....	(319,294)	(336,585)	(360,952)
<b>Gross profit</b> .....	<b>159,630</b>	<b>159,966</b>	<b>170,156</b>
Other expense.....	(196)	(196)	(196)
Other income.....	–	–	440
Other gains – net.....	140	606	207
Administrative expenses.....	(45,712)	(48,727)	(74,126)
<b>Operating profit</b> .....	<b>113,862</b>	<b>111,649</b>	<b>96,481</b>
Finance income.....	23	38	706
Finance costs.....	(17,942)	(13,215)	(28,708)
Finance costs – net.....	(17,919)	(13,177)	(28,002)
<b>Profit before income tax</b> .....	<b>95,943</b>	<b>98,472</b>	<b>68,479</b>
Income tax expense.....	(24,224)	(25,008)	(18,621)
<b>Profit for the year/period</b> .....	<b>71,719</b>	<b>73,464</b>	<b>49,858</b>
<b>Profit attributable to:</b>			
Owners of the Company.....	71,001	72,727	49,362
Non-controlling interests.....	718	737	496
	<b>71,719</b>	<b>73,464</b>	<b>49,858</b>
Non-HKFRS measure			
<b>Profit for the year</b> .....	<b>71,719</b>	<b>73,464</b>	<b>49,858</b>
Add:			
Expenses in relation to the Listing.....	–	–	11,152
<b>Adjusted net profit</b> <sup>(1)</sup> .....	<b>71,719</b>	<b>73,464</b>	<b>61,010</b>

Note:

- (1) Adjusted net profit eliminates the effect of non-recurring expenses in relation to the Listing. Adjusted net profit is not a measure of performance under HKFRS. As a non-HKFRS measure, adjusted net profit is presented because our management believes such information will be helpful for investors in assessing the effect of expenses in relation to the Listing on our net profit. The use of adjusted net profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year. Please refer to the paragraph headed “Financial Information — Non-HKFRS Measures” for details.

## SUMMARY

The decrease in our profit for the year 2019 as compared to that for 2018 was primarily due to a significant increase in our administrative expenses and finance costs. The significant increase in our administrative expenses from 2018 to 2019 was primarily due to (i) an increase in expenses in relation to the Listing from nil to RMB11.2 million, (ii) an increase in employee benefits expenses in relation to our administrative staff from RMB13.7 million to RMB21.9 million, and (iii) an increase in utilities, maintenance fee and office expenses from RMB17.1 million to RMB19.7 million, and the significant increase in our net finance costs from 2018 to 2019 was primarily due to an increase in our interest expenses on other borrowings, which were incurred in relation to a borrowing of RMB83.4 million from a financial institution under a finance lease arrangement in January 2019. Please refer to the paragraphs headed “Financial Information — Period to Period Comparison of Results of Operations” in this prospectus for details.

### Summary of Certain Items of Consolidated Statements of Financial Position

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Non-current assets .....	530,053	511,958	559,353
Current assets .....	58,142	99,681	165,971
Non-current liabilities .....	8,465	2,000	38,569
Current liabilities .....	412,552	502,842	445,127
Net current liabilities .....	(354,410)	(403,161)	(279,156)
Total equity .....	167,178	106,797	241,628

The decrease in our total equity as at December 31, 2018 as compared to that as at December 31, 2017 was primarily due to the decrease in our capital reserves as a result of deemed distribution to shareholders during the Reorganization.

We recorded net current liabilities of RMB354.4 million, RMB403.2 million and RMB279.2 million as of December 31, 2017, 2018 and 2019, respectively. The majority of our current liabilities were current portion of long-term bank borrowings, short-term bank borrowings and other borrowings, which amounted to RMB229.7 million, RMB204.0 million and RMB237.8 million as of December 31, 2017, 2018 and 2019, respectively. Our net current liabilities during the Track Record Period were mainly a combined result of using short-term bank borrowings to finance our capital expenditure and distributing dividends to our shareholders. Our accumulative dividends to our shareholders were RMB197.5 million, RMB247.5 million and RMB247.5 million as at 31 December 2017, 2018 and 2019, respectively. Our capital expenditures in 2017, 2018 and 2019 amounted to RMB12.6 million, RMB6.9 million and RMB65.7 million, respectively, which were mainly used for the construction of our hospital and purchases of medical equipment. We plan to improve our net current liabilities position through maintaining sufficient cash inflow from operating activities and replacing our short-term borrowings with long-term bank borrowings in the future. As of the date of this prospectus, we had obtained a committed long-term banking facility amounting to RMB48.0 million, under which we had drawn down RMB38.0 million and had used such amount to repay our short-term borrowings. Our Directors confirm that our Company is also communicating with commercial banks with a view to obtaining more long-term banking facilities to replace our existing short-term borrowings. In addition, we expect to increase our cash inflow from operating activities through our continuous efforts in business operation and expansion, which may further increase our current assets in the future.



## SUMMARY

After due and careful enquiry and taking into account the financial resources available to us, including cash flow from operating activities, available banking facilities and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus. Please refer to the paragraph headed “Financial Information — Working Capital Sufficiency” in this prospectus for details.

### Summary of Consolidated Statements of Cash Flows

	For the year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cash flows from operating activities before movements in working capital .....	140,060	135,328	121,015
Changes in working capital .....	56,616	1,633	56,217
Income tax paid <sup>(1)</sup> .....	–	–	(91,187)
Net cash flows generated from operating activities .....	<u>196,676</u>	<u>136,961</u>	<u>86,045</u>
Net cash flows (used in)/generated from investing activities .....	(2,368)	1,883	(65,015)
Net cash (used in)/generated from financing activities .....	(188,239)	(139,012)	73,642
Net increase/(decrease) in cash and cash equivalents .....	<u>6,069</u>	<u>(168)</u>	<u>94,672</u>
Cash and cash equivalent at beginning of year ....	<u>4,029</u>	<u>10,098</u>	<u>9,930</u>
<b>Cash and cash equivalent at end of year .....</b>	<b><u><u>10,098</u></u></b>	<b><u><u>9,930</u></u></b>	<b><u><u>104,602</u></u></b>

*Note:*

- (1) In 2019, we elected application for enterprise income tax in line with prevailing markets practice for comparable private hospitals. We delayed our income tax filings since our establishment and up to 2018. Since 2019, we began to file enterprise income tax return on a regular basis and settled all of our outstanding tax liabilities. For details, please refer to the paragraph headed “Business — Legal Proceedings and Compliance — Non-compliance incident” in this prospectus.

Please also refer to the section headed “Financial Information” in this prospectus for more details.

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## SUMMARY

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### KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods and as of the dates indicated.

	As at and for the year ended		
	December 31,		
	2017	2018	2019
<b>Gearing ratio</b> <sup>(1)</sup> .....	136.3%	186.4%	70.3%
<b>Current ratio</b> <sup>(2)</sup> .....	0.1	0.2	0.4
<b>Quick ratio</b> <sup>(3)</sup> .....	0.1	0.2	0.3
<b>Return on equity</b> <sup>(4)</sup> .....	36.9%	53.6%	28.6%
<b>Return on assets</b> <sup>(5)</sup> .....	11.6%	12.2%	7.5%

*Notes:*

- (1) Calculated as total interest-bearing bank and other borrowings, net of cash and cash equivalents, divided by equity attributable to owners of the Company and multiplied by 100%.
- (2) Calculated as current assets divided by current liabilities as of the end of the period.
- (3) Calculated as current assets, less inventories, divided by current liabilities as of the end of the period.
- (4) Calculated as net profit for the period divided by total equity on an annualized basis, multiplied by 100%.
- (5) Calculated as net profit for the period divided by total assets on an annualized basis, multiplied by 100%.

### OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock and Rubrical Investment. As of the Latest Practicable Date, our Company was owned as to approximately 69.06% by Sunny Rock and approximately 29.60% by Rubrical Investment, respectively. Sunny Rock and Rubrical Investment are wholly owned by Mr. Qin Yan and Mr. Qin Hongchao, respectively. Mr. Qin Yan and Mr. Qin Hongchao are brothers. Pursuant to the Concert Party Agreement, the Concert Parties, being our Controlling Shareholders, were entitled to exercise control over approximately 98.66% voting powers of our Company as of the Latest Practicable Date. Accordingly, Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock and Rubrical Investment are acting together as a group of Controlling Shareholders. Immediately following the completion of the Capitalization Issue and the Global Offering, assuming the Over-allotment Option is not exercised, our Controlling Shareholders will be entitled to exercise control over in approximately 74% voting powers of our issued share capital. For details, please refer to the section headed “Relationship with Our Controlling Shareholders” in this prospectus.

We have entered into certain continuing connected transactions with our Controlling Shareholders and their respective associates. For details, please refer to the section headed “Connected Transactions” in this prospectus.

## SUMMARY

### OFFERING STATISTICS<sup>(1)</sup>

	Based on an Offer Price per Share of HK\$1.80	Based on an Offer Price per Share of HK\$2.30
Market capitalization of our Shares <sup>(2)</sup> .....	HK\$1,080 million	HK\$1,380 million
Unaudited pro forma adjusted net tangible asset value per Share <sup>(3)</sup> .....	RMB0.75 (HK\$0.82)	RMB0.86 (HK\$0.94)

*Notes:*

- (1) All statistics in this table assume that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalization is based on 600,000,000 Shares expected to be in issue following completion of the Global Offering.
- (3) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and on the basis of a total of 600,000,000 Shares expected to be in issue upon completion of the Global Offering, and taking into account the indicative Offer Prices of HK\$1.80 and HK\$2.30 per Offer Share.

### USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised, and an Offer Price of HK\$2.05 per Share, being the mid-point of the Offer Price range stated in this prospectus, the net proceeds from the Global Offering are estimated to be HK\$259.1 million. We intend to use these net proceeds for the following purposes:

<b>Amount of the estimated net proceeds</b>	<b>Intended use of net proceeds</b>
Approximately 29.5%, or HK\$76.5 million.....	To finance the ramp up of our first-phase building which is expected to commence operation by the end of 2020
Approximately 26.1%, or HK\$67.7 million.....	To expand our business by acquiring hospitals
Approximately 15.0%, or HK\$38.9 million.....	To repay our general borrowings, particularly the outstanding loans from certain banks
Approximately 10.0%, or HK\$25.9 million.....	Working capital and other general corporate purposes
Approximately 8.0%, or HK\$20.7 million.....	To purchase medical equipment and improve and upgrade our information technology systems
Approximately 6.3%, or HK\$16.4 million.....	To develop our pharmaceutical supply chain business
Approximately 5.0%, or HK\$13.2 million.....	Employee recruitment and training

For details, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

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## SUMMARY

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### SUMMARY OF MATERIAL RISK FACTORS

Our operations involve certain risks, some of which are beyond our control. A summary of certain of these risks is set forth below. This summary should be read together with the section headed “Risk Factors” in this prospectus in its entirety. Any of the following may have a material and adverse effect on our business, financial condition, results of operation and prospects:

- We derive a majority of our revenue from Henan Honliv Hospital, and our revenue and profitability would be significantly and adversely affected if we fail to successfully operate our hospital.
- We recorded net current liabilities during the Track Record Period, which exposes us to liquidity risk, and such positions may continue or recur after the Listing.
- Our business may suffer if our hospital is unable to attract and retain qualified and experienced doctors, other healthcare professionals and hospital administrators and managers, or if we are unable to manage our employees properly.
- If the PRC government imposes additional price controls on pharmaceuticals, medical equipment, medical consumables and medical services, our revenues may be adversely affected.
- We operate in a heavily regulated industry and therefore incur ongoing compliance costs. If we fail to renew the licenses necessary for our operations, our operational and financial conditions and results could be materially and adversely affected.
- The recent outbreak of the Novel Coronavirus Disease 2019 (COVID-19) and another wave of outbreak in the future may have a material adverse effect on our business, results of operation, financial condition and prospects.

### THE PRE-IPO INVESTMENT

In June 2019, Amerson Investment Limited subscribed for 5,284,960 Shares of our Company for a consideration of the US dollars equivalent of RMB15,000,000. Amerson Investment Limited is a BVI company wholly-owned by Ms. Wang Xiaoqing, an Independent Third Party. For details, please refer to the paragraph headed “History, Reorganization and Corporate Structure — The Pre-IPO Investment” in this prospectus.

### LEGAL PROCEEDINGS AND COMPLIANCE

We are subject to legal proceedings and claims that arise from the ordinary course of our business during the Track Record Period, but we are of the view that none of these legal proceedings are individually or in aggregate material to us. In 2017, 2018 and 2019, we encountered four, six and nine medical disputes, respectively, which resulted or are likely to result in monetary compensation to our patients and/or their families. As of the Latest Practicable Date, there was one ongoing medical disputes in legal proceedings at our hospital and we estimate that the maximum exposure in relation to the dispute will not exceed RMB20,000. For details regarding our medical disputes, our non-compliance incidents, the relevant risks associated with non-compliance and internal measures adopted, please refer to the paragraph headed “Business — Legal Proceedings and Compliance” in this prospectus.

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## SUMMARY

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### RECENT DEVELOPMENT

In January 2020, our hospital obtained the Class-III hospital certification issued by the Health Commission of Henan Province. Since the end of the Track Record Period, we have continuously developed our business, but we expect that we will experience a decrease in our net profit for the full year of 2020 as compare to that of 2019, primarily due to a decrease in our gross profit for the four months ended April 30, 2020, which in turn was caused by a decrease in our revenue during the same period because the number of inpatient and outpatient visits of our hospital decreased amid the outbreak of COVID-19. Please refer to the paragraph headed “— Outbreak of Novel Coronavirus Disease 2019 (COVID-19) — Impact of the outbreak and the Designation — Our business and financial performance” in this section for details.

### Outbreak of Novel Coronavirus Disease 2019 (COVID-19)

There has been an outbreak of an infectious disease (“COVID-19”) caused by a novel coronavirus. The first patient of COVID-19 was identified in Wuhan, Hubei province in late 2019, but as of the Latest Practicable Date, there had yet to be any concrete evidence as to the origin of the coronavirus. The disease quickly spread across China and around the world, and the affected cases and death tolls continue to increase. On January 30, 2020, the World Health Organization (the “WHO”) declared the outbreak a Public Health Emergency of International Concern, and on March 11, 2020, amid the escalating situation, the WHO further characterized the outbreak as a global pandemic.

The PRC government took a series of measures in response to the outbreak of COVID-19. On January 23, 2020, the PRC government imposed a lockdown of Wuhan, followed by other emergency measures in various regions of the country, including travel restrictions, in order to control the outbreak. Because of our advanced hospital facilities and proven treatment capabilities, our hospital was designated on February 7, 2020 by the local government to provide treatment and caring services to patients who are or may be infected with COVID-19 (the “Designation”). As of the Latest Practicable Date, the Designation had not ended yet and we had not received any notice from the local government indicating the timing of terminating the Designation.

### *Measures implemented by us in response to the outbreak of COVID-19*

Since the outbreak of COVID-19, our hospital has implemented various measures in order to get ourselves prepared to provide care for patients who are or may be infected with COVID-19, while taking precautions to ensure the health and safety of all other patients, our staff, and their families. These measures include, among others,

- enhancing our infectious disease department and setting up a fever clinic and isolation facility equipped with designated CT scanners and other equipment in a segregated area;
- streamlining patient treatment and transporting procedures to restrict their mobility within the facility as much as possible;
- measuring body temperature for every visitor upon entry to our hospital and screening all patients with symptoms of fever;
- regularly cleaning and properly disinfecting common areas throughout our hospital, and ensuring adequate hand hygiene by all staff entering the clinical site of our hospital;

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## SUMMARY

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- cancelling family visits in the isolation area, limiting the number of family visitors to one person in other areas, and requiring all visitors to wear face masks during the visit; and
- cancelling all group activities within our hospital and constantly conducting training in relation to the prevention of COVID-19 for our patients and their families.

### *Our treatment of COVID-19 patients*

Since January 22, 2020 and as of the Latest Practicable Date, the fever clinic of our hospital had over 5,191 patient visits and had reported 14 suspected cases, of which three were confirmed cases. As required by the local government, we transferred the three confirmed COVID-19 patients to another designated local public hospital, and hospitalized all the rest 11 suspected COVID-19 patients. Since February 11, 2020, when the last confirmed COVID-19 patient was transferred out of our hospital, and up to the date of this prospectus, our hospital had not reported any new confirmed COVID-19 cases. As of February 29, 2020, all the 11 suspected COVID-19 patients had been confirmed that they were not actually infected with COVID-19, had recovered from their other diseases, and were discharged from our hospital. Since February 29, 2020 and up to the date of this prospectus, we had not reported any suspected COVID-19 cases either.

According to the relevant government policies, from February 12, 2020 to March 4, 2020, our hospital was required to hospitalize all patients visiting our fever clinic for an observation period and provide medical examination and testing services for them free of charge. Our charges incurred as a result amounted to approximately RMB0.6 million, which will be compensated by the government according to the relevant policies. From March 5, 2020, all the hospitals in Changyuan City including our hospital have resumed their normal charges as usual.

### *Our treatment of other patients*

Since the outbreak of COVID-19, save as disclosed below, our hospital has been continuously providing treatment and care to our other patients.

As required by the relevant government policies, treatment services except for emergency services provided by our stomatology department to outpatients were suspended from February 1, 2020 and were subsequently resumed since March 11, 2020. Treatment services except for emergency services provided by our ophthalmology, otorhinolaryngology and plastic surgery departments to outpatients were suspended from February 10, 2020 and were subsequently resumed since February 22, 2020. All other departments of our hospital has been functioning normally since the outbreak of COVID-19 and no patients staying in the hospital immediately before the Designation were moved out to other hospitals.

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## SUMMARY

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### *Impact of the outbreak and the Designation*

#### *Our medical staff*

Since the outbreak of COVID-19, our hospital has not experienced any incidents where our doctors or other medical staff failed to report to duty. On the contrary, over 300 of our medical professionals voluntarily requested to fight on the frontline of the treatment and control of COVID-19. We designated an additional 66 medical professionals to the fever clinic and isolation facility in order to ensure that the fever clinic and isolation facility have sufficient manpower to respond to the evolving situation. We provided adequate personal protective equipment and took a series of measures to protect our staff from contaminating COVID-19. As of the date of this prospectus, the staff of our hospital reported zero infection by COVID-19.

#### *Our supply chain*

Since our major suppliers are not located in Hubei Province, we were able to ensure a steady and sufficient supply of pharmaceuticals, medical equipment and medical consumables. Following the Designation, the Health Commission of Changyuan City has prioritized the supply of personal protective equipment for our hospital. Therefore, since the outbreak of COVID-19 and up to the Latest Practicable Date, our supply chain had not experienced any material disruption.

#### *Our Managed Hospital*

After the outbreak of COVID-19, our Managed Hospital witnessed a decrease in the number of inpatient and outpatient visits. On January 24, 2020, Nanyang City, where our Managed Hospital is located, activated the city's highest level of public health emergency response to deal with the outbreak of COVID-19. As a result, for the period from February 1, 2020 to April 30, 2020, the number of inpatient and outpatient visits of our Managed Hospital decreased by approximately 30.1% and 28.8%, respectively, as compared to the corresponding period in 2019.

#### *Our business and financial performance*

As of the Latest Practicable Date, we incurred approximately RMB3.0 million to set up the fever clinic and isolation facility in response to the outbreak of COVID-19. With respect to our treatment of the suspected COVID-19 patients mentioned above, we had recorded a total revenue of approximately RMB0.1 million and expenses (including employee benefit expenses and costs of pharmaceuticals and medical consumables) of approximately RMB39,600.

After the outbreak of COVID-19, we witnessed a decrease in the number of inpatient and outpatient visits. For the four months ended April 30, 2020, the number of inpatient and outpatient visits of our hospital decreased by approximately 21.5% and 12.0%, respectively, as compared to the corresponding period in 2019. Such decreases were partially offset by an increase of 5.3% and 3.5%, respectively, in average spending per inpatient visit and outpatient visit during the same period, as inpatients and outpatients during the COVID-19 outbreak were mostly critically ill with severe conditions. As a result, we experienced a decrease of 14.2% in our revenue and a decrease of 86.9% in our net profit for the four months ended April 30, 2020 as compared to the corresponding period of 2019 based on our management accounts.

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## SUMMARY

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However, with the local government easing travel restrictions, patient visits to our hospital has gradually resumed to normal. Since April 1, 2020 and up to May 15, 2020, the aggregate number of inpatient and outpatient visits to our hospital increased by approximately 2.2% as compared to the corresponding period in 2019. Further, our Directors believe that the Designation, as a validation of our treatment capabilities, will boost our brand recognition and reputation and attract more patients to our hospital in the long run. Therefore, our Directors believe that the adverse operational and financial impact caused by the outbreak mentioned above is temporary, and if COVID-19 could be effectively contained in China, our financial condition and results of operations are expected to rebound shortly after the first quarter of 2020.

Based on the above factors and information available as of the date of this prospectus, our Directors also believe that the outbreak of COVID-19 would adversely affect our financial results for the full year of 2020 but would not result in a material adverse effect on our continuing business operation and sustainability. However, it is uncertain when and whether COVID-19 could be contained. The above analyses are made by our management based on currently available information concerning COVID-19. We cannot guarantee that the outbreak of COVID-19 will not further escalate or have a material adverse effect on our business operations.

In the worst case scenario, namely, assuming that (i) our hospital has to suspend the operations of certain departments as we did in February 2020 when COVID-19 infections peaked in China, (ii) the construction of our first-phase building cannot be resumed as expected, and (iii) we fail to renew the outstanding borrowings in a total amount of RMB277.3 million and have to make full repayments for such borrowings once due, then we estimate that we will record revenue per month of RMB31.6 million, and incur operating expenses per month of RMB32.2 million, which comprised of (i) employee benefit expenses of RMB13.3 million, (ii) costs of pharmaceuticals and medical consumables of RMB12.4 million and (iii) other expenses of RMB6.5 million. After taking into account the net proceeds to be received from the Global Offering of RMB51.0 million (based on an Offer Price of HK\$1.80 per Offer Share, being the low-end of the Offer Price range stated in this prospectus, and only including the portion of the net proceeds to be applied to general borrowing repayment, working capital replenishment, and other general corporate purposes), our currently available financial resources of approximately RMB318.3 million (comprised of (i) cash and cash equivalent and restricted deposit of RMB108.3 million and (ii) unutilized banking facilities of RMB210.0 million) can support the payment of operating expenses for approximately another 19 months starting from May 1, 2020.

Our Directors are now focused on all possible operational cost containment options. We will also continue to assess the impact of the outbreak of COVID-19 on our operation and financial performance and closely monitor our financial and liquidity position.

Please refer to the paragraph headed “Risk Factors — Risks Relating to Our Business and Industry — The recent outbreak of the Novel Coronavirus Disease 2019 (COVID-19) and another wave of outbreak in the future may have a material adverse effect on our business, results of operation, financial condition and prospects” in this prospectus for more information.



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## SUMMARY

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### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that, up to the date of this prospectus, other than the outbreak of COVID-19 as stated above, there has been no material adverse change in our financial or trading position since December 31, 2019 and there is no event since December 31, 2019 which would materially affect the information shown in the Accountant's Report contained in Appendix I to this prospectus.

### **LISTING EXPENSES**

The estimated total listing expenses (based on the midpoint of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised, including underwriting commissions and any discretionary incentive fee which may be payable by us) for the Global Offering are approximately RMB44.3 million, representing approximately 18.7% of the estimated net proceeds from the Global Offering (assuming the Over-allotment Option is not exercised, and an Offer Price of HK\$2.05 per Share, being the mid-point of the Offer Price range as stated in this prospectus). As of December 31, 2019, the listing expenses incurred by our Company were approximately RMB15.2 million, of which RMB11.2 million was recognized as expenses in relation of the Listing and RMB4.0 million was deferred and expected to be charged against equity upon the Listing under the relevant accounting standards. We expect to incur additional listing expenses of RMB29.1 million, of which approximately RMB14.0 million is expected to be charged to our consolidated statements of profit or loss and approximately RMB15.1 million is expected to be charged against equity upon the Listing. Please refer to the paragraph headed "Financial Information — Listing Expenses" in this prospectus.

### **DIVIDENDS AND DIVIDEND POLICY**

During the Track Record Period we declared dividends of RMB176.6 million and completed the distribution by May 2020. We have no plan to pay or declare additional dividends prior to the Listing.

After completion of the Global Offering, our Shareholders will be entitled to receive dividends that we declare. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Subject to those factors and our Articles of Association, we expect that the profit to be distributed in cash each year will be up to 30% of the distributable profit in our consolidated financial statements for that year.

Future dividend payments will also depend upon the availability of dividends received from our operating subsidiaries in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. For details, please refer to the paragraph headed "Financial Information — Dividends and Dividend Policy" in this prospectus.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings.*

“affiliate(s)”	in relation to any specified person, such other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the second amended and restated articles of association of our Company adopted on June 17, 2020, which will come into effect upon Listing, as amended from time to time, a summary of which is set out in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board” or “Board of Directors”	the board of directors of our Company
“BOCOM Securities” or “Stabilizing Manager”	BOCOM International Securities Limited, a licensed corporation under the SFO permitted to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by 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 who may be an individual or joint individuals or a corporation

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## DEFINITIONS

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“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Central China”	collectively the three provinces located in central China, namely Henan, Hubei and Hunan Provinces
“Chairman”	the chairman of our Board
“Chief Operating Officer”	the chief operating officer of our Company
“China” or “PRC”	the People’s Republic of China but for the purpose of this prospectus and geographical reference only and except where the context requires, references in this prospectus to “China” or the “PRC” do not include Taiwan, the Macau Special Administrative Region of the People’s Republic of China and Hong Kong
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
“Company” or “our Company”	Honliv Healthcare Management Group Company Limited (宏力醫療管理集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on January 6, 2016
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, unless the context requires otherwise, refers to Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock Capital Limited and Rubrical Investment Limited
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the directors of our Company or any one of them

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## DEFINITIONS

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“Deed of Non-competition”	the deed of non-competition executed by our Controlling Shareholders in favour of us on June 18, 2020, as further described in the paragraph headed “Relationship with Our Controlling Shareholders — Non-competition Undertakings” in this prospectus
“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), which came into effect in January 2008
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a private independent research firm which provides market research on a variety of industries, including healthcare service industry
“Frost & Sullivan Report”	the independent industry report commissioned by us and issued by Frost & Sullivan
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by the <b>White Form eIPO</b> Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Guxiang No.9”	Henan Guxiang No.9 Catering Co., Ltd.* (河南省谷香九號餐飲有限公司), a limited liability company established in the PRC on April 27, 2011, in which Mr. Qin Hongchao serves as the president, and is wholly owned by Fortune Assets International Limited, a limited liability company incorporated in Hong Kong
“Henan Hongjie”	Henan Hongjie Pharmaceuticals Co., Ltd.* (河南宏捷醫藥有限公司), a limited liability company established in the PRC on August 9, 2017, and a wholly-owned subsidiary of our Company as of the Latest Practicable Date

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## DEFINITIONS

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“Henan Hongyong”	Henan Hongyong Enterprise Management Consulting Co., Ltd.* (河南宏永企業管理諮詢有限公司), a limited liability company established in the PRC on May 4, 2016, and a wholly-owned subsidiary of our Company as of the Latest Practicable Date
“Henan Honliv Group”	Henan Honliv Group Co., Ltd.* (河南省宏力集團有限公司), a limited liability company established in the PRC on April 9, 1998, which was owned as to 80% by Mr. Qin Zili, as to 15% by Mr. Guo Xiangpu, and as to 5% by Mr. Wei Yaping, and hence a connected person of our Company as of the Latest Practicable Date
“Henan Honliv Hospital” or “our hospital”	Henan Honliv Hospital Co., Ltd.* (河南宏力醫院有限公司), a limited liability company established in the PRC on May 24, 2004, of which was owned as to 99% by Henan Hongyong and as to 1% by Henan Honliv Group as of the Latest Practicable Date, and hence a non wholly-owned subsidiary of our Company, formerly known as Henan Honliv Medical Investment Management Co., Ltd.* (河南省宏力醫療投資管理有限公司) or Honliv Medical Investment
“Henan Honliv School”	Henan Honliv School Co., Ltd.* (河南省宏力學校有限公司), a limited liability company established in the PRC on May 24, 2004, which was owned as to 95.5% by Henan Honliv Group and as to 4.5% by Ms. Wang Xianglian (the mother of Mr. Qin Yan and Mr. Qin Hongchao) as of the Latest Practicable Date, and hence a connected person of our Company
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hongda Constructions”	Henan Hongda Constructions Engineering Co., Ltd.* (河南省宏大建設工程有限公司), a limited liability company established in the PRC on January 23, 2002, of which was owned as to 50.63% by Henan Honliv Group (which in turn was owned as to 80% by Mr. Qin Zili), as to 25.27% by Mr. Dun Yushan and as to 24.1% by Ms. Wang Xianglian (the mother of Mr. Qin Yan and Mr. Qin Hongchao), and hence a connected person of our Company as of the Latest Practicable Date

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## DEFINITIONS

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“Honliv Yishenghuo”	Henan Honliv Yishenghuo Co., Ltd.* (河南宏力一生活有限公司), a limited liability company established in the PRC on September 15, 2014, which was owned as to 90% by Mr. Qin Yan and as to 10% by Ms. Wang Fang as of the Latest Practicable Date, and hence a connected person of our Company
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollar”, “Hong Kong dollars”, “HKD” or “HK\$”	Hong Kong dollar and cent respectively, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the 15,000,000 new Shares being initially offered by our Company for subscription under the Hong Kong Public Offering at the Offer Price (subject to adjustment as described in the paragraph headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus)
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and in the Application Forms relating thereto
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the several underwriters of the Hong Kong Public Offering listed in the paragraph headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated June 23, 2020 relating to the Hong Kong Public Offering entered into among our Company, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters as further described in the section headed “Underwriting” in this prospectus
“Hongxintong”	a prepaid smart card payment system operated by Henan Honliv Group
“Honliv Hong Kong”	Honliv Health Care Management (HK) Limited, a company incorporated in Hong Kong on January 18, 2016, and a wholly-owned subsidiary of our Company as of the Latest Practicable Date

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## DEFINITIONS

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“Honliv Tonghang”	Henan Honliv General Aviation Co., Ltd.* (河南宏力通用航空有限公司), a limited liability company established in the PRC, a wholly-owned subsidiary of Henan Honliv Group (which in turn was owned as to 80% by Mr. Qin Zili), and hence is a connected person of our Company as of the Latest Practicable Date
“Honor Living”	Honor Living Investment Limited, a company incorporated in the BVI on March 24, 2016, and a wholly-owned subsidiary of our Company as of the Latest Practicable Date
“HKFRS”	financial reporting standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not a connected person of our Group
“Independent Valuer”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, whose property valuation report is contained in Appendix III to this prospectus
“International Offering”	the conditional placing of the International Offer Shares outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act, including to professional investors in Hong Kong, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Offer Shares”	the 135,000,000 new Shares being initially offered for subscription under the International Offering together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in the paragraph headed “Structure of the Global Offering — The International Offering” in this prospectus
“International Underwriters”	the group of international underwriters, led by the Joint Global Coordinators, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering

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## DEFINITIONS

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“International Underwriting Agreement”	the underwriting agreement relating to the International Offering expected to be entered into on or around the Price Determination Date by, among others, our Company, our Controlling Shareholders, the Joint Global Coordinators and the International Underwriters as further described in the sections headed “Underwriting” and “Structure of the Global Offering” in this prospectus
“Joint Bookrunners”	BOCOM International Securities Limited, CMB International Capital Limited, Sheng Yuan Securities Limited, Huatai Financial Holdings (Hong Kong) Limited, Goldbridge Securities Limited, Haitong International Securities Company Limited, ABCI Capital Limited and AMTD Global Markets Limited
“Joint Lead Managers”	each of the Joint Bookrunners ( <i>save for ABCI Capital Limited</i> ) and ABCI Securities Company Limited, Zhongtai International Securities Limited, Tianda Securities Limited, HTF Securities Limited and Sinomax Securities Limited
“Joint Global Coordinators”	BOCOM Securities and CMB International Capital Limited
“Labor Contract Law”	the Labor Contract Law of the PRC (中華人民共和國勞動合同法), which became effective on January 1, 2008
“Latest Practicable Date”	June 15, 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of the Shares on the main board of the Stock Exchange
“Listing Date”	the date, expected to be on or around Friday, July 10, 2020, on which dealings in the Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Managed Hospital” or “Jutan Hospital”	Neixiang Jutan Hospital* (內鄉菊潭醫院), a not-for-profit private general hospital established under the laws of the PRC in February 2015 and is owned by Independent Third Party, which we began to manage in 2016 under the terms of the Management Agreement
“Management Agreement”	the management agreement for a term of ten year entered into among Henan Honliv Hospital, the Managed Hospital and its organizer dated June 14, 2016



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## DEFINITIONS

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“Medical Institution Practicing License”	the medical institution practicing license of the PRC (中華人民共和國醫療機構執業許可證)
“Memorandum of Association”	the second amended and restated memorandum of association of our Company adopted on June 17, 2020, which will come into effect upon Listing, as amended from time to time
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Qin Hongchao”	Qin Hongchao (秦紅超), a non-executive Director, and a Controlling Shareholder, and the elder brother of Mr. Qin Yan
“Mr. Qin Yan”	Qin Yan (秦岩), the Chairman, an executive Director, President, a Controlling Shareholder, and the younger brother of Mr. Qin Hongchao
“Mr. Qin Zili”	Qin Zili (秦自力), the father of Mr. Qin Hongchao and Mr. Qin Yan, our Controlling Shareholders, and a connected person of our Company
“NDRC”	the National Development and Reform Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NHC”	the National Health Commission of the PRC (中華人民共和國國家衛生健康委員會), formerly the National Health and Family Planning Commission of the PRC (中華人民共和國衛生和計劃生育委員會) and the Ministry of Health of the PRC (中華人民共和國衛生部)
“NMPA”	the National Medical Products Administration (國家藥品監督管理局), formerly the China Food and Drug Administration (國家食品藥品監督管理總局) or the CFDA
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“Offer Price”	the final offer price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) at which Offer Shares are to be subscribed or purchased pursuant to the Global Offering, to be determined as described in the section headed “Structure of the Global Offering — Pricing of the Global Offering” in this prospectus on or before the Price Determination Date

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## DEFINITIONS

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“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares together
“Over-allotment Option”	the option to be granted by our Company to the International Underwriters exercisable by BOCOM Securities on behalf of the International Underwriters, pursuant to which our Company may be required to allot and issue up to 22,500,000 additional new Shares, representing 15% of the Shares initially available under the Global Offering at the Offer Price, to, among other things, cover over-allocations in the International Offering (if any) as further described in the paragraph headed “Structure of the Global Offering — Over-allotment Option” in this prospectus
“PBOC”	the People’s Republic of China (中國人民銀行), the central bank of the PRC
“PRC GAAP”	generally accepted accounting principles and practices in effect from time to time in the PRC
“PRC Legal Adviser”	Commerce & Finance Law Offices, the legal adviser to our Company as to PRC laws
“Price Determination Date”	the date, expected to be on or around Thursday, July 2, 2020 but not later than Friday, July 3, 2020, on which the Offer Price is fixed for the purpose of the Global Offering
“RMB” or “Renminbi”	the lawful currency of the PRC
“Reorganization”	the reorganization of the business comprising our Group in preparation for the Global Offering, as described in the section headed “History, Reorganization and Corporate Structure” in this prospectus
“Rubrical Investment”	Rubrical Investment Limited, a company incorporated in the BVI on November 17, 2015, wholly owned by Mr. Qin Hongchao, and a Controlling Shareholder and hence is a connected person of our Company as of the Latest Practicable Date
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)

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## DEFINITIONS

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“SAT”	the 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 Laws of Hong Kong)
“Share(s)”	share(s) with par value of HK\$0.0001 each in the capital of our Company
“Share Option Scheme”	the share option scheme conditionally adopted by the written resolutions of the Shareholders of our Company passed on June 17, 2020, the principal terms of which are summarized in the paragraph headed “E. Share Option Scheme” in Appendix V to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Sole Sponsor”	BOCOM International (Asia) Limited, a licensed corporation under the SFO permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
“State Council”	State Council of the People’s Republic of China (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed thereto in the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Sunny Rock”	Sunny Rock Capital Limited, a company incorporated in the BVI on November 17, 2015, wholly owned by Mr. Qin Yan, a Controlling Shareholder, and hence was a connected person of our Company as of the Latest Practicable Date
“Track Record Period”	the three years ended December 31, 2017, 2018 and 2019
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement

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## DEFINITIONS

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“United States” or “U.S.”	the United States of America, its territories and possessions, and all areas subject to its jurisdiction
“U.S. dollar”, “US\$” or “USD”	United States dollar, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“ <b>WHITE</b> Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by public applicants who require such Hong Kong Offer Shares to be issued in their own name
“ <b>White Form eIPO</b> ”	an application for Hong Kong Offer Shares to be issued in the applicant’s own name submitted online through the designated website of <b>White Form eIPO</b> at <a href="http://www.eipo.com.hk"><b>www.eipo.com.hk</b></a>
“ <b>White Form eIPO</b> Service Provider”	Computershare Hong Kong Investor Services Limited
“ <b>YELLOW</b> Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by public applicants who require such Hong Kong Offer Shares to be deposited directly into CCASS

\* *Denotes English translation of the Chinese names of companies, entities, laws or regulation and is provided for identification purposes only.*

In this prospectus, the terms “connected transaction”, “controlling shareholder”, and “subsidiary” shall have the meanings as ascribed thereto under Listing Rules, unless the context otherwise requires.

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## GLOSSARY

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*The glossary of technical terms contains explanations and definitions of certain terms used in this prospectus in connection with us and our business. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.*

“associate-chief doctor”	the second professional rank for doctors (副主任醫師) in China; an associate-chief doctor may supervise attending and resident doctors, direct research work of a specific field, and typically handle complex medial cases
“attending doctor”	the third professional rank for doctors (主治醫師) in China; an attending doctor may supervise resident doctors and typically undertake medical treatment, teaching, research and disease prevention work
“bed occupancy rate”	the aggregate length of stay (in terms of days) for all inpatient visits during the relevant period divided by the number of beds in operation multiplying aggregate number of days during the relevant period
“beds in operation”	the fixed number of beds that are used for clinical services in a healthcare institution as of a specific date, including regular beds, fold-up beds, care beds, beds that are being sterilized and repaired, and out of service beds due to expansion or overhaul, excluding neonatal beds, pre-delivery beds, beds in inventory, observation beds, temporary beds and accompanying care beds
“cardiac surgery”	a branch of medicine which deals with surgery on the heart or great vessels
“cardiovascular”	a branch of medicine that involves the heart or blood vessels
“chief doctor”	the highest professional rank for doctors (主任醫師) in China; a chief doctor is generally in charge of a specific clinical department
“Class-I hospital”	the smaller local hospitals designated as Class-I hospitals by the NHC hospital classification system, typically having fewer than 100 beds as for a comprehensive hospital and primarily providing more basic healthcare services limited to the surrounding community

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## GLOSSARY

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“Class-II hospital”	the regional hospitals designated as Class-II hospitals by the NHC hospital classification system, typically having 100 to 499 beds, as for a comprehensive hospital providing multiple communities with integrated healthcare services and undertaking certain academic and scientific research missions. The Class-II hospitals are graded into three sub-levels (A, B and C) based on the assessment of competent authorities and Class-II-A hospitals are the highest ranking hospitals among Class-II hospitals
“Class-III hospital”	the largest and best regional hospitals in China designated as Class-III hospitals by the NHC hospital classification system, typically having more than 500 beds, as for a comprehensive hospital providing high-quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives. The Class-III hospitals are graded into three sub-levels (A, B and C) based on the assessment of competent authorities and Class-III-A hospitals are the highest ranking hospitals among Class-III hospitals
“CT”	computed tomography, a technique that uses X-rays to make detailed pictures of the structures inside the body
“dialysis”	the clinical purification of blood by dialysis, as a substitute for the normal function of the kidney
“endocrinology”	a branch of medicine that deals with diseases related to hormones and glands
“gastroenterology”	a branch of medicine which deals with disorders of the stomach and intestines
“GFA”	gross floor area
“gynecology”	a branch of medicine that deals with the diseases and routine physical care of the reproductive system of women
“HANA database”	an in-memory, column-oriented, relational database management system developed and marketed by SAP SE, the primary function of which is to store and retrieve data
“healthcare service”	the service practice that provides inpatient or outpatient diagnosis, treatment and prevention of human disease, illness, injury or dysfunction through the medical procedures performed by professional practitioners in medicine, nursing, pharmacy, and other fields

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## GLOSSARY

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“hematology”	the branch of medicine that deals with the diseases of the blood
“ICU”	the intensive care unit
“inpatient visit”	a patient visit during which the patient receives lodging and food as well as treatment
“Medical Insurance Designated Medical Institution (醫保定點醫療機構)”	healthcare institutions designated by the relevant local medical insurance authority as ones that are eligible for public medical insurance coverage for patients covered by UEBMIP, URBMIP and NRCMIP
“neonatal”	medical specialty that focuses on the provision of healthcare for newborn infants
“nephrology”	medical specialty that focuses on kidney diseases and treatments
“neurology”	a branch of medicine that deals with the anatomy, functions, and organic disorders of nerves and the nervous system
“neurosurgery”	a branch of medicine that deals with surgeries performed on the nervous system
“not-for-profit hospital”	a hospital established and operated for the purpose of providing medical services to the general public, whose net income before tax (收支結餘) should be used for the development of the hospital, such as improving hospital management, developing new treatment techniques or establishing new healthcare services instead of being distributed as dividends
“NRCMIP”	New Rural Cooperative Medical Insurance Program (新型農村合作醫保計劃), a voluntary medical insurance program covering the rural population
“obstetrics”	a branch of medicine that deals with the care of women during pregnancy, childbirth, and the recuperative period following delivery
“oncology”	a branch of medicine that deals with tumors, including study of their development, diagnosis, treatment, and prevention
“ophthalmology”	the branch of medicine that deals with disorders and diseases of the eye

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## GLOSSARY

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“outpatient visit”	a patient visit during which the patient is not hospitalized overnight but visits a hospital, clinic, or associated facility for diagnosis or treatment
“orthopedics”	a branch of medicine that focuses on injuries and diseases of the musculoskeletal system, which includes bones, joints, ligaments, tendons, muscles and nerves
“pediatrics”	a branch of medicine that deals with the medical care of infants, children and adolescents
“resident doctor”	the entry professional rank for doctors (住院醫師) in China; a resident doctor must have a medical degree and a practice license, and may undertake basic tasks such as patient’s medical record preparation and practice medicine under the supervision of attending doctors or other superiors
“rheumatology”	medical specialty that focuses on diagnosis and therapy of rheumatic diseases
“sq.m.”	square meter(s)
“stomatology”	the branch of medicine and dentistry that deals with diseases relating to the mouth
“thoracic surgery”	surgical treatment of thoracic wall and organs inside the thorax
“UEBMIP”	Urban Employee Basic Medical Insurance Program (城鎮職工基本醫保計劃), a mandatory medical insurance program covering urban employees and retirees in China
“URBMIP”	Urban Resident Basic Medical Insurance Program (城鎮居民基本醫保計劃), a voluntary medical insurance program covering urban residents without formal employment in China
“URRBMIP”	Urban and Rural Resident Basic Medical Insurance Program (城鄉居民基本醫保計劃), a voluntary medical program implemented in certain provinces integrating previous URBMIP and NRCMIP
“URRBMIP Designated Medical Institution” (城鄉居民醫保定點機構)	healthcare institutions designated by the relevant local medical insurance authority as ones that are eligible for public medical insurance coverage for patients covered by URRBMIP



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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business prospects;
- our future debt levels and capital needs;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals;
- general economic conditions of the PRC;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to reduce costs;
- our dividend policy;
- our expansion and capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- certain statements in the section headed “Financial Information” in this prospectus with respect to prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

The words “aim,” “anticipate,” “believe,” “can,” “could,” “estimate,” “expect,” “going forward,” “intend,” “may,” “plan,” “potential,” “project,” “seek,” “should,” “will,” “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including those discussed in the section headed “Risk Factors” in this prospectus. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, our results of operations and financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realized.

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## **FORWARD-LOOKING STATEMENTS**

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Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

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## RISK FACTORS

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*You should carefully read and consider all of the information in this prospectus including the risks and uncertainties described below before deciding to make any investment in our Shares. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties. As a result you may lose part or all of your investment.*

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

**We derive a majority of our revenue from Henan Honliv Hospital, and our revenue and profitability would be significantly and adversely affected if we fail to successfully operate our hospital.**

During the Track Record Period, we generated substantially all of our revenue from the provision of treatments and general healthcare services and pharmaceuticals sales at our hospital, Henan Honliv Hospital. As a result, we may be particularly sensitive to any adverse developments with respect to Henan Honliv Hospital. Our revenue is highly dependent on our brand recognition, acceptance in the communities in which we operate, changes in local demographic trends, our ability to attract patients, our ability to attract and retain well-known and respected doctors, our ability to offer desired and efficient services, and our ability to develop advanced treatment practices and compete effectively with other hospitals. Our inability to attract patients and to increase revenue from both inpatient and outpatient services may have a material adverse effect on our business, financial condition and results of operations.

**We recorded net current liabilities during the Track Record Period, which exposes us to liquidity risk, and such positions may continue or recur after the Listing.**

We recorded net current liabilities of RMB354.4 million, RMB403.2 million and RMB279.2 million as of December 31, 2017, 2018 and 2019, respectively. The majority of our current liabilities were current portion of long-term bank borrowings, short-term bank borrowings and other borrowings, which amounted to RMB229.7 million, RMB204.0 million and RMB237.8 million as of December 31, 2017, 2018 and 2019, respectively. Our net current liabilities during the Track Record Period were mainly a combined result of using short-term bank borrowings to finance our capital expenditure and distributing dividends to our shareholders. Our accumulative dividends to our shareholders were RMB197.5 million, RMB247.5 million and RMB247.5 million as at December 31, 2017, 2018 and 2019, respectively. Our capital expenditures in 2017, 2018 and 2019 amounted to RMB12.6 million, RMB6.9 million and RMB65.7 million, respectively, which were mainly used for the construction of our hospital and purchases of medical equipment.

Our net current liabilities expose us to liquidity risk. Our future liquidity, the payment of trade and other payables, our capital expenditure plans and the repayment of our outstanding debt obligations as and when they become due will primarily depend on our ability to maintain adequate cash generated from operating activities and adequate external financing. We may have net current liabilities and negative equity in the future, which may limit our working capital for the purpose of operations or capital for our expansion plans and materially and adversely affect our business, financial condition and results of operations. For more details, please refer to the paragraph headed “Financial Information — Discussion of Selected Items from the Consolidated Statement of Financial Position — Net Current Liabilities” in this prospectus.

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## RISK FACTORS

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**Our business may suffer if our hospital is unable to attract and retain qualified and experienced doctors, other healthcare professionals and hospital administrators and managers, or if we are unable to manage our employees properly.**

Our performance and the execution of our growth strategy depend substantially on our ability to attract and retain experienced doctors, other healthcare professionals and hospital administrators and managers in the fields and regions relevant to our growth plans. We compete for these personnel with other healthcare providers and face limited availability of qualified candidates.

The recruitment of doctors is highly competitive in China. We believe that the key factors that a doctor considers before deciding where he/she will work include the reputation of the hospital and its organizer or owner and management, the quality of the facilities, the compensation package, the specialties offered by the hospital, the research and teaching opportunities and the hospital's community relations. We may not compare favorably with other hospitals on one or more of these factors. Whilst we have not experienced substantial difficulties in attracting and retaining qualified and experienced doctors in the past, we cannot assure you that we will not experience such issues in the future.

Our success also depends in part upon the ability of our hospital to recruit and retain other healthcare professionals, including nurses, physiotherapists, radiographers and pharmacists, and on our ability to train and manage these healthcare professionals. In addition to the highly competitive market for recruiting healthcare professionals, it has become increasingly costly to recruit and retain them in recent years, and we expect such costs to continue to increase in the future. In 2017, 2018 and 2019, our total staff costs (including our Directors' emoluments) were RMB100.9 million, RMB119.5 million and RMB145.3 million, respectively. We expect such costs to continue to increase in the future, which may adversely affect our profitability. If we were unable to attract or retain doctors, other healthcare professionals or hospital administrators and managers as required, we may not be able to maintain the quality of our services and grow the capacity of our hospital, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

Even if we are able to recruit and retain quality doctors and other healthcare professionals, we may not be able to manage our employees properly. In particular, the practicing activities of doctors and nurses are strictly regulated under PRC laws and regulations. Doctors and nurses who practice at medical institutions are required to hold practicing licenses and are only permitted to practice within the scope of their licenses and at specific medical institutions at which their licenses are registered. In practice, it may take a period of time for doctors and nurses to transfer their licenses from one medical institution to another or to add another medical institution to their permitted practicing institutions. We cannot assure you that any of our personnel transferred from a different hospital or any potential personnel to be hired by our hospitals will complete the transfer of their licenses and the related government procedures on time, if at all, or that our doctors and nurses will not practice outside the permitted scope of their respective licenses. Our failure to properly manage the employment of our doctors and nurses may subject us to administrative penalties against our hospitals including fines, loss of licenses, or, in the worst case scenario, an order to cease practice, any of which could materially and adversely affect our business, results of operations and prospects.

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## RISK FACTORS

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**If the PRC government imposes additional price controls on pharmaceuticals, medical equipment, medical consumables and medical services, our revenues may be adversely affected.**

The Notice on the Implementation of Market Adjusted Prices in Healthcare Services by Non-Public Medical Institutions (《關於非公立醫療機構醫療服務實行市場調節價有關問題的通知》), which was promulgated by the NDRC, the NHC and the Ministry of Human Resources and Social Security on March 25, 2014, required the price of healthcare services provided by non-public medical institutions to be subject to market conditions. Non-public medical institutions which are for-profit in nature may set the price of services provided by their medical institutions at their own discretion, but the price must be determined reasonably according to the principles of fairness, legality, honesty and credibility and the price level must be a relatively stable level of a certain period of time.

The Opinions on Promoting Drug Pricing Reform (推進藥品價格改革的意見), which were promulgated by the NDRC, the NHC, the NMPA (formerly known as the CFDA), the MOFCOM and other three departments on May 4, 2015, set forth that from June 1, 2015, except for narcotic drugs and Class I psychotropic drugs, the restrictions on the prices of the drugs that were subject to government pricing will be cancelled.

We are affected by government price controls on the pharmaceutical products and medical services that we provide. Our profitability is susceptible to fluctuations in the costs of pharmaceuticals, medical equipment and medical consumables which are subject to factors beyond our control. Any change in the pricing regime that applies to healthcare service providers, such as reductions in the price ceilings on pharmaceutical products and medical services provided by our hospital, may have a material adverse effect on our results of operations, cash flows, financial condition and prospects. Furthermore, we may not be able to anticipate and react to changes in medical supply costs by changing service offerings or adjusting service fees in the future, or we may be unable to pass these cost increases onto our customers, which could materially and adversely affect our margins and results of operations.

**We operate in a heavily regulated industry and therefore incur ongoing compliance costs. If we fail to renew the licenses necessary for our operations, our operational and financial conditions and results could be materially and adversely affected.**

We are subject to various laws and regulations at the national, regional and local levels in the PRC. These rules and regulations are mainly relating to the quality and pricing of medical facilities, equipment and services, the pricing and procurement of pharmaceuticals, medical equipment and medical consumables, the eligibility and payment methods of public medical insurances, the licensing and operation of medical institutions and the licensing and number of medical professionals, noise pollution, discharge of pollutants into air and water and handling and disposal of bio-medical, radioactive and other hazardous waste, anti-corruption and anti-bribery, and the confidentiality and safekeeping of patients' medical records. The above list of certain regulated areas is not exhaustive. For more details, please refer to the paragraph headed "Regulatory Overview — Laws and Regulations Related to the Healthcare Service Sector in China" in this prospectus. There can be no assurance that the PRC government will not impose additional or stricter laws or regulations on healthcare services, or strengthen and tighten supervision and management of medical institutions including non-public hospitals. We cannot assure you that we will always be able to meet all of the enhanced regulatory obligations, including any additional requirements imposed in the future on hospitals.

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## RISK FACTORS

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Our hospital and Managed Hospital are subject to periodic licensing renewal requirements and inspections by various government authorities. If we fail to renew the Medical Institution Practicing License or any other licenses required for our operations, or are found to be non-compliant with any of the applicable laws, regulations or rules, we may face penalties, including suspension of operations and even revocation of operating licenses, depending on the nature of the findings, any of which could materially and adversely affect our business, financial condition and results of operations.

**Any failure to remain eligible for public medical insurance coverage, and any non-payment or delayed payment from our patients or PRC public medical insurers, could materially and adversely affect our revenue and results of our operations.**

In China, each province maintains a list of Medical Insurance Designated Medical Institutions that are eligible for public medical insurance coverage for the patients who visit such hospitals. In these hospitals, patients pay a portion of the fees assessed for services rendered and medicine purchased, while public medical insurance covers the rest. We understand that some of our patients, especially patients from other provinces and cities, would claim or attempt to claim reimbursement from public medical insurance programs for all or a portion of their medical expenditures. Whether a healthcare institution is a Medical Insurance Designated Medical Institution could affect its acceptance among potential patients. As of the Latest Practicable Date, our hospital was a Medical Insurance Designated Medical Institution and eligible for public medical insurance coverage. Payments we received from social insurance programs in total amounted to RMB104.8 million, RMB110.8 million and RMB175.7 million in 2017, 2018 and 2019, respectively, representing 21.9%, 22.3% and 33.1% of our total revenue in the same periods, respectively. There can be no assurance that our hospital will remain eligible for this coverage in the future. Factors that may adversely impact our eligibility include, but are not limited to, governmental policy toward private hospitals, a decline in the quality of the services hospitals provide or a loss of a significant number of healthcare professionals. If our hospital is excluded from public medical insurance coverage for any reason, we may experience a decline in patient volume. The exclusion from public medical insurance coverage may also result in delays of payment or eventual non-payment of medical fees owed to our hospital, which may adversely affect our results of operations and financial condition.

**We are exposed to the credit risk from medical insurers.**

We have a highly diversified customer base, without any single customer contributing material revenue. However, we have concentrated debtors' portfolio, as the majority of our patients will claim their medical bills from medical insurers, particularly social insurance programs. Please refer to the paragraph headed "Financial Information — Quantitative and Qualitative Analysis about Financial Risks — Credit Risk" in this prospectus for details. We cannot assure you that no default will arise from those medical insurers. During the Track Record Period and up to the Latest Practicable Date, we failed to receive reimbursements in an aggregate amount of approximately RMB42,686 from social insurance programs, for which we have made full provision. If medical insurers fail to make reimbursements claimed by our patients, our financial condition and results of operations could be materially and adversely affected.

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## RISK FACTORS

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**The recent outbreak of the Novel Coronavirus Disease 2019 (COVID-19) and another wave of outbreak in the future may have a material adverse effect on our business, results of operation, financial condition and prospects.**

The recent outbreak of COVID-19 has endangered the health of many people residing in China and significantly disrupted travel and local economy. Particularly, our hospital was designated by the local government to treat patients infected with COVID-19 on February 7, 2020. For more details, please refer to the paragraph headed “Summary — Recent Development — Outbreak of Novel Coronavirus Disease 2019 (COVID-19)” in this prospectus. As a result of travel restrictions for COVID-19 control and also because patients who are not in severe conditions may prefer not to visit hospitals or merely visit hospitals for a period as short as possible during the outbreak, the number of total patient visits of our hospital for the first quarter of 2020 has decreased as compared to the corresponding period of 2019. Since the situation is rapidly evolving throughout the world, it is uncertain when and whether COVID-19 could be contained. In addition, the lack of immunity among the community to COVID-19 may expose people in China to another wave of outbreak. We cannot assure you that the patient visits to our hospital will resume to normal in the near future. In addition, as required by the relevant government policies, the treatment services except for emergency services provided by stomatology, ophthalmology, otorhinolaryngology and plastic surgery of our hospital were suspended for a short period. Although all the departments of our hospital had resumed normal operations as of the Latest Practicable Date, part or even all of our operations could be disrupted or even temporarily closed again in the future if the outbreak of COVID-19 further escalate. We could also face sanctions, fines and claims against us if we fail to provide sufficient protection to our medical professionals during their treatment of COVID-19 patients. All of these factors could have a material adverse effect on our business, results of operation, financial condition and prospects.

**If we are unable to effectively identify expansion opportunities or carry out our expansion strategies, our business, financial condition, results of operations and prospects may be adversely affected.**

Our growth strategy depends on our ability to expand our service offerings, develop additional disciplines and build, acquire or manage additional hospitals. We may not be able to achieve future growth and expansion at a desirable speed. Our growth is affected by a number of factors, including the overall regulatory environment and competitive landscape of China’s healthcare service industry, our brand recognition, the reputation and profitability of our hospital, our financial resources and our capacity to manage additional hospitals.

We intend to build, acquire and manage additional hospitals in the future. Our experience in mergers and acquisitions is limited and we may not be able to identify suitable candidates to acquire ownership interests in or management rights over. Even if we are able to identify suitable candidates, such acquisitions or expansions are capital intensive, time-consuming and difficult. We may fail to negotiate commercially acceptable terms or to secure the necessary financing. Moreover, complying with various PRC legal requirements and regulatory approval processes for acquiring and managing hospitals may be time-consuming and cause us to incur additional costs. We may acquire businesses with unknown or contingent liabilities, including liabilities for past non-compliance with laws and regulations, for which we may be held liable. In addition, we may not be able to successfully integrate newly acquired hospitals or additional managed hospitals with our existing hospital network or achieve the synergies and other benefits we expect from such expansion.

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## RISK FACTORS

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The rapid growth of the healthcare service industry in China may attract more domestic and international market entrants, which may increase the difficulties for us to invest in or acquire target hospitals. Many of our competitors may be more established and have longer operating history and greater financial resources than we do. Moreover, our current or future competitors may be acquired by, receive investment from or enter into other commercial arrangements with well-financed companies and therefore obtain significantly greater financial, marketing, management and technological resources. Therefore, we may not be able to successfully pursue our acquisition strategy, which will adversely affect our future growth and results of operations.

Furthermore, our plans to expand beyond our current markets are subject to various geographic challenges, including those relating to our lack of familiarity with the cultures and economic conditions of these new regions and our lack of brand recognition and reputation in such regions. All of these factors may materially and adversely affect our future growth and therefore our business, financial condition and results of operations.

**We may not be able to secure adequate or timely financing for investments in our hospital, and our projects under development may not be completed within the expected time frame and within our budget, or at all, and may not achieve the intended economic results.**

To improve the facilities and services of our hospital, we have made and will continue to make capital-intensive investments in our hospital. Examples of such investments include estimated investment of RMB70 million on the continuing construction of our first-phase hospital building, which is expected to commence operation by the end of 2020 and estimated investments in upgrading the medical equipment and information technology systems in our hospital. As a result, the availability of adequate financing for such investments is crucial to our expansion and development plans. Our current operations are generally financed through operating cash flow and bank loans. A number of factors such as general economic conditions, our financial position and performance, credit availability from financial institutions and China's monetary policies may affect our ability to obtain adequate financing on favorable terms and to achieve a reasonable return on our investments. Any failure by us to raise sufficient funds on terms reasonably acceptable to us, or at all, could limit our ability to expand our business and maintain our competitive position. In addition, for the construction or renovation of hospital facilities from time to time, even if we secure the necessary financing, such projects could result in cost overruns, may not be completed on time or at all and may not achieve the expected economic gains. If this happens, it could impact our liquidity and profitability and limit our ability to obtain additional financing for working capital, capital expenditures, and other general corporate purposes.

Furthermore, our projects under development may not be completed within the expected time frame. For example, our construction of the first-phase building was suspended in July 2017 in response to certain new government policies on the design of hospitals. As of the Latest Practicable Date, the construction of the first-phase building had not resumed and the construction of our second-phase building was still at preparatory stage. For more details, please refer to the paragraph headed "Business — Our Hospital — Hospital Expansion Work and Future Acquisition Plans" in this prospectus. If we fail to resume the construction by end of June 2020, our first-phase building may not be able to commence operation by the end of 2020 as expected. Further, the development of our second phase-building will be subject to various factors, including the utilization of our first-phase building, the demand of our patients, and our available capital resources. We may fail to materialize the construction for our second-phase building as expected. All of these may incur further costs and adversely affect our business, financial conditions, results of operations and prospects.



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## RISK FACTORS

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**The development and ramp-up schedule of new healthcare facilities could contribute to the fluctuations of our financial results and new healthcare facilities may not achieve timely profitability as anticipated, or at all.**

We currently have a two-phase construction plan for our hospital. Our first-phase building is expected to commence operation by the second half of 2020 and our second-phase building is currently at preparatory stage. As such, we could incur material amount of capital expenditure once we materialize the construction for the second-phase building, including associated capital contribution or commitment as well as investments for decoration and renovation of the property, recruitment and medical and other equipment. Relevant costs and expenses, such as amortization of leasehold improvements, depreciation of property, plant and equipment, staff expenses and rental expenses, may begin to accrue in the early stage ramp-up period. Depending on the scale, location and nature and legal structure of the new healthcare facility, the amount of related expenditure and accrued costs in this initial stage varies.

The ramp-up schedule may be affected for regulatory reasons as we are generally required to undergo certain regulatory review and approval processes from various authorities in the PRC, including the health authorities. We cannot assure you that we will be able to obtain all the required approvals, permits or licenses for establishing and operating new healthcare facilities in a timely manner or at all. Furthermore, we may not be able to fully ramp up new healthcare facilities in line with their respective anticipated timetables due to, among other reasons: (i) any failure or material delay in obtaining the required approvals, permits or licenses; (ii) any substantial increase in costs to ramp up operations and utilization; (iii) weaker market reception than expected; and (iv) difficulty in recruiting sufficient doctors and other medical staff to work at such facilities. The operating results generated at new healthcare facilities may not be comparable to the operating results generated at any of our existing healthcare facilities. We cannot assure you that our future healthcare facilities will achieve the level of profitability of our existing healthcare facilities, or at all. Our newly developed facilities may not be successfully integrated with our existing hospital or achieve the synergies and other benefits we expect from such expansion. Developing and operating new facilities could be subject to certain additional risks, including difficulties at the hospital level arising from operating a significantly larger and more complex organization, challenges in recruiting additional employees to meet the required operational standards, and the diversion of management's attention from our existing. Any of the above conditions could materially and adversely affect our business, financial condition and results of operations.

**Our business, profitability and financial condition may be adversely affected by the operating results of our Managed Hospital.**

Pursuant to the Management Agreement, we receive a management fee calculated at a percentage of the Managed Hospital's annual revenue in exchange for our provision of hospital management services. The operating results of our Managed Hospital depends on a variety of factors which, among others, include implementation of our hospital management governance structure and management policies in the Managed Hospital, the Managed Hospital's ability to train and retain medical professionals and the applicable local healthcare policies. As such, we may not be able to provide successful management services to the Managed Hospital or the Managed Hospital may be subject to certain unfavorable conditions or circumstances beyond our expectation, management or control, and as a result, the Managed Hospital may not be able to sustain its success in the future.

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## RISK FACTORS

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We may further expand our network of managed hospitals in other cities. Due to the foregoing factors and the differences arising from geographical location or the general social, economic and political circumstances, we cannot assure you that our success in managing Jutan Hospital during the Track Record Period can be effectively replicated in other managed hospitals we may have in the future.

Any significant deterioration in the operating results of our Managed Hospital and future managed hospitals may adversely affect our business, profitability and financial condition.

**If our Managed Hospital breaches, decides to terminate or declines to renew our Management Agreement, our business may suffer.**

Our management agreement sets forth certain events that may grant relevant parties the right to early termination. These events include, without limitation, material losses or other adverse effects suffered by the Managed Hospital as a result of our failure to comply with relevant laws and regulations or our fraudulent conduct. If our Managed Hospital decides to terminate the Management Agreement pursuant to such termination events, we may lose our rights to manage our Managed Hospital and will no longer be entitled to receive management fee from our Managed Hospital. In addition, if we fail to maintain a good relationship with the organizer of the Managed Hospital, they may choose not to renew the Management Agreement with us after the current agreement expires. In addition, if we have material disputes with our Managed Hospital or otherwise fail to maintain sound relationships with it, they may elect to exercise early termination or refuse to renew the Management Agreement with us after expiration.

Moreover, our Managed Hospital and persons that ultimately control it may have business or economic interests that are different from us, may dispute our Management Agreement, or may take action inconsistent with our interests, objectives or instructions. We cannot guarantee that owners of our Managed Hospital would not intentionally breach, terminate or attempt to terminate our Management Agreement. If any of such breach or termination events were to occur, they may materially and adversely affect our business, financial condition and results of operations.

**Our plan to control costs by centralizing the sourcing and procurement of pharmaceuticals, medical equipment and medical consumables may not be effective.**

We intend to obtain the Good Supply Practices for Pharmaceutical Products Certificate and centralize the sourcing and procurement of pharmaceuticals, medical equipment and medical consumables to control our cost and improve the quality and efficiency of our healthcare services. However, we have no experience in running pharmaceutical supply business and we may not be able to achieve our goal to effectively control cost by expanding into pharmaceutical supply business. Execution of such plan may strain our financial and managerial resources and any failure could materially and adversely affect our business, financial condition and results of operations.

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## RISK FACTORS

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### **The nature of our business exposes us to professional and other liabilities.**

We are exposed to potential liabilities that are inherent to the provision of healthcare services. An increasing number of medical malpractice claims have been brought against medical institutions in China in recent years. We are subject to potential claims and legal actions which are inherent to the provisions of healthcare services. Particularly, we rely on the doctors and other medical professionals of our hospital to make proper clinical decisions regarding the diagnosis and treatment of their patients. Any incorrect clinical decision on the part of doctors and other medical professionals, or any failure by our hospital to properly manage the clinical activities may result in unsatisfactory outcomes of treatment, patient injury or even death. Whilst our hospital has been subject to a limited number of claims in the past, we cannot assure you that it will not be subject to claims in the future. During the Track Record Period, there were 19 cases of medical disputes with our patients and/or their families which resulted in, or are likely to result in, monetary compensation. In 2017, 2018 and 2019, the aggregate amount of medical treatment fees waived by us and the amount of monetary compensation paid to our patients and/or their families by us was approximately RMB135,050, RMB94,772 and RMB398,603, respectively, representing 0.03%, 0.02% and 0.08% of our total revenue, respectively, over the same periods. Any losses and liabilities incurred by us or a successful claim made against our hospital could have a material adverse effect on our results of operations and financial condition. As of the Latest Practicable Date, there was one ongoing medical dispute in legal proceedings at our hospital and we estimate that the maximum exposure in relation to the dispute will not exceed RMB20,000. With respect to the Managed Hospital, whilst we are not directly responsible for any liabilities and obligations of the Managed Hospital or exposed to its medical disputes and litigations, our results of operations and financial position may be adversely affected by reduced management fees caused by any such liabilities, medical disputes and litigations exposure. In addition, such claims could be costly to defend and may divert management's attention and resources away from our business operations and may cause negative publicity against us and harm to our reputation, which could decrease our patient volumes.

As of the Latest Practicable Date, we did not have insurance to cover the potential compensation for medical incidents. In addition, we do not maintain any business interruption insurance or product liability insurance and property insurance against damages to our properties and equipment. We cannot assure you that in the future we will be able to obtain insurance to cover various risks on terms that are acceptable to us, or at all. If we experience severe medical malpractice claims, business disruption, natural disaster or other factors beyond our control, significant uninsured loss could materially and adversely affect our business, financial condition and results of operation.

### **Our operations are susceptible to fluctuation in the costs of pharmaceuticals and medical consumables, which could adversely affect our margins and results of operations.**

Our profitability is susceptible to fluctuation in the costs of pharmaceuticals and medical consumables. In particular, in 2017, 2018 and 2019, pharmaceutical costs accounted for 23.8%, 23.6% and 24.8%, and cost of medical consumables accounted for 13.7%, 13.0%, and 11.4%, of our revenue respectively. The availability and prices of pharmaceuticals and medical consumables can fluctuate and are subject to various factors beyond our control, including supply, demand, general economic conditions and governmental regulations, each of which may affect our procurement costs or cause a disruption in our supply. We may not be able to anticipate and react to changes in medical supply costs by changing service offerings or adjusting service fees in the future, or we may be unable to pass these cost increases onto our customers, which could materially and adversely affect our margins and results of operations.

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## RISK FACTORS

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**Our revenue has historically been entirely dependent on, and will remain heavily dependent on, our operations in Henan Province. As such, we are especially sensitive to the local conditions and changes in Henan Province, such as with respect to its economy, laws and regulations.**

During the Track Record Period, we derived all our revenue from operations in Henan Province. Going forward, we expect that a large part of our revenue will remain dependent on our operations in Henan Province. We are therefore highly sensitive to the regulatory, economic, environmental and competitive conditions, as well as the public health landscape, in Henan Province. In recent years, there has been a gradual decrease in the county population in Henan Province, as a significant portion of the workforce in counties leave for top-tier cities for more diversified or more prosperous job opportunities. A significant reduction in the aggregate workforce employed in Henan Province in general may reduce the demand for our healthcare services and as a result, our business and results of operations may be adversely affected. Henan Province has also experienced steady growth in its GDP per capita throughout the last decade, but given the decreasing county population, the economic growth may lose its momentum and there is no assurance that Henan Province could sustain continual economic growth in the future. In the event that the average spending power of the county population decreases or the economic growth in Henan Province slows down, demand for medical services may substantially decrease and our results of operation and profitability may be adversely affected. Furthermore, significant changes in the laws and regulations governing the healthcare industry in Henan Province, such as those in relation to the medical professional licensing system, qualification and compliance requirements for medical institutions, may have a material effect on our business operations.

**Our success and business growth depends on the continuing efforts of our senior management and key personnel, and our business may be adversely affected if we lose their services.**

Our business growth depends on the continued contribution from, and our ability to retain, our senior management and key personnel, some of whom have been with our Group since its inception. The expertise and industry experience of our senior management are crucial to our success. In particular, the service of Mr. Qin Yan, our Chairman, Dr. Teng Qingxiao, our Chief Operating Officer, Dr. Hua Xiuzhi, our vice president, and Dr. Qian Feng, our vice president and our senior doctors, have been integral to the development and business of our Group. We rely on their industry and business experience. If one or more of our senior management team or key employees are unable or unwilling to serve in their present positions, we may not be able to locate suitable or qualified replacements in a timely manner or at all, and our business operations and ability to implement our business strategies may be materially and adversely affected. In addition, if any member of our senior management team or key employees joins a competitor or forms a competing company, we may lose valuable industry and business know-how that is critical to our business or expansion strategies. All of our executive officers have entered into employment agreements with us containing confidentiality and non-compete provisions. We cannot assure you that they will not breach their respective employment-related agreements. Any of the above risks may have a material adverse effect on our business, financial conditions, results of operations and prospects.

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## RISK FACTORS

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**Rapid technological advances, technological failures or other challenges related to our medical equipment may significantly disrupt our business.**

We use sophisticated and expensive medical equipment at our hospital to provide services. Medical equipment may need to be upgraded if technical innovation makes existing equipment obsolete. Replacing, upgrading or maintaining equipment may involve significant costs. In addition, because of the high costs of medical equipment, we may not maintain back-up equipment, and, therefore, if such equipment is damaged or breaks down, our ability to provide the relevant services to our patients may be impaired. If our hospital is unable to keep pace with technological advances, doctors and patients at our hospital may turn to other hospitals equipped with better technologies or equipment and our hospital may become less competitive, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

**We are exposed to risks of obsolete and slow-moving inventory which may adversely impact our cash flow and liquidity.**

Our inventory comprises primarily the inventory of pharmaceuticals, medical equipment and medical consumables at our hospital. As of December 31, 2017, 2018 and 2019, we had inventories of RMB12.5 million, RMB18.0 million and RMB23.1 million, respectively, in our hospital. During the Track Record Period, we did not experience any significant write-offs of our inventories. Any increase in inventory may adversely affect our working capital. If we cannot manage our inventory level efficiently in the future, our liquidity and cash flow may be adversely affected. Further, rapid technological advances in the healthcare industry and in other hospitals could also, at times, lead to earlier-than-planned obsolescence or redundancy of equipment and result in asset impairment charges, which may materially adversely affect our results of operations. We may from time to time incur impairment charges, which may materially adversely affect our business, results of operations and prospects.

**The proper functioning of our computer network infrastructure and centralized information technology systems is essential to our business operations, and any technological failure, security breach or other challenges may significantly disrupt our business.**

The proper functioning of our computer network infrastructure and centralized information technology systems is essential to our business operations. Our computer network infrastructure and information technology systems help us operate and monitor the operational performance of our hospital, such as patient services, billing, financial and budgeting data, patient records and inventory. We also rely on our information technology systems to practice telepathology, where our doctors examine patients and laboratory specimens via advanced video conferencing arrangements. Any technical failures associated with our information technology systems, including those caused by power loss, natural disasters, computer viruses or hackers, network failures or other unauthorized tampering, may cause interruptions in our ability to provide services to our patients, keep accurate records, receive payment from insurance reimbursements and maintain normal business operations. In addition, we may be subject to liability as a result of any theft or misuse of personal information stored on our systems due to willful misconduct or gross negligence.

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## RISK FACTORS

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### **We could be exposed to risk to our management of our patients' medical data.**

We collect and maintain medical data from the diagnosis and treatment of our patients. The PRC laws and regulations generally require medical institutions to protect the privacy of their patients or customers and prohibit unauthorized disclosure of personal information. We have taken measures to maintain the confidentiality of our patients' medical information, including encrypting such information to allow only authorized usage and setting internal rules requiring our employees to maintain the confidentiality of our patients' medical information. These measures may not be effective in protecting our patients' medical information. In addition, although we do not make the patients' medical information available to the public, we use such data on an aggregating basis after redacting personal identity for marketing or research purposes. Whilst we believe our current usage of patients' medical information is in compliance with applicable laws and regulations governing the use of such information, any change in such laws and regulations could affect our ability to use medical data and subject us to liability for the use of such data. Failure to protect our patients' medical information, or any restriction on or liability as a result of our use of medical data, could have a material adverse effect on our business and reputation.

### **Our business operations and financial condition could be materially and adversely affected by changes in China's regulatory regime for the healthcare service industry, including changes in reimbursement limit, price control, and regulation of treatment fees.**

In 2009, the PRC government initiated its new healthcare reform plan aimed to provide every citizen with accessible and affordable basic healthcare services. Since then, the PRC government has issued new policies addressing the affordability, accessibility and quality of healthcare services, medical insurance coverage, as well as the reform of public hospitals, and has called for additional government spending on healthcare. This extensive reform of China's healthcare system is targeted to be completed by 2020. For example, in 2013, the State Council issued the Several Opinions on Promoting the Development of the Healthcare Service Industry (國務院關於促進健康服務業發展的若干意見) to open the market of the healthcare service industry in China, encouraging private investments into hospitals. In 2019, The NHC and other Departments issued the Opinion on Promoting the Sustainable Healthy and Regulated Development of Private Medical Institution (促進社會辦醫持續健康規範發展意見) to strictly control the quantity and scale of public hospitals, and leave sufficient space for the development of private medical institutions.

In 2019, the PRC government started to implement the diagnosis-related group (“DRG”) payment nationwide. For details, please refer to the paragraph headed “Regulatory Overview — Regulations on PRC Coverage and Reimbursement — Diagnosis Related Groups” in this prospectus. DRG is a patient classification system that standardizes prospective payment to hospitals and encourages cost containment initiatives. As compared with the traditional cost-based reimbursement, DRG payment is expected to further regulate the behavior of medical professionals and improve the efficiency of using medical insurance funds. Although our hospital is not located in the 30 pilot cities which are required to adopt DRG payment in 2021, it is uncertain when the DRG payment will be mandatorily applied to us. Payments we received from social insurance programs in 2017, 2018 and 2019 accounted for 21.9%, 22.3% and 33.1% of our total revenue in the same periods, respectively. If we fail to accommodate to DRG payment fast and efficiently in the future, our business operations and financial condition could be materially and adversely affected.

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## RISK FACTORS

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Government policies may change significantly in the future, depending on the priorities set by the government and its local counterparts, as well as the political climate at any given time and the continued development of China's healthcare services. Any future legislative changes may affect public hospital reform, limit or place restrictions on private or foreign investments in healthcare services, change reimbursement rates for healthcare services provided to publicly insured patients, implement additional price control on retail pharmaceutical prices and regulate the treatment fees permitted to be charged. Such future changes or reforms, if adopted and implemented, may limit the sources of our revenues, increase the costs of our services, restrict our ability to pursue planned expansions, or otherwise negatively impact us disproportionately against our competitors and may therefore adversely affect our operations and business prospects. In addition, the interpretation, implementation and enforcement of government policies and regulations may vary among different local regulators.

**We may be subject to additional payments of statutory employee benefits.**

According to PRC labor laws and regulations, we are required to pay various statutory employee benefits, including pensions, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing provident fund. We pay statutory employee benefits at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Historically, we did not make full contributions to social insurance and housing provident funds for some of our employees and our payment of social insurance and housing funds were not based on the full salaries and bonuses received by our employees. As of the Latest Practicable Date, we had not received any notice, penalty-related or otherwise, from the local labor authorities in cities where we have operations.

As advised by our PRC Legal Adviser, our failure in making full contribution to social insurance and housing provident funds may result in us being required to rectify the non-compliance by the relevant regulatory authorities or the local authorities may impose a fine on us. We cannot assure you that we will not be subject to any penalty or orders to rectify non-compliance in the future, nor can we assure you that there will not be any employee claims against us regarding payment of the social insurance or housing provident funds. We may incur additional expenses in complying with such laws and regulations.

**Unauthorized use of our intellectual properties by third parties, and the expenses incurred in protecting our intellectual property rights, may materially and adversely affect our business and competitive position.**

We regard our trademarks, trade secret, domain names and other intellectual property rights as critical to our competitiveness and success. For details of our intellectual properties, please refer to the paragraph headed "B. Further Information about Our Business — 2. Our material intellectual property rights" in Appendix V to this prospectus. As we direct more resources towards research and development, we may patent new techniques, technologies and other innovations. We rely on the trademark and other intellectual property laws, confidentiality agreements with our employees to protect our proprietary rights. Nevertheless, these afford only limited protection and it can be difficult and expensive to police unauthorized use of intellectual property that we own or are entitled to use. Moreover, the level of protection for intellectual property rights and the enforcement of the relevant laws and regulations provided under PRC law are relatively inadequate compared to those available under the legal regimes in more developed economies. Infringement of our intellectual property rights by third parties, and the expenses incurred in protecting our intellectual property rights, may materially and adversely affect our business, financial condition and results of operations.

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## RISK FACTORS

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**Our operation and prospects may be adversely affected by epidemic, natural disasters, terrorist attacks and political unrest.**

Our business is subject to general economic and social instabilities in China and around the world. Our operations involve the treatment of patients with a variety of infectious diseases. Previously healthy or uninfected individuals may contract infectious diseases during their stays or visits at our hospitals. This may result in significant claims for damages against us and, as a result of medical coverage, damage of our reputation. Any large-scaled outbreak of epidemic in cities where we operate could infect our employees and thus significantly reduce the service capacity at our hospital, and may lead to limitations on the activities of our hospital as a result of quarantines, closing of our hospital partially or in full for sterilization, which may reduce utilization of our hospital and adversely affect our reputation.

In addition, natural disasters, acts of God, terrorist attacks and political unrest beyond our control may adversely affect the economy, infrastructure and people's livelihoods. Certain locations are under the threat of floods, typhoons, earthquakes, sandstorms, snowstorms, fires, droughts, or epidemics such as Middle East Respiratory Syndrome (MERS), Ebola, Severe Acute Respiratory Syndrome (SARS), H5N1 avian flu and human swine flu (Influenza A or H1N1). Past occurrences of epidemics and natural disasters, depending on their scale, have caused different degrees of damage to the international and local economies in general. A recurrence of SARS, an outbreak of any other epidemics, a natural disaster or a terrorist attack, especially in the cities where we have operations, may materially disrupt our hospital facilities on which we rely or may require us to make additional capital expenditures. In the event of political unrest, we may suffer direct consequences such as changes to laws and regulations, as well as indirect consequences such as decreased confidence of investors in investing in our hospital. The occurrence of a natural disaster, act of God, epidemic, terrorist attack or political unrest may adversely affect our business, financial condition and results of operations.

**Our historical financial and operating results may not be indicative of the future performance, and we may not be able to achieve and sustain the historical level of revenue growth and profitability.**

Our past performance is not necessarily indicative of future results. For example, a major reason for our revenue growth in 2019 was that the coverage scope of the public medical insurance increased in 2019, resulting in more diseases covered by the public medical insurance program and therefore more patient visits at our hospital. However, such trend may not continue in the future. In addition, we entered into the Management Agreement with Jutan Hospital in June 2016 and may enter into similar management agreements with, or acquire, other hospitals in the future in accordance with our expansion plan. Our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the future price of our Shares to decline. The effects of changing regulatory, economic, public health, environmental, competitive conditions and future expansion of our hospital, and many other factors cannot be fully predicted and may have a material adverse effect on our business, financial condition, results of operations and business prospects. Our historical operations largely depended on our ownership and management of Henan Honliv Hospital. As we continue to introduce new initiatives and additional hospitals and businesses to our business model, we cannot assure you that we will achieve the expected results or maintain the same levels of revenue growth and profitability as we have achieved historically. We believe that period-to-period comparisons of our operating results during the Track Record Period may not be indicative of our future performance and you should not rely on them to predict the future performance of our operating results or price of our Shares.



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## RISK FACTORS

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**Our failure to comply with the applicable anti-corruption laws may subject us or our hospital to investigations, sanctions or fines, which may harm our reputation and materially and adversely affect our business, results of operations and prospects.**

We operate in the healthcare service sector in China which poses elevated risks of anti-corruption violations and the PRC government has recently increased its anti-bribery efforts to reduce improper payments received by doctors, staff and hospital administrators in connection with pharmaceutical purchases and healthcare services provision. There is no assurance that our policies and procedures will effectively prevent any and all non-compliance with the PRC anti-corruption laws arising from actions taken by the individual doctors, staff and hospital administrators without our knowledge. We cannot assure you that our management and staff will fully comply with anti-corruption regulations at all times, or that our management will be able to detect and identify all instances of bribery involving our doctors, staff and hospital administrators in connection with pharmaceutical purchases and healthcare services provision. We may also be subject to adverse publicity based on false allegations of bribery or corruption by individual doctors, or general staff. In the event that any bribery incident involving our management or employees materializes, we may be subject to investigations, sanctions or fines, and our reputation could be significantly harmed by any negative publicity stemming from such incidents or any penalties levied against us arising from them, which may have a material adverse effect on our business, financial operations, results of operations and prospects.

**We may fail to deal with clinical and radioactive wastes in accordance with the applicable laws and regulations or otherwise be in breach of the relevant medical, health and safety or environmental laws and regulations.**

As part of our normal business operations, we produce and store clinical and radioactive wastes, which may produce effects harmful to the environment or human health. The storage and transportation of such wastes are strictly regulated. For more details, please refer to the paragraph headed “Regulatory Overview — Laws and Regulations Related to the Healthcare Service Sector in China — Regulations on the Supervision over Pharmaceuticals in Medical Institutions” in this prospectus. Our clinical and radioactive wastes disposal services are outsourced and should the relevant service provider fail to comply with these regulations, we could face sanctions or fines which could adversely affect our brand, reputation, business, results of operation or prospects. Generally, our business is subject to laws and regulations relating to the environment and public health. If the applicable laws and regulations in the PRC were to become more stringent, we could incur additional compliance costs which could in turn have a material adverse effect on our business, results of operations and prospects. Failure to comply with applicable regulations in the PRC could also result in us being held liable or fined and any of our licenses, permits, approvals and certificates could be suspended or withdrawn by the relevant PRC health authorities. Any of these consequences may have a material adverse effect on our business, results of operations and prospects.

Health and safety risks are inherent in the services we provide and are constantly present in our hospitals. A health and safety incident could be particularly serious as the patients at our hospitals may be dependent persons and therefore highly vulnerable. Some of our activities are especially vulnerable to medical risks, including the transmission of infections to employees and patients and the prescription and administration of drugs. Our business operations are also exposed to risks relating to health and safety, primarily in respect of food and water quality, as well as fire safety and the risk that patients may cause harm to themselves, other patients or our employees. If any of the above medical or health and safety risks were to materialize, it could have a material adverse effect on our brand and reputation.

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## RISK FACTORS

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**Our business depends significantly on the strength of our reputation. Failure to develop, maintain and enhance our reputation, or any negative publicity about us, our hospital or our industry could harm our brand recognition of, and trust in, our services, which could result in a material adverse impact on our business and prospects.**

Our reputation is critical to our success in China's healthcare industry. We believe that our success and continued growth depend on the public perception of our reputation and our ability to protect and promote it.

Many factors which are important to help maintain and enhance our image are beyond our control and may have a negative impact on our name and reputation. Such factors include, among others:

- our ability to effectively control the quality and consistency of the services performed by our doctors and other medical staff, and to monitor the service performance of such personnel as we continue to expand;
- our ability to offer a comfortable, convenient and consistently reliable patient experience as we expand our service offerings; and
- our ability to enhance our reputation and our brand awareness among existing and potential patients through various marketing, promotional and community outreach activities.

Negative publicity such as unfavorable media coverage involving us or our hospital may materially and adversely harm our reputation and business. We may not be able to defuse such negative publicity to the satisfaction of our investors and patients. In the wake of such negative publicity, we or our hospital may be subject to governmental investigations or other forms of scrutiny, and we or our hospital may be forced to engage in defensive public relations campaigns. These consequences may increase our expenses, divert our management's attention, and adversely impact our business and results of operations.

**We may be exposed to negative publicity, reputational damage or even legal liability due to the existence and distribution of counterfeit and illicit pharmaceutical products in China.**

Counterfeit pharmaceutical products, products of inferior quality and other unqualified products have appeared in China's pharmaceutical market in recent years from time to time. Despite the PRC government's efforts to prohibit the manufacture and distribution of counterfeit and illicit pharmaceutical products, such products are still widely distributed throughout the country by individuals and institutions. We cannot assure you that none of our suppliers will, whether deliberately or not, market counterfeit or illicit pharmaceutical products to us. In addition, although we maintain internal control procedures to prevent the purchase and administration of counterfeit and illicit pharmaceutical products to our patients, we cannot assure you that employees at our hospital will adhere to such procedures. Any failure of any of our employees to observe such procedures, whether deliberately or not, could result in the purchase and administration of counterfeit or illicit pharmaceutical products to our patients. If such purchase and administration occurs, our reputation may be harmed, the number of patient visits may decrease, and we and our hospital may be subject to penalties and lawsuits, which could damage our reputation and expose us to liability claims.

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## RISK FACTORS

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**Our hospital operates in a competitive industry, and if we do not compete successfully against new or existing competitors, our business, financial condition and results of operations may be materially and adversely affected.**

We compete with other public and private general hospitals and, to some extent, specialty hospitals, in particular those located in Henan Province. According to the Frost & Sullivan Report, our hospital is the only Class-III private hospital in Xinxiang City, Henan Province, and we believe that such Class-III rating gives our hospital significant competitive advantages over other hospitals located in the same geographic area. However, as there are no regulatory restrictions on setting up new Class-III hospitals in Henan province, other existing lower-rating hospitals or newly established hospitals in Henan province may also attain Class-III ratings in the future as long as they satisfy the accreditation standards determined by the competent authorities. As a result, we may lose our competitive advantages over other hospitals located in the same geographic area. Further, we will also compete with future market entrants as the rapid growth of the healthcare service industry in the PRC may attract more domestic or international players to enter. Some of our competitors may have substantially greater financial, marketing or other resources than we do. It is also possible that there will be significant consolidation and mergers in the healthcare service industry. Our competitors may develop alliances, and these alliances may acquire significant market share.

In addition, specialty hospitals that focus on one or only a few medical disciplines continue to grow. These hospitals generally have a lower barrier to entry than general hospitals. Such specialty hospitals may attract patients who might otherwise go to our hospital for the same services, causing increased competition for our business, which could, in turn, have a negative effect on our patient volume and overall market share.

Hospitals compete on various factors such as convenience, reputation, clinical excellence and patient satisfaction. We cannot assure you that we will be able to successfully compete against new or existing competitors, and changes in the competitive landscape may result in price reduction, reduced profitability or loss of market share, any of which could have a material adverse effect on our business, results of operations and prospects.

**If we do not compete successfully against virtual hospitals and clinics, our business, financial condition and results of operations may be adversely affected.**

Recently, there is an increasing trend of demand for virtual hospitals and clinics to provide remote medical consultation and diagnosis. Such remote medical services may compete against the outpatient services provided by our hospital. We cannot assure you that our hospital will be able to successfully compete with new or existing virtual hospitals and clinics and manage to attract and retain patients. Any inability to compete effectively could result in decrease in revenue and market share, any of which could have an adverse effect on our business, financial condition and results of operations.

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## RISK FACTORS

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### RISKS RELATING TO DOING BUSINESS IN CHINA

**Changes in political, economic and social environment as well as the laws, rules and regulations in China could have a material adverse effect on our business.**

Substantially all of our business operations are conducted in China. Accordingly, our business, results of operations, financial condition and prospects are subject to economic, political and legal developments in China. China's economy differs from the economies of developed countries with respect to, among other things, the degree of government involvement, level of development, growth rate, foreign exchange control and allocation of resources. While the Chinese economy has experienced significant growth in the past twenty years, growth has been uneven across different regions and among different economic sectors. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures may have a negative effect on us, even if they are designed to benefit the overall PRC economy. For example, our business, financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to our PRC subsidiaries or our hospital.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Whilst the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

It is unclear whether PRC economic policies will be effective in stimulating growth, and the PRC government may not be effective in creating stable economic growth in the future. Although China's economy has grown significantly in the past decade, that growth may not continue and any slow-down may have a negative effect on our business. Since 2012, the growth of the Chinese economy has slowed. The slowdown in the economic growth of China could lead to a reduction in our patients' disposable income and a reduction in demand for our services, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Our operations are currently concentrated in Henan Province. As of the Latest Practicable Date, we owned one private general hospital and managed one private general hospital, both located in Henan Province. The concentration of our business in Henan Province exposes us to geographical concentration risks relating to this region. A significant economic downturn or a growth rate lower than expectation in Henan Province or changes in local regulatory regime may have a significant adverse impact on the financial condition of our patients and other customers and on their ability to benefit from our services.

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## RISK FACTORS

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### **Uncertainties in the PRC legal system could have an adverse effect on our business.**

Our business and operations are conducted in China and governed by the PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes where, unlike common law systems, decided legal cases have limited value as precedent. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters. The overall effect of legislation over the past four decades has significantly increased the protections afforded to various forms of foreign or private-sector investments in China. Our PRC subsidiaries and our hospital are subject to various PRC laws and regulations generally applicable to companies in China. Since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties. Moreover, the PRC legal system is based in part on government policies and administrative rules that may have retroactive effect. As a result, we may not be aware of any violations by us until sometime after the violation. The legal protections available to us under these laws, rules and regulations may be limited. In addition, any litigation or regulatory enforcement action in China may be protracted and could result in significant costs to us and a diversion of our resources and management attention. We cannot predict future developments in the PRC legal system or the effects of such developments.

### **Our business, financial condition and results of operations could be adversely affected by PRC labor laws and regulations.**

On June 29, 2007, the NPC promulgated the Labor Contract Law, which became effective on January 1, 2008. On September 18, 2008, the State Council passed the relevant implementation regulations. The Labor Contract Law is aimed to provide employees greater protections with respect to establishing and terminating employment relationships. For example, the Labor Contract Law and its implementation regulations require employers to enter into written contracts with their employees, and if an employer fails to enter into a written contract with an employee within one month after commencement of employment, the employer is required to pay the employee double its salary every month until a written contract is entered into. In addition, the Labor Contract Law calls for implementation of open-ended contracts rather than fixed-term contracts under certain circumstances. In particular, an employer shall enter into an open-ended contract with an employee upon the third consecutive renewal of the employment contract unless otherwise requested by the employee. As a result, the Labor Contract Law limits our discretion in the hiring and termination processes and could in turn affect our labor costs and our profitability.

### **Compliance with PRC advertising laws and regulations may be difficult, and failure to comply could subject us to government sanctions.**

We are obligated under PRC laws and regulations to monitor our advertising content to comply with applicable laws. According to the Administrative Measures on Medical Advertisement (醫療廣告管理辦法) and Notice on Further Strengthening the Administration of Medical Advertisements (關於進一步加強醫療廣告管理的通知), our hospital must apply for and obtain a medical advertisement examination certificate before publishing a medical advertisement. Violation of these regulations may result in penalties against the hospital, including rectification, orders, warnings, suspension of operations, revocation of relevant permits to engage in the provision of specific medical services, and the revocation of the hospital's Medical Institution Practicing

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## RISK FACTORS

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License. In addition, if the content of the published advertisement is different from what is approved and documented in the medical advertisement examination certificate, the competent authority may revoke the medical advertisement examination certificate and refuse to accept any applications for advertisement examination for a period of one year. In addition, if a special government review is required, we must confirm that such review has been performed and the approval has been obtained before we publish the advertisement. For advertising content related to certain types of products and services, such as food products, alcohol, cosmetics, pharmaceuticals and medical equipment, we are required to confirm that the advertisers have completed filings with local authorities and obtained all requisite government approvals, including review of operating qualifications, proof of quality inspection of the advertised products and government pre-approval of the contents of the advertisement.

Whilst we endeavor to comply with PRC advertising laws and regulations, we cannot guarantee that we would not inadvertently become non-compliant with relevant advertising laws and regulations in the future. Any violations of these laws and regulations may subject us to governmental penalties, impair our brand and adversely impact our financial condition and results of operations.

**It may be difficult to effect service of process outside China or enforce judgments obtained from non-PRC courts in China.**

Substantially all of our assets are located in China and most of our Directors and members of senior management reside and substantially all of their respective assets are located in China. As a result, it may be difficult to effect service of process outside China upon most of our Directors and members of senior management. A judgment of a court of another jurisdiction may be reciprocally recognized or enforced in China if that jurisdiction has a treaty with China or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of any other requirements. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and most other western countries. In addition, Hong Kong does not have an arrangement for the reciprocal enforcement of judgments with the United States. As a result, it may be difficult for you to enforce against us or our Directors or members of senior management in China any judgments obtained from non-PRC courts.

**Fluctuations in exchange rates could have a material adverse effect on the value of our proceeds from the Global Offering and any dividends payable on our Shares in foreign currency.**

The value of the Renminbi against the U.S. dollar, Hong Kong dollar and other currencies may fluctuate and is affected by, among other things, the political situation as well as economic policies and conditions in China. The conversion of Renminbi into foreign currencies is based on rates set by the People's Bank of China and is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, the appreciation halted and the exchange rate remained within a narrow band. In June 2010, the PRC government indicated that it would make the foreign exchange rate of the RMB more flexible, which increases the possibility of sharp fluctuations of the RMB's value in the near future and the unpredictability associated with the RMB's exchange rate. On April 16,

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2012, the PRC government widened the daily trading band to 1%. On March 17, 2014 the PRC government further widened the daily trading band to 2% in order to further improve the managed floating Renminbi exchange rate regime based on market supply and demand. For three consecutive days from August 11, 2015, the PBOC devalued the Renminbi against the U.S. dollar, leading to declines in the value of the Renminbi versus the U.S. dollar up to 2.8% in currency markets and signaling the largest single-day drop in the value of the Renminbi since 1994. It is difficult to predict the extent to which market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in more significant appreciation or depreciation of the Renminbi against foreign currencies.

Substantially all of our revenue and operating expenses are denominated in Renminbi, and the proceeds from the Global Offering will be received in Hong Kong dollars. There are limited instruments available for us to reduce our foreign currency risk exposure and we have not entered into any hedging transactions to mitigate our exposure to foreign exchange risk. As a result, any appreciation of Renminbi against the U.S. dollar, Hong Kong dollar or any other foreign currency may result in the decrease in the value of our proceeds from the Global Offering. Conversely, any depreciation of Renminbi may adversely affect the value of, and any dividends payable on, our Shares in foreign currency.

**PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and government control of currency conversion may restrict our ability to use the proceeds of this Global Offering to make loans or to make additional capital contributions to our PRC subsidiaries, which may materially and adversely affect our liquidity and our ability to fund and expand our business.**

In utilizing the proceeds from the Global Offering or any future offerings, as an offshore holding company of our PRC subsidiaries, we may make loans or additional capital contributions to our PRC subsidiaries. Any loans by us to our PRC subsidiaries, which are treated as foreign-invested enterprises under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our wholly-owned PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of the SAFE. If we decide to finance our wholly-owned PRC subsidiaries by means of capital contributions, these capital contributions must be approved by the MOFCOM, or its local counterpart.

On June 9, 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), or the SAFE Circular 16. The SAFE Circular 16 stipulates that the use of foreign exchange incomes of capital accounts by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The foreign exchange incomes of capital accounts and capital in Renminbi obtained by the FIE from foreign exchange settlement shall not be used for the following purposes: (i) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities or financial schemes other than bank guaranteed products unless otherwise provided by

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relevant laws and regulations; (iii) used for granting loans to non-connected enterprises, unless otherwise permitted by its business scope; and (iv) used for the construction or purchase of real estate that is not for self-use (except for the real estate enterprises).

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans and capital contributions by us to our PRC subsidiaries. Our failure to complete such registrations or obtain such approvals may negatively affect our ability to use the proceeds we receive from this Global Offering and to capitalize or otherwise fund our operations in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

**We rely on dividends paid by our PRC subsidiaries for our cash needs, and limitations under the PRC laws on the ability of our PRC subsidiaries to distribute the dividends to us could adversely affect our ability to utilize such funds.**

We are a holding company registered in the Cayman Islands. We rely on dividends from our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our Shareholders, and to service any foreign currency denominated debt we may incur. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards. Distributable profits are our net profit as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under HKFRS in certain respects, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under HKFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay dividends to us could have a negative impact on our cash flow and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

In addition, each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profits after making up previous years' accumulated losses each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. These reserves cannot be distributed as cash dividends. Furthermore, if our PRC subsidiaries incur debt on their own behalf, the debt instruments may restrict their ability to make dividend or other payments to us, which may limit our ability to satisfy our liquidity requirements.



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**Certain acquisitions of PRC companies by foreign investors are subject to complex procedures imposed by PRC M&A Rules, Anti-Monopoly Law and certain other PRC regulations, which could make it more difficult for us to pursue growth through acquisitions in China.**

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, and certain other regulations established procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) an important industry is concerned, (ii) such transaction involves factors that impact or may impact national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honored brand. In addition, the Anti-Monopoly Law (中華人民共和國反壟斷法) promulgated by the Standing Committee of the NPC requires that transactions the MOFCOM approval for certain business combinations where the parties involved have businesses in a deemed concentration. Such cases are determined by whether the combined revenues of the businesses in the relevant concentration exceeds pre-set thresholds and the parties' own revenues exceed a certain threshold. The MOFCOM must approve the transaction before it can be completed and the review process may be time-consuming and the outcome may be uncertain. If we fail to initiate the required pre-approval process we may be subject to substantial penalties or be ordered to cease or unwind the transaction.

The PRC government officially established in 2011 a security review system for mergers and acquisitions of domestic enterprises by foreign investors. A security review is required for mergers and acquisitions (i) by foreign investors having “national defense and security” concerns and (ii) by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns. Under the implementing regulations promulgated by the MOFCOM, the MOFCOM will focus on the substance and actual impact of the transaction when deciding whether a specific merger or acquisition is subject to security review. If the MOFCOM decides that a merger or acquisition is subject to review, it will submit it to the Inter-Ministerial Panel, an authority led by the NDRC and the MOFCOM under the leading of the State Council, to carry out the review. The regulations prohibit foreign investors from bypassing the security review by structuring transactions through trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

The process of compliance with the above-mentioned rules and regulations could be time consuming and may inhibit our ability to complete merger and acquisition transactions. It is unclear whether the nature of our business, the healthcare service industry in which we operate, or a target entity we may propose to acquire would raise “national security” or such other concerns that any of our future acquisitions would be subject to the security review. If relevant government authorities determine that any acquisition that may be conducted by us in the future is subject to the security review, the proposed transaction will be closely scrutinized.

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## RISK FACTORS

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**PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to make capital contributions into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise adversely affect our financial position.**

Under several regulations promulgated by the SAFE, PRC residents and PRC corporate entities are required to register with and obtain approval from local branches of the SAFE or designated qualified foreign exchange banks in China in connection with their direct or indirect offshore investment activities. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the local branch of the SAFE, with respect to any material change involving that offshore company, such as an increase or decrease in capital, transfer or swap of shares, merger or division. These regulations apply to our Shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future. To the best of our knowledge, as of the Latest Practicable Date, our Shareholders who were PRC residents had complied with these foreign exchange regulations. However, we may not be fully aware or informed of the identities of all the PRC residents holding direct or indirect interests in our Company, and we cannot assure you that all of our Shareholders and beneficial owners who are PRC residents will comply with these foreign exchange regulations.

The failure or inability of our PRC-resident Shareholders to comply with these regulations may subject PRC residents to fines up to RMB300,000 in case of domestic institutions or RMB50,000 in case of domestic individuals. If any PRC-resident Shareholder fails to make the required registration or update the previously filed registration, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may also be prohibited from injecting additional capital into our PRC subsidiaries. Moreover, failure to comply with the various foreign exchange registration requirements described above could result in liability on the related PRC-resident Shareholder or our PRC subsidiaries under PRC laws for evasion of applicable foreign exchange restrictions.

**Failure to comply with PRC regulations regarding the registration requirements for employee share ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.**

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知), or the Stock Option Rules. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly-listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or

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## RISK FACTORS

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the overseas entrusted institution or other material changes. We and our PRC employees who may be granted share options and restricted shares will be subject to these regulations. Failure of our PRC share option holders or restricted shareholders to complete their SAFE registrations may subject these PRC residents to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limited our PRC subsidiaries' ability to distribute dividends to us, or otherwise materially and adversely affect our business.

**We may be subject to PRC income taxes on our worldwide income if we are treated as a PRC resident enterprise under the EIT law.**

We are a holding company incorporated under the laws of the Cayman Islands. Pursuant to the EIT Law, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Substantially all of our income may come from dividends we receive, directly or indirectly, from our wholly-owned PRC subsidiaries.

Furthermore, under the EIT Law and its implementation rules, an enterprise established outside China with "de facto management body" within China is considered a PRC resident enterprise and will be subject to the enterprise income tax on its worldwide income at the rate of 25%. The implementation rules to the EIT Law define the term "de facto management body" as "body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise". The SAT issued the Notice on Identifying Chinese-Controlled Offshore Enterprises as PRC Resident Enterprises in accordance with Criteria for Determining Place of Effective Management (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) and the Administrative Measures on the Corporate Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (境外註冊中資控股居民企業所得稅管理辦法(試行)) in April 2009 and July 2011, respectively, which set out certain criteria for specifying what constitutes a "de facto management body" in respect of enterprises that are established offshore by PRC enterprises. However, we are not aware of any offshore holding company with a corporate structure similar to ours that has been deemed a PRC resident enterprise by the PRC tax authorities. Accordingly, we do not believe that our Company or any of our overseas subsidiaries should be treated as a PRC resident enterprise.

If we were considered a PRC resident enterprise for tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our Shareholders that are non-PRC resident enterprises. Furthermore, non-PRC resident enterprise Shareholders may be subject to a 10% PRC tax on gains realized on the sale or other disposition of our Shares, if the source of such income is within China. It is possible that our non-PRC individual Shareholders would be subject to PRC taxes (generally at a rate of 20%) on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise.

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## RISK FACTORS

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### RISKS RELATING TO OUR SHARES AND THIS GLOBAL OFFERING

**There has been no prior market for our Shares, thus an active trading market for our Shares may not develop and the trading price for our Shares may fluctuate significantly.**

Our Shares have not been traded in any open market before the completion of this Global Offering. The Offer Price of the Shares may differ from the market price thereof and may not serve as an indicator of the price of the Shares traded on the Stock Exchange in the future. We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for the Shares will develop, or if it does develop, that it will be sustained following the Global Offering, or that the market price of the Shares will not decline following the Global Offering.

In addition, the trading price and trading volume of the Shares may be subject to significant volatility in responses to various factors, including, among others, the variations in our operating results, changes in financial estimates by securities analysts, announcements made by us or our competitors, regulatory developments in China affecting us, our customers and patients or our competitors, investors' perception of us and of the investment environment in Asia, including Hong Kong and China, developments in China healthcare market, changes in pricing made by us or our competitors, the depth and liquidity of the market for our Shares, additions to or departures of, our Directors, executive officers and other members of our senior management, release or expiry of lock-up or other transfer restrictions on our Shares, sales or anticipated sales of additional Shares, and the general economic condition in China.

Moreover, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

**You will incur immediate dilution and may experience further dilution should we decide to issue additional Shares in the future.**

The Offer Price for our Shares is higher than the net tangible asset value per Share initially issued to our Shareholders prior to the Global Offering. Therefore, purchasers of our Offer Shares in the Global Offering will experience an immediate dilution in pro forma consolidated net tangible asset value to HK\$0.94 per Share, based on the maximum of the Offer Price range of HK\$2.30.

**Future sales of our Shares in the public market by existing Shareholders following the Global Offering could materially and adversely affect the price of our Shares.**

Future sales by our existing Shareholders, or issuance by us of significant amounts of our Shares after the Global Offering, could result in a significant decrease in the prevailing market prices of our Shares. Only a limited number of the Shares will be available for sale or issuance immediately after the Global Offering due to contractual and regulatory restrictions on disposal and new issuance. Nevertheless, after these restrictions lapse or if they are waived, future sales of significant amounts of our Shares in the public market or the perception that these sales may occur could significantly decrease the prevailing market price for our Shares and our ability to raise equity capital in the future.

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## RISK FACTORS

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**Due to the gap of several days between pricing and trading of our Offer Shares, the initial trading price of the Offer Shares could be lower than the Offer Price.**

The Offer Price of our Shares will be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or deal in our Shares during such period, and thus are subject to the risk that the market price of our Offer Shares could fall before trading begins as a result of adverse market conditions or other adverse developments occurring during this period.

**There is uncertainty with respect to if and when we will pay dividends in the future.**

As a holding company, our ability to declare future dividends will depend on the availability of dividends, if any, received from our PRC subsidiaries. Under PRC law and the constitutional documents of our PRC subsidiaries, dividends may be paid only out of distributable profits, which refers to after tax profits as determined under PRC GAAP less any recovery of accumulated losses and required allocations to statutory capital reserve funds. Any distributable profits that are not distributed in a given year are retained and become available for distribution in subsequent years. The calculation of our distributable profits under PRC GAAP differs in many aspects from the calculation under HKFRS. As a result, our PRC subsidiaries may not be able to pay a dividend in a given year if they do not have distributable profits as determined under PRC GAAP even if they have profits as determined under HKFRS. Accordingly, since we derive all of our earnings and cash flows from dividends paid to us by our PRC subsidiaries, we may not have sufficient distributable profits to pay dividends to our shareholders. For more details of our dividend policy, please refer to the paragraph headed “Financial Information — Dividends and Dividend Policy” in this prospectus.

In addition, our Board of Directors is responsible for proposing declarations and distributions of dividends and such proposal is subject to our Shareholders’ approval. A decision to declare and distribute dividends is based on a number of factors, including but not limited to, our results of operations, financial condition, capital expenditure requirements, the market conditions, our plans for business developments, contractual obligation and regulatory restrictions. There is no absolute correlative relationship between profits stated in our financial statements and our financial capacity in distributing dividends to our shareholders. During the Track Record Period, the amount of dividends we paid was RMB172.7 million. We cannot assure you that future dividends will be declared or paid.

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## RISK FACTORS

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**Our Controlling Shareholders have significant influence over our management, and the interests of our Controlling Shareholders may not be aligned with our interests or the interests of other Shareholders.**

After the Global Offering, the interests of our Controlling Shareholders may conflict with the interests of our other Shareholders. Upon completion of the Global Offering and the Capitalization Issue and assuming the Over-allotment Option is not exercised, approximately 74.00% of our issued Shares will be held by our Controlling Shareholders, and thus our Controlling Shareholders will continue to have significant influence over us, including on matters relating to potential mergers, consolidations, the sale of all or substantially all of our assets, the election of Directors and other significant corporate actions, and these actions may be taken even if they are opposed by our other Shareholders, including those who subscribe for our Shares in the Global Offering. Moreover, a change in control of us may be delayed, discouraged, or prevented by actions of our Controlling Shareholders, which may have the effect of depressing the value of our Shares and deprive our Shareholders of the opportunity to receive a premium for their shares as part of a sale of our stock or assets pursuant to a change in control.

**You may face difficulties in protecting your interests under Cayman Islands law.**

Our corporate affairs are governed by our Memorandum of Association and Articles of Association and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Such differences may mean that our public Shareholders may have less protection than they would have under the laws of Hong Kong. For example, the Cayman Islands does not have a statutory equivalent of section 724 of the Companies Ordinance which provides a remedy for shareholders who have been unfairly prejudiced by conduct of our affairs. A summary of Cayman Islands company laws is set out in Appendix IV to this prospectus.

**There is no assurance that the facts and other statistics contained in this prospectus are accurate and reliable.**

Certain statistics, industry data or other information contained in this prospectus have been derived from various official sources. Our Directors have taken all reasonable care to ensure that the facts and statistics are accurately reproduced from such sources. However, such information has not been independently verified by us, the Underwriters, our or their respective affiliates, directors, employees and advisers, or any other parties involved in the Global Offering. No representation is given as to the accuracy to such statistics, industry data and other information. As a result, we cannot guarantee the quality and reliability of such source materials. Investors should give careful consideration as to the amount of weight or importance placed on such statistics, industry data and other information.

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## RISK FACTORS

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**There are uncertainties and risks associated with forward-looking statements.**

This prospectus contains certain statements and information that are “forward-looking” and uses forward-looking terminology such as “aim” “expect,” “believe,” “intend,” “can”, “going forward”, “could,” “anticipate,” “estimate,” “should”, “plan”, “potential”, “project”, “seek”, “would” and “will.” Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future business, operations, liquidity and capital resources. Purchasers of our Shares are cautioned that any forward-looking statements are subject to uncertainties and that, although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of these assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans or objectives will be achieved, and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise.

**Investors should read the entire prospectus carefully and should not consider any particular statements in published media reports without carefully considering the risks and other information contained in this prospectus.**

There may be coverage in the media regarding the Global Offering and our operations. We do not accept any responsibility for the accuracy or completeness of the information and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. To the extent that any of the information in the media is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should read the entire prospectus carefully and should not rely on any of the information in press articles or other media coverage. Prospective investors should only rely on the information contained in this prospectus to make investment decisions about us.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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In preparation for the listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

### MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, a new applicant applying for a primary listing on the Stock Exchange must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Our Company is a PRC-based company, which owns, operates and manages for-profit private general hospitals. Our Company's headquarters and business operations are primarily located, managed and conducted in the PRC. In addition, substantially all of our Company's assets are based in the PRC. Our Company considers that the Group's management is best able to attend to its functions by being based in the PRC.

Upon Listing, the Board will comprise three executive Directors, one non-executive Director and three independent non-executive Directors. None of our executive Directors is or will be ordinarily resident in Hong Kong after the Listing. Relocation of our executive Directors to Hong Kong will be burdensome and costly for our Company. Moreover, it may not be in the best interests of our Company and our Shareholders as a whole to appoint additional executive Directors who are ordinarily resident in Hong Kong for the sole purpose of satisfying the management presence requirements. As such, our Company does not, and for the foreseeable future will not, have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rules 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from the strict compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- Pursuant to Rule 3.05 of the Listing Rules, our Company has appointed and will continue to maintain two authorized representatives to be the principal communication channel at all times between the Stock Exchange and our Company. Each of our Company's authorized representatives will be readily contactable by the Stock Exchange by telephone, facsimile, and/or email to promptly deal with enquiries from the Stock Exchange and will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange. Both of our Company's authorized representatives are authorized to communicate on our Company's behalf with the Stock Exchange. At present, our Company's two authorized representatives are Mr. Qin Yan, our Chairman, an executive Director and our President, and Ms. Lau Jeanie, a joint company secretary of our Company, who is ordinarily resident in Hong Kong.



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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- Our Company will implement a policy to provide the contact details (including their respective mobile phone number, office phone number and email address) of each Director to each of the authorized representatives and to the Stock Exchange. This will ensure that the authorized representatives and the Stock Exchange will have the means to contact any of our Directors (including the independent non-executive Directors) promptly as and when required, including means to communicate with our Directors when they are travelling. Our Company confirms that all Directors who are not ordinarily resident in Hong Kong have valid travel documents to visit Hong Kong and will be able to come to Hong Kong within a reasonable period of time when required.
- Our Company has appointed Central China International Capital Limited as our compliance adviser (the “**Compliance Adviser**”), in accordance with Rule 3A.19 of the Listing Rules. The Compliance Adviser will serve as an alternative channel of communication with the Stock Exchange in addition to the authorized representatives of our Company. The Compliance Adviser will provide our Company with professional advice on ongoing compliance with the Listing Rules. Our Company will ensure that the Compliance Adviser has prompt access to our Company’s authorized representatives and our Directors. In turn, we will provide to the Compliance Adviser such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the performance of its duties. The Compliance Adviser will also provide advice to our Company when consulted by our Company in compliance with Rule 3A.23 of the Listing Rules.
- Meetings between the Stock Exchange and our Directors could be arranged through the authorized representatives or the Compliance Adviser, or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives, our Directors and/or the Compliance Adviser in accordance with the Listing Rules.
- Our Company maintains and will continue to maintain a principal place of business in Hong Kong.

### JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, we must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules, which states that a company secretary must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. Below are the academic or professional qualifications as set out in Note (1) to Rule 3.28 of the Listing Rules, which the Stock Exchange considers acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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Pursuant to Note (2) to Rule 3.28 of the Listing Rules, in assessing “relevant experience,” the Stock Exchange will consider the individual’s:

- (a) length of employment with the listing applicant and other issuers and the roles he/she played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance and the Codes on Takeovers and Mergers and Share Buy-backs (“**Takeovers Code**”);
- (c) relevant training taken and/ or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules, which requires an issuer’s company secretary must take no less than 15 hours of relevant professional training in each financial year; and
- (d) professional qualifications in other jurisdictions.

Our Company has appointed Ms. Wang Xiaoyang (“**Ms. Wang**”) as one of the joint company secretaries of our Company. Ms. Wang may not, in the view of the Stock Exchange, possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules, and may not be able to fulfil the requirements of the Listing Rules in relation to a company secretary. Our Company has also appointed Ms. Lau Jeanie (“**Ms. Lau**”), an associate member of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in England and the Hong Kong Institute of Chartered Secretaries, who fully complies with the requirements under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary of our Company. For the biographical details of Ms. Wang and Ms. Lau, please refer to the paragraph headed “Directors and Senior Management — Joint Company Secretaries” in this prospectus.

Our Directors consider that based on Ms. Wang’s past experience in the corporate management affairs of our Company, she is able to adequately perform her duties as a joint company secretary with the assistance of Ms. Lau. In addition, Ms. Wang has a thorough understanding of the operations of our Company’s internal business and administration. Therefore, our Directors believe that the appointment of Ms. Wang as a joint company secretary is in our Company’s and the Shareholders’ best interests and is beneficial to our Company’s corporate governance.

As such, our Company has applied to the Stock Exchange for, and the Stock Exchange has granted us a waiver from strict compliance with the requirements set out in Rules 3.28 and 8.17 of the Listing Rules subject to the following conditions:

- Ms. Wang will endeavour to attend relevant training courses, including briefing on the latest changes to the applicable Hong Kong laws and regulations as well as the Listing Rules organized by our Company’s legal adviser as to the laws of Hong Kong on an invitation basis, and seminars organized by the Stock Exchange or other professional body for PRC issuers from time to time. Ms. Wang will also be assisted by our Company’s compliance adviser and legal adviser as to the laws of Hong Kong on matters in relation to our Company’s continuing compliance obligations under the Listing Rules and the applicable laws and regulations;

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- Ms. Lau, a joint company secretary who meets all the requirements under Rules 3.28 and 8.17 of the Listing Rules, will work closely with, and provide assistance to, Ms. Wang in the discharge of her duties as a company secretary for an initial period of three years commencing from the Listing Date so as to enable Ms. Wang to acquire the relevant experience (as required under Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities required of a company secretary of a company listed on the Stock Exchange; and
- before the end of the initial three-year period, the qualifications of Ms. Wang will be re-evaluated to determine whether the requirements as stipulated in Rule 3.28 of the Listing Rules can be satisfied and to decide whether further assistance by Ms. Lau to Ms. Wang would be necessary. Our Company would liaise with the Stock Exchange to demonstrate to their satisfaction that Ms. Wang, having the benefit of Ms. Lau's assistance for the three years, would have acquired the relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver would not be necessary.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Securities and Futures (Stock Market Listing) Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### **INFORMATION ON THE GLOBAL OFFERING**

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

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, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

### **RESTRICTIONS ON OFFER AND SALES OF THE OFFER SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales 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.

### **UNDERWRITING**

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by BOCOM Securities. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the terms and conditions of the Hong Kong Underwriting Agreement, with one of the conditions being that the Offer Price is agreed between our Company and BOCOM Securities (for itself and on behalf of the Hong Kong Underwriters). The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or about the Price Determination Date. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

### **APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE**

We have applied to the Listing Committee for the granting of listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

No part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Sole Sponsor, the Underwriters, any of their respective Directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

### **REGISTER OF MEMBERS AND STAMP DUTY**

Our Company’s principal register of members will be maintained by its principal registrar, Campbells Corporate Services Limited, in the Cayman Islands and our Company’s branch register of members will be maintained by its Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited in Hong Kong.

Dealings in the Shares will be subject to Hong Kong stamp duty.

### **OVER-ALLOTMENT OPTION AND STABILIZATION**

For details of the arrangements relating to the Over-allotment Option and stabilization, please refer to the section headed “Structure of the Global Offering” in this prospectus.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

### PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedure for the Hong Kong Offer Shares is set out in the section headed “How to apply for Hong Kong Offer Shares” in this prospectus.

### STRUCTURE OF THE GLOBAL OFFERING

For details of the structure of the Global Offering including its conditions, please refer to the section headed “Structure of the Global Offering” in this prospectus.

### CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in RMB and US dollar have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

HK\$1.00 : RMB0.91484  
HK\$7.75 : US\$1.00

No representation is made that any amounts in RMB, US dollar or HK dollar can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

### LANGUAGE

In this prospectus, if there is any inconsistency between the Chinese name of the entities or enterprises established in China, PRC nationals, PRC Government entities or PRC laws and regulations and their English translations, the Chinese names shall prevail. English translations of names of entities or enterprises established in China and PRC laws and regulations are for identification purpose only.

### ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
<b>DIRECTORS</b>		
<b>Executive Directors</b>		
Mr. Qin Yan (秦岩)	Hong Li Avenue (North) Changyuan County Henan Province China	PRC
Dr. Teng Qingxiao (滕清曉)	Room 501, Unit 2, Block 9 Hongli Hospital Family Quarters 9 Boai Road Puxi District Changyuan County Henan Province China	PRC
Mr. Wang Zhongtao (王忠濤)	Hongli Complex Family Quarters Puxi District Changyuan County Henan Province China	PRC
<b>Non-executive Director</b>		
Mr. Qin Hongchao (秦紅超)	Hong Li Avenue (North) Changyuan County Henan Province China	PRC

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<b>Independent Non-executive Directors</b>		
Mr. Zhao Chun (趙淳)	No. 401, Unit 3, Tower 3 Jin Da Yuan, Shan Tou Road Hexi District Tianjin China	PRC
Mr. Sun Jigang (孫冀剛)	Room 1503, Block 7 Ganluyuan Nanli No. 25 Chaoyang District Beijing China	PRC
Mr. Jiang Tianfan (江天帆)	Room 1001, Building No. 5 Lane 238, Tianranju Baise Road Shanghai China	PRC

For the biographies and other relevant information of our Directors, please refer to the section headed “Directors and Senior Management” in this prospectus.

### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### **Sole Sponsor**

BOCOM International (Asia) Limited  
9/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

#### **Joint Global Coordinators**

BOCOM International Securities Limited  
9/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

CMB International Capital Limited  
45/F Champion Tower  
3 Garden Road, Central  
Hong Kong



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**Joint Bookrunners and Joint Lead  
Managers**

BOCOM International Securities Limited  
9/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

CMB International Capital Limited  
45/F Champion Tower  
3 Garden Road, Central  
Hong Kong

Sheng Yuan Securities Limited  
Room 2202, 22/F.  
No. 238 Des Voeux Road Central  
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited  
Room 5808-12 The Center  
99 Queen's Road Central  
Hong Kong

Goldbridge Securities Limited  
Room 1002H, 10/F, Tower 1, Admiralty Centre  
18 Harcourt Road  
Hong Kong

Haitong International Securities Company Limited  
22/F Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

ABCI Capital Limited  
11/F, Agricultural Bank of China Tower  
50 Connaught Road Central  
Hong Kong  
*(in the capacity as a Joint Bookrunner only)*

ABCI Securities Company Limited  
10/F, Agricultural Bank of China Tower  
50 Connaught Road Central  
Hong Kong  
*(in the capacity as a Joint Lead Manager only)*

AMTD Global Markets Limited  
23/F-25/F, Nexxus Building  
41 Connaught Road Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### **Joint Lead Managers**

Zhongtai International Securities Limited  
19th Floor, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

Tianda Securities Limited  
2401-2410, 24/F, CITIC Tower  
1 Tim Mei Avenue, Central  
Hong Kong

HTF Securities Limited  
Room 1807, 18/F, Office Tower, Convention Plaza  
1 Harbour Road, Wan Chai  
Hong Kong

Sinomax Securities Limited  
Room 2705-6, 27/F, Tower One, Lippo Centre  
89 Queensway  
Hong Kong

### **Stabilizing Manager**

BOCOM International Securities Limited  
9/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

### **Legal Advisers to Our Company**

*As to Hong Kong law and United States law:*

O'Melveny & Myers  
31/F, AIA Central  
1 Connaught Road Central  
Hong Kong

*As to PRC law:*

Commerce & Finance Law Offices  
6F NCI Tower, A12 Jianguomenwai Avenue  
Chaoyang District  
Beijing 100022, China

*As to Cayman Islands law:*

Campbells  
Floor 35, Room 3507, Edinburgh Tower  
The Landmark, 15 Queen's Road Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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<b>Legal Advisers to the Sole Sponsor and the Underwriters</b>	<i>As to Hong Kong law and United States law:</i>  Fangda Partners 26/F, One Exchange Square 8 Connaught Place Central Hong Kong  <i>As to PRC law:</i>  Jingtian & Gongcheng 34th Floor, Tower 3, China Central Place, 77 Jianguo Road, Chaoyang District, Beijing 100025, China
<b>Auditor and Reporting Accountant</b>	PricewaterhouseCoopers <i>Certified Public Accountants and Registered Public Interest Entity Auditor</i> 22/F, Prince's Building Central Hong Kong
<b>Property Valuer</b>	Jones Lang LaSalle Corporate Appraisal and Advisory Limited 7/F, One Taikoo Place 979 King's Road Hong Kong
<b>Receiving Banks</b>	Bank of Communications Co., Ltd. Hong Kong Branch Unit B B/F & G/F, Unit C G/F, 1-3/F, 16/F Room 01 & 18/F, Wheelock House 20 Pedder Street Central Hong Kong  Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong
<b>Industry Consultant</b>	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. Room 1018, Tower B, Lvdihui Center No. 500 Yunjin Road Xuhui District, Shanghai 200232, China

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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**Compliance Adviser**

Central China International Capital Limited  
Suite 3108, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office in Cayman Islands</b>	Campbells Corporate Services Limited Floor 4, Willow House Cricket Square Grand Cayman KY1-9010 Cayman Islands
<b>Headquarters and principal place of business in the PRC</b>	No. 8, Bo Ai Road (South) Changyuan County Henan Province China
<b>Principal place of business in Hong Kong</b>	Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Company's Website</b>	<b><u><a href="http://www.honlivhp.com">www.honlivhp.com</a></u></b> (information contained in this website does not form part of this prospectus)
<b>Joint Company Secretaries</b>	Ms. Wang Xiaoyang (王曉陽) No. 8, Bo Ai Road (South) Changyuan County Henan Province  Ms. Lau Jeanie (劉准羽) <i>associate member of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) and The Hong Kong Institute of Chartered Secretaries</i> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Authorised representatives</b>	Mr. Qin Yan (秦岩) Hong Li Avenue (North) Changyuan County Henan Province China  Ms. Lau Jeanie (劉准羽) Level 54, Hopewell Centre 183 Queen's Road East Hong Kong

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## CORPORATE INFORMATION

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<b>Audit Committee</b>	Mr. Sun Jigang (孫冀剛) ( <i>Chairman</i> ) Mr. Zhao Chun (趙淳) Mr. Jiang Tianfan (江天帆)
<b>Remuneration Committee</b>	Mr. Jiang Tianfan (江天帆) ( <i>Chairman</i> ) Mr. Zhao Chun (趙淳) Mr. Sun Jigang (孫冀剛)
<b>Nomination Committee</b>	Mr. Zhao Chun (趙淳) ( <i>Chairman</i> ) Mr. Sun Jigang (孫冀剛) Mr. Jiang Tianfan (江天帆)
<b>Principal share registrar and transfer office in Cayman Islands</b>	Campbells Corporate Services Limited Floor 4, Willow House Cricket Square Grand Cayman KY1-9010 Cayman Islands
<b>Hong Kong Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
<b>Principal Bankers</b>	<i>In Hong Kong:</i> Standard Chartered Bank (Hong Kong) Limited Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong  <i>In the PRC:</i> Industrial and Commercial Bank of China Limited, Changyuan County Branch 111 Gui Ling Avenue Changyuan County Xinxiang City Henan Province PRC

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## INDUSTRY OVERVIEW

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*We believe that the sources of the information in this section are appropriate sources for such information, and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading, or that any fact has been omitted that would render such information false or misleading. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information that would qualify, contradict or have a material impact on such information since the date of the Frost & Sullivan Report. The information from official government and non-official sources has not been independently verified by us, the Sole Sponsor, Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. Accordingly, the official government and non-official sources contained herein may not be accurate and should not be unduly relied upon.*

### SOURCE OF INFORMATION

We engaged Frost & Sullivan, a market research consultant, to prepare the industry report for use in this prospectus. Frost & Sullivan, founded in 1961, provides market research on a variety of industries, including healthcare. The information from Frost & Sullivan disclosed in this prospectus is extracted from the Frost & Sullivan Report, and is disclosed with the consent of Frost & Sullivan. In preparing the Frost & Sullivan Report, Frost & Sullivan collected and reviewed publicly available data such as government-derived information, annual reports, trade and medical journals, industry reports and other available information gathered by not-for-profit organizations. The data collected by Frost & Sullivan was last updated in 2020 based upon data available up to then. Frost & Sullivan adopts a comprehensive data collection model, which includes primary research with the industry stakeholders, secondary research on the government statistics, industry reports and annual reports of listed companies, and data validation processes with industry key opinion leaders. Frost & Sullivan assumes that the interviewees do not intentionally provide wrong or misleading information and the government statistics do not contain errors. Frost & Sullivan also assumes that no unexpected events such as wars or disasters will occur during the relevant forecast period.

Other bases and assumptions adopted by Frost & Sullivan in making its forecast include: (i) the social, economic and political environments of the PRC will remain stable during the forecast period, which will ensure a sustainable and steady development of the PRC healthcare industry; (ii) the PRC healthcare market will grow as expected due to rising healthcare demand and supply; (iii) the PRC government will continue to support healthcare reform; and (iv) the respective healthcare market where our hospital is located will grow during the forecast period.

Frost & Sullivan and we believe that the basic assumptions used in preparing the Frost & Sullivan Report, including those used to make future projections, are factual, correct and not misleading. Frost & Sullivan has independently analyzed the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. We expect to pay Frost & Sullivan a fee of RMB1,220,000 for the preparation and update of its industry report, which is not contingent upon the completion of the Global Offering.

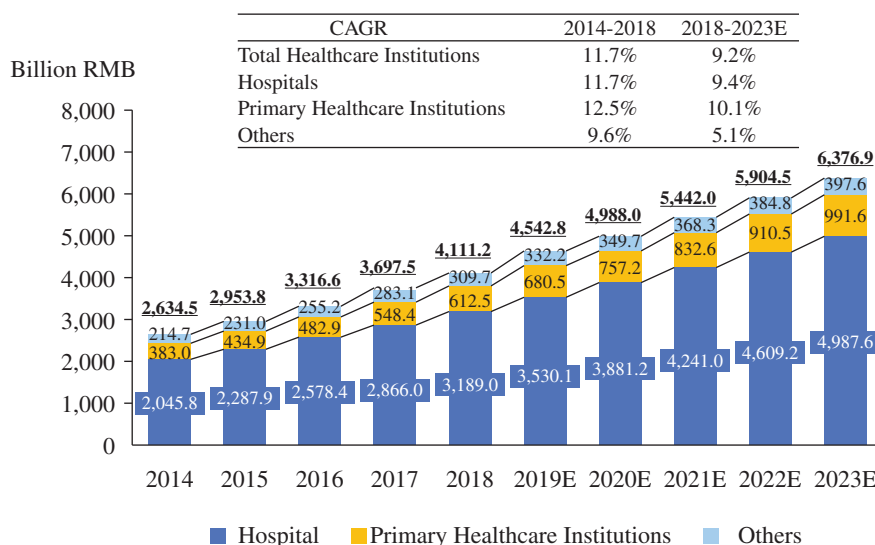
### OVERVIEW OF HEALTHCARE SERVICE MARKET IN CHINA

Healthcare services are the business that provides diagnosis, treatment and prevention of human disease, illness, injury or dysfunction performed by healthcare professionals and their supporting staff. China's healthcare institutions can be categorized into three types based on their roles and functions, namely hospitals, primary healthcare institutions and other healthcare institutions. Other healthcare institutions include specialized public healthcare institutions and peripheral healthcare institutions.

The revenue of healthcare institutions in China refers to the income generated from their operational and other activities, which comprises medical income, governmental subsidy, among others. From 2014 to 2018, the revenue of China's healthcare institutions grew from RMB2,634.5 billion to RMB4,111.2 billion, representing a CAGR of 11.7%, according to the Frost & Sullivan Report. By 2023, the revenue of China's healthcare institutions is forecasted to increase to RMB6,376.9 billion, representing a CAGR of 9.2% from 2018 to 2023. A substantial portion of the revenue of China's healthcare institutions is derived from hospitals. The following chart sets forth historical and projected revenue breakdown of China's healthcare institutions by types for the periods indicated:

## INDUSTRY OVERVIEW

### Revenue Breakdown of Healthcare Institutions in China, 2014-2023E



Source: NHC, Frost & Sullivan Report

### Key Drivers for the Growth and Development of Healthcare Service Market in China

The strong growth of the healthcare service industry in China was, and is expected to be, primarily driven by the following factors: (i) the expansion of social insurance coverage and upgraded healthcare infrastructure, as well as the development of commercial insurance; (ii) the growth of per capita annual disposable income of urban households and per capita annual income of rural residents demonstrating strong purchasing power of Chinese residents; (iii) a rise in incidence of chronic diseases such as hypertension and diabetes as a result of unhealthy lifestyle and pollutions associated with urban living and industrial activities; and (iv) a growing aging population with greater demand for healthcare services.

### Healthcare Service Market Participants in China

#### *Patient Aspect of China Healthcare Service Industry*

According to the Frost & Sullivan Report, total outpatient visits in China's hospitals increased from 2,972.1 million in 2014 to 3,577.4 million in 2018, representing a CAGR of 4.7%, and is expected to reach 4,401.3 million in 2023, representing a CAGR of 4.2% from 2018. The total inpatient visits in China's hospitals increased from 153.8 million in 2014 to 200.2 million in 2018, representing a CAGR of 6.8%, and is expected to reach 277.9 million in 2023, representing a CAGR of 6.8% from 2018. The average spending per patient visit in China's hospitals had also increased during the same period. According to the Frost & Sullivan Report, the average spending per outpatient visit in China's hospitals increased from RMB220.0 in 2014 to RMB274.1 in 2018, representing a CAGR of 5.7%, and is expected to reach RMB351.5 in 2023, representing a CAGR of 5.1% from 2018, while the average spending per inpatient visit in China's hospitals increased from RMB7,832.3 in 2014 to RMB9,291.9 in 2018, representing a CAGR of 4.4%, and is expected to reach RMB11,326.7 in 2023, representing a CAGR of 4.0% from 2018.

#### *Payer Aspect of China Healthcare Service Industry*

The payment of healthcare services is from both governmental and non-governmental sources. Governmental sources mainly consist of three public medical insurance programs including (1) UEBMIP; (2) URBMIP; and (3) NRCMIP. However, these three insurance programs only provide coverage for basic healthcare services. Patients who are not covered by these three insurance programs or need additional coverage need to resort to non-governmental sources, which mainly refer to out-of-pocket spending by the patients themselves and reimbursement undertaken by commercial medical insurance.

The PRC government has started the process to integrate NRCMIP with URBMIP in 2016 and completed such integration in 2019. Rural residents are expected to benefit from expanded coverage scope resulting from such integration.



## INDUSTRY OVERVIEW

According to the Frost & Sullivan Report, by the end of 2019, a medical insurance system consisting of UEBMIP and URBMIP has been established in China, covering approximately 1,354.4 million of the total population in China and representing a coverage rate of 96.7%. The payments made by the two urban public medical insurance programs have steadily increased since 2015. The total expenditure by UEBMIP and URBMIP increased significantly from RMB931.3 billion in 2015 to RMB1,994.5 billion in 2019, representing a CAGR of 21.0%. Driven by the urbanization trend, the expenditure by rural medical insurance programs had decreased steadily since 2014. Expenditure by NRCMIP decreased from RMB289.0 billion in 2014 to RMB83.9 billion in 2018, according to the Frost & Sullivan Report.

In April 2015, the General Office of the State Council issued the Implementation Opinions on Comprehensively Promoting the Comprehensive Reform of All Public Hospitals at the County Level (國務院辦公廳關於全面推開縣級公立醫院綜合改革的實施意見), which announced that private and public healthcare institutions should enjoy the same policy in terms of market entry, public insurance and hospital accreditation. For more details, please refer to the section headed “Regulatory Overview” in this prospectus. Such policies are beneficial for the growth of private hospitals because patients may become more willing to seek healthcare services at private hospitals if they are covered by public medical insurance programs.

### *Provider Aspect of China Healthcare Service Industry*

The hospital and healthcare service industry in China is highly fragmented with numerous market participants. The largest providers of healthcare services in China are hospitals. According to the Frost & Sullivan Report, there were 33,009 hospitals in China by the end of 2018. China’s hospitals can be categorized into public hospitals and private hospitals. Public hospitals play a dominant role in providing healthcare services, but private hospitals represent the faster growing segment in China’s healthcare service industry. According to the Frost & Sullivan Report, the number of public hospitals decreased from 13,314 in 2014 to 12,032 in 2018, while the number of private hospitals increased from 12,546 in 2014 to 20,977 in 2018, representing a CAGR of 13.7%. In addition, according to the Frost & Sullivan Report, the revenue of private hospitals increased from RMB161.6 billion in 2014 to RMB383.8 billion in 2018, representing a CAGR of 24.1%, and is expected to reach RMB885.7 billion in 2023, representing a CAGR of 18.2% from 2018 to 2023, which are higher than the CAGR of revenue of public hospitals, which are 10.5% and 7.9%, respectively, over the same periods. The following table sets forth a comparison of key metrics of public and private hospitals in China in 2018:

	Public Hospitals	Private Hospitals
Number of beds in operation .....	4.8 million	1.7 million
Beds occupancy rate .....	91.1%	63.2%
Outpatient visits .....	3,051.2 million	526.1 million
Average spending per outpatient visit .....	RMB272.2	RMB285.1
Inpatient visits .....	163.5 million	36.6 million
Average spending per inpatient visit .....	RMB9,976.4	RMB6,238.6

Source: NHC, Frost & Sullivan Report

In terms of specialization, hospitals in China can be categorized into general hospitals, specialty hospitals, and traditional Chinese medicine (the “TCM”) hospitals, among others. The following table sets forth a breakdown of number of public and private hospitals by specialization in China in 2018:

	Public Hospitals		Private Hospitals	
	Number	(%)	Number	(%)
General hospitals .....	7,549	62.7	12,144	57.9
Specialty hospitals .....	1,745	14.5	6,155	29.3
TCM hospitals .....	2,293	19.1	1,684	8.0
Others .....	445	3.7	994	4.7
<b>Total .....</b>	<b>12,032</b>	<b>100.0</b>	<b>20,977</b>	<b>100.0</b>

Source: NHC, Frost & Sullivan Report

## INDUSTRY OVERVIEW

In addition, hospitals in China are ranked into three classes (Class I, II and III, with Class-III being the highest class) and within each class, there are three sub-grades (Grade A, B and C, with Grade A being the highest sub-grade) based on the assessment of competent authorities. The highest rank is Class-III-A (三級甲等). Hospitals have to submit a separate application to the relevant authorities for the certification of sub-grades after they have been ranked into the three classes. Our hospital was Class-II hospital without a definite sub-grade during the Track Record Period because we had been focused on the application for ranking as a Class-III hospital and did not file the application on sub-grades considering that it is time-consuming and has no material effects on our business. We had upgraded to Class-III hospital recently in January 2020 and have not yet filed the application on sub-grades. According to the Frost & Sullivan Report, our hospital is the only Class-III private hospital in Xinxiang City, Henan Province. Class-III hospitals are typically larger in scale and have larger number of beds compared to Class-II and Class-I hospitals. Among Class-III hospitals, public hospitals have been playing a dominating role but private hospitals have experienced a stronger growth. According to the Frost & Sullivan Report, the number of Class-III private hospitals increased substantively with a CAGR of 26.3% from 2014 to 2018, which was higher than that of public hospitals of 5.3% during the same period. The following table sets forth a breakdown of number of public and private hospitals by classes in China in 2018:

	Public Hospitals		Private Hospitals	
	Number	(%)	Number	(%)
Class-III hospitals .....	2,263	18.8	285	1.4
Class-II hospitals .....	5,958	49.5	3,059	14.6
Class-I hospitals .....	2,460	20.4	8,371	39.9
Unrated .....	1,351	11.2	9,262	44.2
<b>Total .....</b>	<b>12,032</b>	<b>100.0</b>	<b>20,977</b>	<b>100.0</b>

### Key Drivers for the Growth and Development of Private Hospitals in China

The strong growth of private hospitals in China was, and is expected to be, primarily driven by the factors described below:

- ***Increasing Demand for Healthcare Services.*** The increasing demand for healthcare services driven by factors such as the accelerating aging population and rising prevalence of chronic diseases has resulted in the shortage of healthcare services. Public hospitals are unable to fully satisfy the rapid growth in demand for healthcare services. Furthermore, in the Notice on Issuance of Several Opinions on Control of Unreasonable Increase in Healthcare Service Fees in Public Hospitals (關於控制公立醫院醫療費用不合理增長的若干意見) promulgated in November 2015, public hospitals are prohibited from incurring debt for further expansion. The increasing demand for healthcare services together with government control on expansion of public hospitals create an opportunity for further development and expansion of private hospitals.
- ***Disproportionate Allocation of Medical Resources.*** Large public hospitals are generally highly concentrated in the centers of major cities, leaving many other areas underserved. The ongoing progress of urbanization in China has resulted in demand for hospitals in the emerging urban and suburban areas of cities, which is expected to further drive growth of private hospitals.
- ***Rising Demand for High-end Medical Services.*** Driven by increasing per capita annual disposable income, more Chinese residents are not satisfied with basic medical services and require customized high-end medical services with more privacy. However, public hospitals are restricted by the PRC government from offering high-end services, which provides opportunity for private hospitals to seize the underserved market by offering high-end medical services.

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## INDUSTRY OVERVIEW

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- **Multi-site Practice Policy.** As doctors could only register and work in one healthcare facility historically, most doctors in China opted to work in public hospitals which offer a stable career track. To promote the availability of doctors and optimize medical resources, the PRC government has promulgated multi-site practice policy in a number of pilot cities to allow doctors to practice at multiple healthcare facilities, including private hospitals and plan to further standardize the process of obtaining multi-site practice licenses. Benefiting from such policy, private hospitals are expected to attract additional healthcare professionals and further grow their business.
- **Favorable Policies for Private Hospitals in Healthcare Reform.** The development of private hospitals has been set as a priority in the Report on the Work of the Government (2016) and the Twelfth Five Year Plan (2011-2015) healthcare planning by the PRC government. The government intends to eliminate imbalance and unfair competition between public and private hospitals, creating a more favorable policy environment for private hospitals in tax and other areas. For example, the PRC government has expanded the public medical insurance programs to cover certain qualified private hospitals. For more details, please refer to the paragraph headed “— Healthcare Service Market Participants in China — Payer Aspect of China Healthcare Service Industry” in this section.
- **Privatization of Public Hospitals.** The PRC government has been issuing guidance and promulgating policies that encourage the injection of private capital in healthcare industry. For example, in the Several Opinions about Encouraging and Guiding the Healthy Development of Private Investment (國務院關於鼓勵和引導民間投資健康發展的若干意見) promulgated in May 2010, private capital is encouraged to invest in establishing different types of medical institutions and participate in reform of public hospitals. For more details, please refer to the section headed “Regulatory Overview” in this prospectus. Additional flexible approaches are expected to be adopted in profit sharing with public hospitals, including entering into management contracts and acquisition of equity ownership, which may further drive the growth of private hospitals.

### OVERVIEW OF COUNTY-LEVEL HEALTHCARE SERVICE MARKET

As of the end of 2018, county-level regions in China had a total population of approximately 900 million, accounting for approximately 65% of China’s total population. County-level hospitals are hospitals established in counties or below. According to the Frost & Sullivan Report, the revenue of county-level hospitals increased from RMB747.2 billion in 2014 to RMB1,079.3 billion in 2018, representing a CAGR of 9.6%, and accounting for 33.8% of revenue generated by all hospitals in China in 2018. By 2023, the revenue of county-level hospitals is expected to reach RMB1,650.8 billion, representing a CAGR of 8.9% from 2018 to 2023 and accounting for 33.1% of revenue projected to be generated by all hospitals in China in 2023. The PRC government has been encouraging the development of county-level hospitals by issuing and promulgating favorable policies, which is expected to lead to faster growth of county-level hospitals compared to the overall growth rate of hospitals in China in the near future, according to the Frost & Sullivan Report.

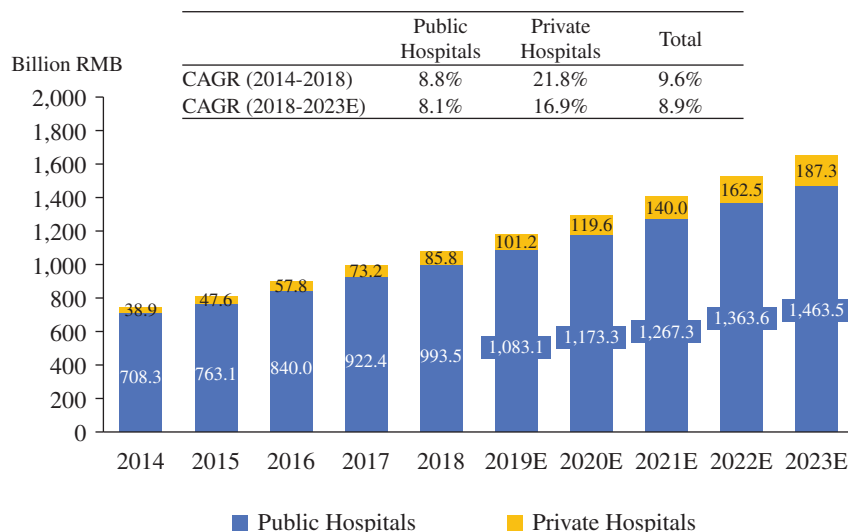
#### County-level Healthcare Service Market Participants

Customer base of county-level hospitals primary consists of patients from rural areas and counties. According to the Frost & Sullivan Report, the number of outpatient visits of county-level hospitals increased from 1,009.3 million in 2014 to 1,186.7 million in 2018, representing a CAGR of 4.1%, and is expected to further increase to 1,419.0 million in 2023, representing a CAGR of 3.6% from 2018 to 2023, while the number of inpatient visits increased from 71.1 million in 2014 to 87.4 million in 2018, representing a CAGR of 5.3%, and is expected to further increase to 110.2 million in 2023, representing a CAGR of 4.7% from 2018 to 2023. The average spending per patient visit of county-level hospitals had also increased during the same period. According to the Frost & Sullivan Report, the average spending per outpatient visit in county-level hospitals increased from RMB181.5 in 2014 to RMB229.5 in 2018, representing a CAGR of 6.0%, and is expected to reach RMB286.5 in 2023, representing a CAGR of 4.5% from 2018 to 2023, while the average spending per inpatient visit in county-level hospitals increased from RMB6,534.6 in 2014 to RMB8,081.6 in 2018, representing a CAGR of 5.5%, and is expected to reach RMB9,984.4 in 2023, representing a CAGR of 4.3% from 2018 to 2023.

## INDUSTRY OVERVIEW

According to the Frost & Sullivan Report, the total number of county-level hospitals increased from 12,365 in 2014 to 15,553 in 2018, representing a CAGR of 5.9%. In line with the increased hospitals, the aggregate number of beds in operation of county-level hospitals also increased from 2.1 million in 2014 to 2.7 million in 2018, representing a CAGR of 6.3%. By 2023, this number is expected to reach 20,058, representing a CAGR of 5.2% from 2018 to 2023. According to the Frost & Sullivan Report, the majority of revenue of county-level hospitals is derived from public hospitals, but private hospitals have demonstrated a stronger growth historically and are expected to continue to grow faster than public hospitals in the near future. The following chart sets forth historical and projected revenue of county-level public and private hospitals for the periods indicated:

**Revenue of County-level Hospitals and Breakdown in China, 2014-2023E**



Source: NHC, Frost & Sullivan Report

Notwithstanding the rapid growth of county-level healthcare service market, there remains certain restraints for its development, including low income level of rural residents, lower reimbursement amount from NRCMIP compared to UEBMIP and URBMIP and less advanced medical service quality compared to large cities.

### Key Drivers for the Growth and Development of County-level Healthcare Service Market

The strong growth of the county-level healthcare service market in China was, and is expected to be, primarily driven by the factors described below:

- Increasing governmental funding and Rising Insurance Coverage after the integration of NRCMIP and URBMIP.** To improve insurance coverage and achieve a universal health coverage for urban and rural resident, the PRC government started the process to integrate NRCMIP with URBMIP in 2016 and completed such integration in 2019. Since the integration of NRCMIP and URBMIP, the PRC government has been continuously increasing funding for and expanding coverage under the new insurance regime. Such efforts are expected to further stimulate the growth of county-level healthcare service market due to reduced out-of-pocket portion of healthcare expenditure and increased medical affordability for patients seeking services at county-level hospitals.

## INDUSTRY OVERVIEW

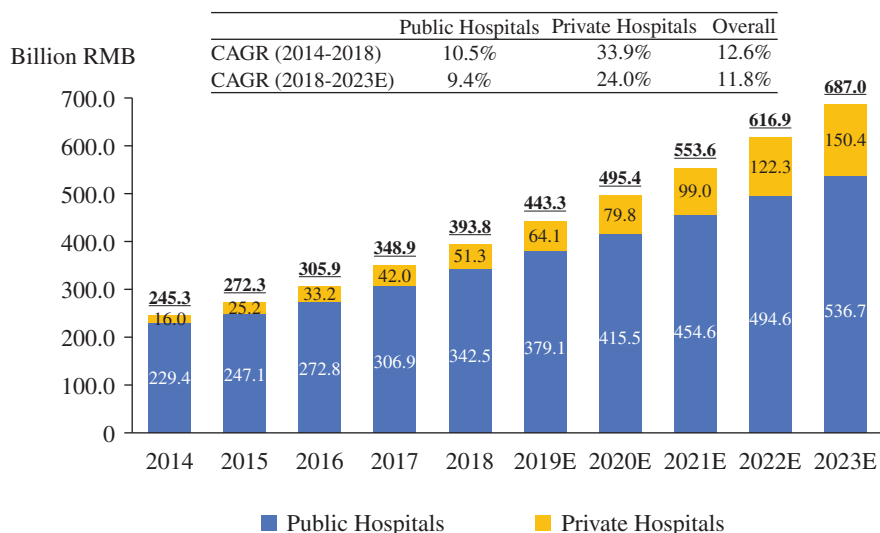
- Large Demand for Medical Services in Rural Areas.** Rural population, which is the main patient source for county-level hospitals, accounts for approximately 40% of the total population in China in 2018, which presents a large potential healthcare market. Rural residents tend to choose county-level hospitals over primary healthcare institutions in rural areas because county-level hospitals are normally equipped with relatively advanced medical equipment and diagnostic instruments and offer better service quality.
- Incentive Policies by the Government in County-level Hospital Reform.** The PRC government has issued and promulgated favorable policies to encourage the development of county-level hospitals. For example, pursuant to the Guiding Opinions of the General Office of the State Council on Propelling the Building of a Hierarchical Diagnosis and Treatment System (國務院辦公廳關於推進分級診療制度建設的指導意見) and the Notice on Key Work Concerning the Construction of Hierarchical Diagnosis and Treatment System (關於進一步做好分級診療制度建設有關重點工作的通知) issued by the State Council in 2015 and in 2018, respectively, the PRC government stated the aim to establish a hierarchical healthcare system (分級診療制度), in which county-level hospitals are responsible for providing treatments for common and chronic diseases, emergency care of severe patients and transferring patients to higher-level healthcare institutions if needed, and the goal to achieve treatment of critical diseases within counties (大病不出縣) by 2020. Such policies are expected to further drive the growth of county-level hospitals.

### OVERVIEW OF HEALTHCARE SERVICE MARKET IN CENTRAL CHINA

Central China refers to Henan Province, Hubei Province and Hunan Province for the purpose of the Frost & Sullivan Report. Central China had a population of approximately 224.9 million in 2019, accounting for 16.1% of the total population in China. The largest providers of healthcare services in Central China are hospitals. In Central China, public hospitals still play a dominant role in healthcare services, but private hospitals represent a faster growing segment. According to the Frost & Sullivan Report, the number of public hospitals decreased from 1,891 in 2014 to 1,591 in 2018, while the number of private hospitals increased from 1,310 in 2014 to 2,781 in 2018, representing a CAGR of 20.7%.

In terms of revenue of hospitals and patient visits in Central China, private hospitals have demonstrated more robust growth than public hospitals historically and are expected to continue to grow faster than public hospitals in the near future. The following charts set forth historical and projected revenue and patient visits of public and private hospitals in Central China, respectively, for the periods indicated:

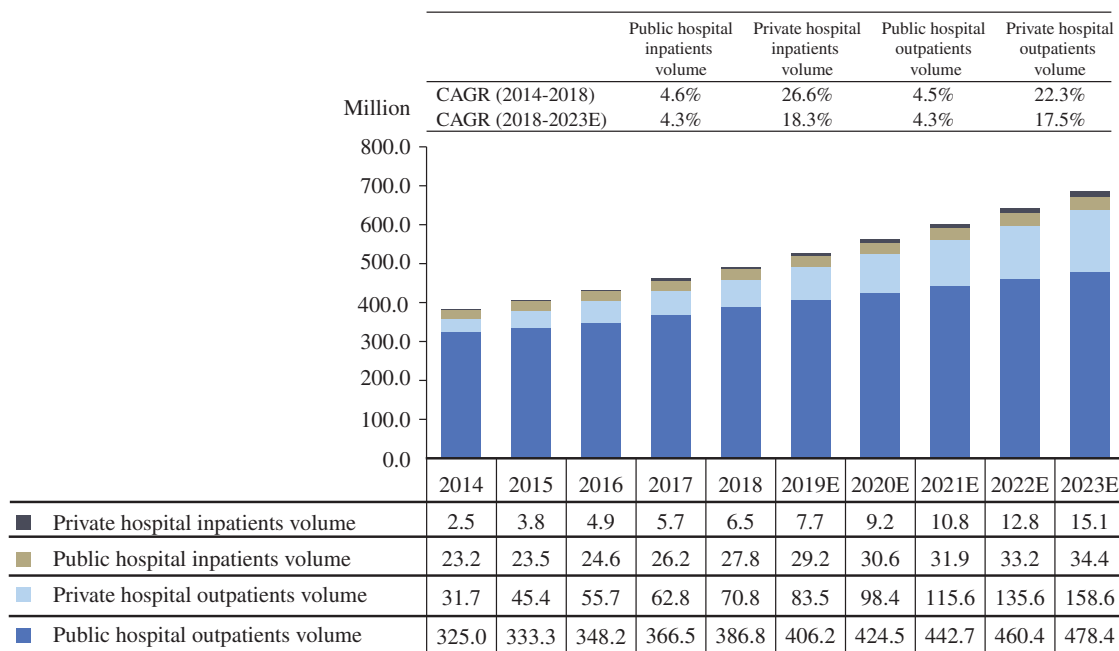
**Revenue Breakdown of Hospital Market in Central China, 2014-2023E**



Source: NHC, Frost & Sullivan Report

## INDUSTRY OVERVIEW

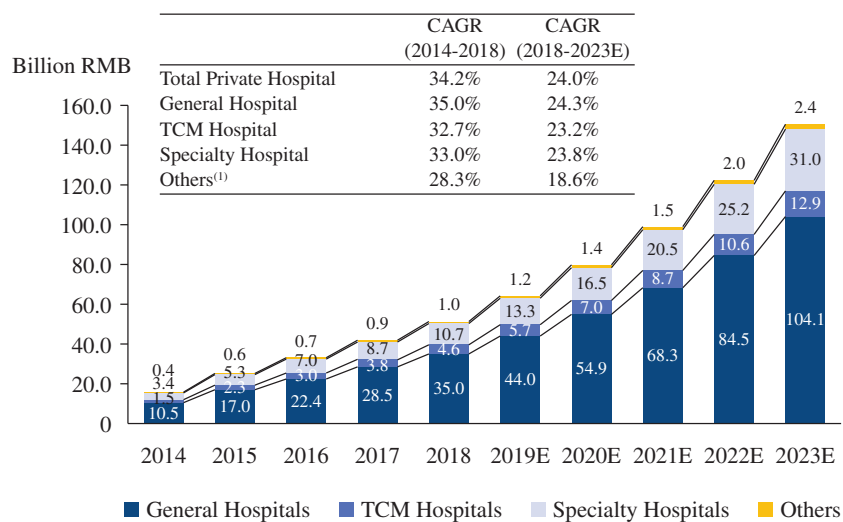
### The Number of Patient Visits to Hospitals in Central China, 2014-2023E



Source: NHC, Frost & Sullivan Report

Among all private hospitals in Central China, general hospitals have the largest market share, accounting for approximately 68.0% of revenue of private hospitals in Central China in 2018. In addition, in terms of revenue, general hospitals in Central China have demonstrated stronger growth than other hospitals historically and are expected to continue to grow faster than other hospitals in the near future. The following chart sets forth a breakdown of historical and projected revenue by specialization of private hospitals in Central China for the periods indicated:

### Revenue Breakdown of Private Hospitals by Type in Central China, 2014-2023E



Note:

(1) Others include nursing home, integrative hospital and ethnic hospital.

Source: NHC, Frost & Sullivan Report

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## INDUSTRY OVERVIEW

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### COMPETITIVE LANDSCAPE

#### Overview

The hospital and healthcare service industry in China is highly fragmented. Public hospitals have long dominated the healthcare service market in China. Private hospitals face competition from public hospitals which are typically larger in operational scale, capabilities and have better patient recognition. In 2018, the revenue of public hospitals in China reached RMB2,805.2 billion compared to RMB383.8 billion for private hospitals. To compete with public hospitals, private hospitals need to strengthen their service quality, operational efficiency and cost control.

#### Key Entry Barriers

According to the Frost & Sullivan Report, the main entry barriers to the private general hospital market in China include the following:

- **Capital Requirement.** New market entrants need a large sum of initial capital for land purchase, hospital construction and medical equipment purchase, especially for establishing hospitals in large cities. In addition, general hospitals typically require more capital investment than specialty hospitals due to the need to establish diversified clinical departments. On average, it may take five to eight years for a new market entrant to start to generate profits.
- **Complicated and Lengthy Approval Process.** The process of obtaining the licenses, certificates and permits to establish and operate a private hospital is complicated and time-consuming. The relevant guidelines and rules may change during the process, which could negatively affect the establishment of new private hospitals or transfer of ownership in public hospitals.
- **Competition from Public Hospitals for Medical Professionals.** In China, public hospitals have long dominated the healthcare service market, and patients in China have always relied on public hospitals for treatment of diseases. It is difficult for private hospitals to obtain recognition among patients in a short period of time. In particular, private hospitals face competition from public hospitals for talents, especially for well-respected and experienced doctors.
- **Lack of Management Talent.** Hospital management, in particular in respect of general hospitals, is complex and requires specialized knowledge to administrate. Management of hospitals in China is further complicated by issues such as sales rebates, opaque financial records and other regulatory risks. Historically, hospitals in China typically lack management talent, which is also an entry barrier for the establishment of a new private general hospital.

#### Our Rankings

According to the Frost & Sullivan Report, among all the for-profit private general hospitals in China, our hospital ranked the third (on par with three other hospitals) in terms of number of beds in operation as of December 31, 2019, the fifth in terms of inpatient visits in 2019, the ninth in terms of outpatient visits in 2019 and the 16th in terms of revenue in 2019. Among all the for-profit private general hospital groups in China, our Group ranked the 18th in terms of revenue in 2019.

The following table sets forth the top five for-profit private general hospital groups in China in terms of revenue in 2019 as well as our Group's position in the ranking:

Ranking	Hospital Group Name	Revenue (RMB) in 2019
1	Hospital Group A	2,736.0 million
2	Hospital Group B	2,500.0 million
3	Hospital Group C	2,182.0 million
4	Hospital C (located in Dongguan, Guangdong Province) <sup>(1)</sup>	1,860.0 million
5	Hospital Group E <sup>(2)</sup>	1,850.0 million
	...	
18	Our Group	531.1 million

Notes:

(1) Hospital C, as an individual hospital, does not belong to any hospital group.

(2) Hospital Group E includes the Hospital E (located in Dongguan, Guangdong Province) as set out in the below by hospital rankings.

Source: Frost & Sullivan Report

## INDUSTRY OVERVIEW

The following tables set forth the top five for-profit private general hospitals in China in terms of number of beds in operation as of December 31, 2019, and in terms of inpatient visits in 2019<sup>(1)</sup>:

Ranking	Hospital Name	Number of Beds in Operation as of December 31, 2019
1	Hospital C (located in Dongguan, Guangdong Province)	1,880
2	Hospital A (located in Suqian, Jiangsu Province)	1,700
3	Henan Honliv Hospital	1,500
4	Hospital D (located in Nanjing, Jiangsu Province)	1,500
4	Hospital B (located in Shantou, Guangdong Province)	1,500

Ranking	Hospital Name	Number of Inpatient Visits (thousand) in 2019
1	Hospital C (located in Dongguan, Guangdong Province)	80.0
2	Hospital A (located in Suqian, Jiangsu Province)	63.0
3	Hospital E (located in Dongguan, Guangdong Province)	60.0
4	Hospital D (located in Nanjing, Jiangsu Province)	58.0
5	Henan Honliv Hospital	56.7

*Note:*

- (1) We do not present the rankings in terms of number of beds in operation and inpatient visits by hospital group as our Group operates an individual hospital, Henan Honliv Hospital, the operational data of which is not comparable to that of other private hospital groups which operate two or more hospitals.

*Source:* Frost & Sullivan Report

In addition, our hospital is also the largest for-profit private general hospital in Central China in terms of outpatient visits and inpatient visits in 2019, and the second largest for profit general hospital in Central China in terms of revenue in 2019, according to the Frost & Sullivan Report. The following tables set forth the top five for-profit private general hospitals in Central China in terms of revenue, number of outpatient visits and inpatient visits in 2019<sup>(1)</sup>, respectively:

Ranking	Hospital Name	Revenue (RMB) in 2019
1	Hospital F (located in Changsha, Hunan Province)	570.0 million
2	Henan Honliv Hospital	530.0 million
3	Hospital G (located in Huangshi, Hubei Province)	460.0 million
4	Hospital H (located in Changsha, Hunan Province)	300.0 million
5	Hospital J (located in Hebi, Henan Province)	170.0 million

Ranking	Hospital Name	Number of Outpatient Visits (thousand) in 2019
1	Henan Honliv Hospital	1,026.0
2	Hospital F (located in Changsha, Hunan Province)	750.0
3	Hospital G (located in Huangshi, Hubei Province)	480.0
4	Hospital H (located in Changsha, Hunan Province)	260.0
5	Hospital J (located in Hebi, Henan Province)	230.0

Ranking	Hospital Name	Number of Inpatient Visits (thousand) in 2019
1	Henan Honliv Hospital	56.7
2	Hospital G (located in Huangshi, Hubei Province)	37.0
3	Hospital F (located in Changsha, Hunan Province)	28.0
4	Hospital H (located in Changsha, Hunan Province)	19.0
5	Hospital I (located in Anyang, Hunan Province)	15.0

*Note:*

- (1) We do not present the rankings in terms of outpatient visits and inpatient visits by hospital group as our Group operates an individual hospital, Henan Honliv Hospital, the operational data of which is not comparable to that of other private hospital groups which operate two or more hospitals.

*Source:* Frost & Sullivan Report

For more information of our competitive advantages, please refer to the paragraph headed “Business — Our Competitive Strengths” in this prospectus.



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## REGULATORY OVERVIEW

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Our business operations are subject to extensive supervision and regulations by the PRC government. This section sets out an introduction to a summary of the main applicable laws, rules, regulations and policies, which may have a significant impact on our business:

- those relating to the reform of medical institutions affect our ability to implement our current business strategy to expand our operations;
- those relating to the administration and classification of medical institutions, supervision over pharmaceuticals in medical institutions, medical equipment and treatment, medical personnel, medical incidents, medical advertising, medical services and medicine prices, environmental protection, and labor protection regulate our day-to-day operations and affect our compliance costs;
- those relating to medical disputes have an effect on our potential liabilities arising from day-to-day operations; and
- those relating to taxation matters have an impact on our operations and business.

For more details on how these regulations may affect our current and future businesses, please refer to the paragraphs headed “Risk Factors — Risks Relating to Our Business and Industry”, “Risk Factors — Risks Relating to Doing Business in China” and “Business — Licenses, Permits and Certificates” in this prospectus.

### LAWS AND REGULATIONS RELATED TO THE HEALTHCARE SERVICE SECTOR IN CHINA

#### Categories of Medical Institutions in China

Medical institutions in China can be divided into three main categories: public not-for-profit medical institutions, private not-for-profit medical institutions and private for-profit medical institutions. These categories have different registered business natures and apply different financial, tax, pricing and accounting standards. Public not-for-profit medical institutions, including those invested in by the government and military, are eligible for financial subsidies from governments, while private not-for-profit and private for-profit medical institutions are not. Both public not-for-profit and private not-for-profit medical institutions are required to charge healthcare service fees within a range stipulated by the relevant governmental price control authorities, to implement financial and accounting systems in accordance with standards promulgated by government authorities and to retain profits for their continued development. For-profit medical institutions are permitted to charge healthcare service fees in accordance with market practice, to implement financial and accounting systems in accordance with market practice for business enterprises and to distribute profits to their shareholders.

#### Regulations on the Reform of Medical Institutions

##### *Opinion on Promoting Further Reform of the Healthcare System*

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

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## REGULATORY OVERVIEW

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### *The Several Opinions about Encouraging and Guiding the Healthy Development of Private Investment*

The Several Opinions about Encouraging and Guiding the Healthy Development of Private Investment (國務院關於鼓勵和引導民間投資健康發展的若干意見), which was promulgated by the State Council on May 7, 2010, and came into effect on the same day, requires the people's governments of all provinces, autonomous regions and municipalities directly under the Central Government, all ministries and commissions of the State Council, and all authorities directly under the State Council to comply with the following opinions; (i) Encourage private capital participation in the development of medical business, support the use of private capital in building medical institutions such as all kinds of hospitals, community health service institutions, sanatoriums, outpatient departments, clinics and health centers (stations), participate in the systemic reform and restructuring of public hospitals, support private medical institutions in providing public health services, basic medical services and designated medical insurance services, implement tax policy in relation to non-profit-making medical institutions in a practical manner, encourage a reasonable flow of medical personnel resources to private medical institutions, ensure that private medical institutions receive treatment equal to that of public hospitals in terms of the introduction of talent, job appraisal and scientific research; (ii) Strengthen the regulations of all kinds of medical institutions in aspects such as medical quality, medical conduct, and fee standards, and promote the healthy development of private medical institutions.

### *Notice on Further Encouraging and Guiding Private Capital to Invest in Medical Institutions*

The Notice of the State Council on Forwarding the Opinions of the NDRC, the NHC and other departments on Further Encouraging and Guiding Private Capital to Invest in Medical Institutions (國務院辦公廳轉發發展改革委衛生部等部門關於進一步鼓勵和引導社會資本舉辦醫療機構意見的通知), which was promulgated by the General Office of the State Council on November 26, 2010, stipulates that the PRC government encourages and supports investments by private investors in medical institutions of various types. Private investors are permitted to apply to establish for-profit or not-for-profit medical institutions. Private investors are also encouraged to participate in the reform of existing public hospitals, including those established by state-owned enterprises, by converting them into not-for-profit medical institutions in order to systematically reduce the proportion of public hospitals in the system. Private medical institutions with experience in the provisions of healthcare services and good reputation shall be selected as participants in the restructuring of public hospitals. The restructuring of public hospitals may be carried out through pilot reform programs in hospitals established by state-owned enterprises. Private medical institutions are encouraged to modernize hospital management, establish standardized corporate governance structures, step up cost control and quality management systems, and employ professional managers to manage the hospital. Private investors are encouraged to set up hospital management companies to provide specialized services. Private medical institutions are encouraged to engage or authorize domestic or overseas medical institutions with professional experience to participate in the management of hospitals to improve their efficiencies. Medical institutions are encouraged to develop into large, sophisticated, technology-intensive medical groups and adopt brand-focused development strategies to build good reputation and image. Private medical institutions are encouraged to improve their clinical research and build their research and development teams.

### *Several Opinions on Promoting the Development of Healthcare Service Industry*

Several Opinions on Promoting the Development of Healthcare Service Industry (國務院關於促進健康服務業發展的若干意見) (the “2013 Opinions”), which was promulgated by the State Council on September 28, 2013. The 2013 Opinions encourage the private sector to invest in the healthcare service industry by various means including new establishment and participation in restructuring, and also encourage private capital investment in not-for-profit medical institutions for provisions of basic health care services. The 2013 Opinions proposes the idea of the relaxation of the requirements for sino-foreign equity joint or cooperative joint medical institutions and expand eligibility in the pilot program for wholly foreign-invested medical institutions.

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## REGULATORY OVERVIEW

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### *Decision on Several Important Issues relating to Promoting Overall Reform*

The Decision on Several Important Issues relating to Promoting Overall Reform (中共中央關於全面深化改革若干重大問題的決定) (the “**2013 Decision**”), which was promulgated by the Central Committee of the Communist Party of China on November 12, 2013, encourages private investors to invest in ill-funded and diversification-required service industries and participate in the restructuring of public hospitals by various means. The 2013 Decision also permits physicians to practice in multiple locations, and allows private-invested medical institutions to be included in the medical insurance system.

### *Several Opinions on Accelerating the Development of Medical Institutions with Social Capital*

Several Opinions on Accelerating the Development of Medical Institutions with Social Capital (關於加快發展社會辦醫的若干意見), which was promulgated on December 30, 2013 by NHC and the State Administration of Traditional Chinese Medicine, stipulates the policies that support the development of private-invested medical institutions, including the (i) gradual relaxation of investment in medical institutions by foreign capital; (ii) relaxation of requirements for service sectors, allowing social capital’s investment in the areas which are not explicitly prohibited; (iii) relaxation of requirements for the deployment and use of large medical equipment in private hospitals; (iv) improvement of supporting policies for the development of private hospitals in aspects such as medical insurance and price control; (v) acceleration of the approval processing regarding the establishment and operation of private hospitals.

### *Opinion on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Social Investment*

Opinion on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Social Investment (國務院關於創新重點領域投融資機制鼓勵社會投資的指導意見) (the “**2014 Opinion**”), which was promulgated on November 26, 2014 by the State Council, encourages the investment of social capital in certain key sectors. The 2014 Opinion stipulates that the PRC government will continue to (i) promote the restructuring of eligible public medical institutions with the participation of social capital; (ii) encourage social capital’s participation in healthcare sector by means such as sole proprietorship, joint ventures, cooperative ventures, joint operation and leasing; (iii) improve the implementation of preferential tax policies on not-for-profit medical institutions and the exemption policies of administrative and institutional fees on the constructions of not-for-profit or for-profit medical institutions; (iv) implement the same price policy with regard to the utilization of electricity, water, gas and heat by both public and private medical institutions, and relax the price control over the services provided by the private medical institutions.

### *Notice on Printing and Distributing the Outline of the National Medical and Healthcare Service System Plan (2015-2020)*

The Notice on Printing and Distributing the Outline of the National Medical and Healthcare Service System Plan (2015-2020) (關於印發全國醫療衛生服務體系規劃綱要(2015-2020年)的通知), which was promulgated by the General Office of the State Council on March 6, 2015, stipulates that private medical institutions are significant and integral parts of the medical and healthcare service system as well as an effective approach to fulfilling people’s multilevel and diversified medical and healthcare service needs. Private medical institutions may provide basic medical services, compete with public medical institutions in an orderly manner, provide top service to fulfill extra needs which are beyond basic needs and provide services in great demand such as rehabilitation and geriatric services to complement public medical institutions.

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## REGULATORY OVERVIEW

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Up to 2020, planning shall be reserved for private medical institutions ensuring that each one thousand residents are entitled to no less than 1.5 hospital beds. Reservation shall also be made for the setup of diagnosis and treatment subjects and the allocation of large medical equipment. Requirements for the qualifications of medical institution sponsors shall be reduced as well as the conditions of setup medical institution through Sino-foreign equity/cooperative joint venture. The pilot scheme of establishment of medical institutions solely invested by qualified overseas capitals shall be expanded steps by steps. The requirements of service scope shall also be reduced and the social capitals shall be allowed to invest in areas not explicitly prohibited by the laws and regulations. Not-for-profit medical institutions are entitled to prior support. Private medical institutions shall be guided to develop into a high and large-scale level. Professional hospital management group shall develop. Support shall be made to the allocation of large medical equipment. The review and approval formalities shall be more efficient. Where the private medical institution is qualified, the corresponding approval shall be assumed and the process shall be simplified to improve the approval efficiency.

The Notice listed several principles including (i) perfect the supporting policies, supporting the private medical institutions to be included into the scope of medical institutions designated for medical insurance; (ii) improve the planning and overall arrangement as well as the security of use of land; (iii) optimize the guiding policies for financing and investment; and improve price policies on finance and taxation. The medical service price of private medical institutions shall apply market price adjustment; encourage governments to purchase service provided by private medical institutions; strengthen the industry supervision and ensure the quality and safety of medical service.

### ***The Implementation Opinion on Comprehensively Promoting the Comprehensive Reform of All Public Hospitals at the County Level***

The Implementation Opinion on Comprehensively Promoting the Comprehensive Reform of All Public Hospitals at the County Level (國務院辦公廳關於全面推開縣級公立醫院綜合改革的實施意見), which was promulgated by the General Office of the State Council on April 23, 2015, and came into effect on the same day, stipulates that the private and public healthcare institutions should enjoy the same policy in terms of market entry, public insurance and hospital accreditation. Non-public and public medical institutions shall be treated equally according to the relevant policies. The prices of medical services provided by non-public medical institutions shall be regulated by the market.

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

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

### ***Opinion on Promoting the Sustainable, Healthy and Regulated Development of Private Medical Institutions***

The Opinion on Promoting the Sustainable, Healthy and Regulated Development of Private Medical Institutions (關於印發促進社會辦醫持續健康規範發展意見的通知), which was promulgated by the NHC and other departments on June, 10, 2019 and came into effect on the same day, stipulates that the government aims to increase support for private medical institutions, including but not limited to expand the development space and land supply, promote government purchase of services, implement preferential tax policies, as well as simplify the administrative approval processes.

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## REGULATORY OVERVIEW

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### **Regulations on the Administration and Classification of Medical Institutions**

#### ***Administrative Measures on Medical Institutions and the Medical Institution Practicing License***

The Administrative Measures on Medical Institutions (醫療機構管理條例), which was promulgated on February 26, 1994 by the State Council, came into effect on September 1, 1994 and revised on 6 February 2016, and the Implementation Measures of the Administrative Measures on Medical Institutions (醫療機構管理條例實施細則), which was promulgated by the NHC on August 29, 1994, came into effect on September 1, 1994 and revised on 21 February 2017, stipulate that the establishment of medical institutions shall comply with the relevant regional planning requirements as well as the basic standards of medical institutions. Any entity or individual that intends to establish a medical institution must follow the application approval procedures and register with the relevant healthcare administrative authorities to obtain a Medical Institution Practicing License (醫療機構執業許可證).

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

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

#### ***Opinion on Implementing Classification Administration of Urban Medical Institution***

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

#### ***The Classification of Healthcare Institutions***

The Basic Standard for Medical Institutions (For Trial Implementation) (醫療機構基本標準(試行)), Interim Measures for the Assessment of Hospitals (醫院評審暫行辦法) and the Measures for the Assessment of Healthcare Institutions (醫療機構評審辦法), which was promulgated by the NHC on 2 September 1994, 21 September 2011 and 21 July 1995 respectively, stipulate that healthcare institutions in the PRC are graded into three levels (Class I, II and III) and three sub-levels (A, B, C) based on the assessment of competent authorities. The assessment itself is not a requisite for a healthcare institution to carry out its business. The highest standard is Grade A Class III (三級甲等). Under the relevant regulations, each hospital will be assessed once every four years. The NHC and its Hospital Assessment Committee are responsible for conducting all hospital assessments in the PRC. Health administrative departments at the provincial level shall set up Hospital Assessment Leading Groups, which are responsible for hospitals assessment at the provincial level.

The Accreditation Standard of General Hospitals of Class II (2012) (二級綜合醫院評審標準(2012年版)) ("the Accreditation Standard") promulgated and implemented by the NHC on December 30, 2011, and The Implementing Rules Regarding the Accreditation Standard of General Hospitals of Class II (2012) (二級綜合醫院評審標準實施細則(2012年版)) ("the Implementing Rules") promulgated and implemented by the General Office of the NHC on May 11, 2012, provide detailed provisions for the accreditation standard for general hospitals of Class II, which can be used by other hospitals at any level and any type as reference. The Accreditation Standard contains seven chapters and 69 sections and sets 357 accreditation standards and monitoring indices. According to the Accreditation Standard, the indices listed from Chapter I to Chapter VI are used to conduct on-site appraisal for general hospitals of Class II and are also used by hospitals for self-evaluation and improvement. The indices listed in Chapter VII (Evaluation Index of Daily Statistics) are used for monitoring, tracing and evaluating the operation, the quality of medical treatment and safety index of general hospitals of Class II.

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## REGULATORY OVERVIEW

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The Accreditation Standard of General Hospitals of Class III (2011) (三級綜合醫院評審標準(2011年版)) (“the Accreditation Standard”) promulgated and implemented by the Ministry of Health on 18 April 2011, and The Implementing Rules Regarding the Accreditation Standard of General Hospitals of Class III (2011) (三級綜合醫院評審標準實施細則(2011年版)) (“the Implementing Rules”) promulgated and implemented by the General Office of the Ministry of Health on 25 November 2011, provide detailed provisions for the accreditation standard for general hospitals of Class III, which can be used by other hospitals at any level and any type as reference. The Accreditation Standard contains seven chapters and 72 sections and sets 391 accreditation standards and monitoring indices. According to the Accreditation Standard, the indices listed from Chapter I to Chapter VI are used to conduct on-site appraisal for general hospitals of Class III and are also used by hospitals for self-evaluation and improvement. The indices listed in Chapter VII (Evaluation Index of Daily Statistics) are used for monitoring, tracing and evaluating the operation, the quality of medical treatment and safety index of general hospitals of Class III.

### **Regulations on the Supervision over Pharmaceuticals in Medical Institutions**

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

According to Drug Administration Law of PRC (藥品管理法), which was promulgated by Standing Committee of NPC on September 20, 1984 and revised on August 26, 2019, Regulations for the Implementation of the Drug Administration Law (藥品管理法實施條例), which was promulgated by the State Council on August 4, 2002, came into effect on September 15, 2002 and revised on March 2, 2019 and came into effect on December 1, 2019, and Measures for Supervision and Administration of Drugs of Medical Institutions (For Trial Implementation) (醫療機構藥品監督管理辦法(試行)), which was promulgated by the NMPA 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 medical institution provisions, and other departments and medical staff members of medical institutions are forbidden to purchase drugs on their own.

#### ***Administrative Measures for the Control of Radioactive Pharmaceuticals***

The Administrative Measures for the Control of Radioactive Pharmaceuticals (放射性藥品管理辦法), which was promulgated by the State Council, came into effect on January 13, 1989 and revised on March 1, 2017, require medical institutions to comply with relevant national regulations and rules concerning radioisotope health protection when using radioactive pharmaceuticals. Any medical institution that wants to use radioactive pharmaceuticals must obtain a License for the Use of Radioactive Pharmaceuticals from the public security departments, the environmental protection departments and the public health departments at provincial, regional or municipal levels, as applicable. The License for the Use of Radioactive Pharmaceuticals is valid for five years and is of varying grades based on the technical skill and professional level of the radiological personnel and the equipment of the medical institution. In addition, before a medical institution holding a License for the Use of Radioactive Pharmaceuticals commences the preparation of radioactive materials for clinical use, it must submit an application to the health administration department at the provincial, regional or municipal level for approval and complete filing procedures with the NHC.

#### ***The Law of the PRC on Maternal and Infant Healthcare and its Implementation Measures, the 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 (中華人民共和國母嬰保健法), which was promulgated by the Standing Committee of NPC on October 27, 1994 and revised on November 4, 2017 and its Implementation Measures (中華人民共和國母嬰保健法實施辦法), which was promulgated by the State Council on June 20, 2001, and revised on November 17, 2017 and the Management Measures of Special Technology Services Licensing and Personnel Qualification of Maternal and Infant Care (母嬰保健專項技術服務許可及人員資格管理辦法), which was promulgated by the NHC on August 7, 1995 and revised on February 28, 2019, medical institutions carry out pre-marital medical examination, genetic disease diagnosis and pre-natal diagnosis, ligation operations and operations for termination of gestation must be approved by health administrative authorities at various levels in accordance with regulations and obtain relevant qualification certificates.

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### ***Regulations on the Administration of Narcotic Pharmaceuticals and Psychotropic Substances***

The Regulations on the Administration of Narcotic Pharmaceuticals and Psychotropic Substances (麻醉藥品和精神藥品管理條例), which was promulgated by the State Council on August 3, 2005, came into effect on 1 November 2005, and revised on 6 February 2016, provide that, any medical institution needs to use narcotic drugs and the psychotropic drugs of category I shall be subject to the approval of the relevant authority, and obtain the seal card for purchasing narcotic drugs and the psychotropic drugs of category I (麻醉藥品、第一類精神藥品購用印鑒卡). If a medical institution with a Pharmaceutical Preparation Certificate for Medical Institutions (醫療機構製劑許可證) and a Seal Card needs to dispense for clinical use any narcotic pharmaceutical or psychotropic substance which is not available on the market, the preparation shall be subject to approval by the competent provincial, regional or municipal pharmaceutical regulatory department where the medical institution is located. The pharmaceutical preparations of a narcotic pharmaceutical or psychotropic substance dispensed by the medical institution may only be used in the institution itself and may not be marketed.

### ***Administrative Measures on the Radiotherapy***

The Administrative Measures on the Radiotherapy (放射診療管理規定), which was promulgated by the NHC on January 24, 2006, came into effect on March 1, 2006 and revised on January 19, 2016, medical institutions engaged in the radiodiagnosis and radiotherapy medical institution 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. During the course of radiotherapy, medical institutions shall take protective measures in accordance with the relevant laws and regulations.

### ***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 (放射性同位素與射線裝置安全和防護條例), which was promulgated by the State Council on September 14, 2005, came into effect on 1 December 2005, and revised on 2 March, 2019, and Measures for Administration of the Safety Licensing of Radioactive Isotopes and Radioactive Equipment (放射性同位素與射線裝置安全許可管理辦法), which was promulgated by Ministry of Environmental Protection on January 18, 2006, came into effect on 1 March, 2006, and revised on December 12, 2017 stipulate that any entity engaging in the production, sale or use of radioisotopes or radiation-emitting devices of different categories shall obtain a corresponding license. In addition, medical institutions using radioisotopes or radiation-emitting devices for diagnosis and treatment shall obtain a license for diagnostic and therapeutic technique with radioactive sources and medical radiation.

### ***Administrative Measures for Allocation and Use of Large Medical Equipment (for Trial Implementation)***

The Administrative Measures for Allocation and Use of Large Medical Equipment (for Trial Implementation) (大型醫用設備配置與使用管理辦法(試行)), which was jointly promulgated by the NHC and the NMPA on May 22, 2018 and came into effect on the same day, provides that the State administrates large medical equipment through the classified and hierarchical allocation plan and through the issue of licenses according to the catalogue. Large medical equipment refers to large medical devices that adopt complex technology, require large capital investment, have high operation costs, have significant impact on medical expenses, and have been included in catalogue management. When a medical device user applies for the allocation of large medical equipment, it shall comply with the allocation plan on large medical equipment, be adapted to its functional positioning and clinical service requirements, and have the corresponding technical conditions, supporting facilities and professional and technical personnel with appropriate qualifications and capabilities.

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### Laws and Regulations on Medical Personnel of Medical Institutions

#### *Law on Medical Practitioners of the PRC*

The Law on Medical Practitioners of the PRC (中華人民共和國執業醫師法), which was promulgated by the Standing Committee of the NPC on June 26, 1998, came into effect on May 1, 1999 and revised on 27 August 2009, provides that physicians in China must obtain qualification licenses for their medical profession. Qualified physicians and qualified assistant physicians must register with the relevant public health administrative authorities at or above the county level. After registration, physicians may work at medical institutions in their registered location in the types of jobs and within the scope of medical treatment, disease-prevention or healthcare business as provided in their registration.

#### *Administrative Measures for the Registration of Medical Practitioners*

Administrative Measures for the Registration of Medical Practitioners (醫師執業註冊管理辦法), which was promulgated by the NHC on the 28 February, 2017 and came into effect on 1 April, 2017, provides that the State has established an information system for medical practitioner administration to carry out the e-registration and online administration. Upon gaining qualification license to practice as a doctor, the medical practitioners shall conduct activities in terms of medical care, disease prevention or healthcare according to the registered area, category and scope of practice. For medical practitioner who wants to practice in multiple institutions within the same registered area, he/she shall determine a specific institution as the main practicing institution, apply for registration with the competent health authority which approved the aforesaid institution's operation; as to other institutions where the practitioner is to practice, the practitioner shall apply the record filing with the health authorities competent to approve the institutions' operation and indicate the name of the institutions.

#### *Interim Provisions for the Administration of Doctors' Going Out for Consultation*

The Interim Provisions for the Administration of Doctors' Going Out for Consultation (醫師外出會診管理暫行規定), which was promulgated by the NHC on 30 April, 2005 and came into effect on 1 July, 2005, provides that where a medical institution (“**Inviting Medical Institution**”) intends to invite doctors for consultation from another medical institution (“**Consulting Medical Institution**”), it needs to send a written letter of invitation to the Consulting Medical Institution. Once received the invitation, the Consulting Medical Institution shall timely arrange doctors to go out for consultation if such arrange will not adversely affect the Consulting Medical Institution's normal work or medical safety. The Inviting Medical Institution shall pay consultation expenses to the Consulting Medical Institution, instead of paying to the consulting doctors.

#### *Regulations on Nurses*

The Regulations on Nurses (護士條例), which was promulgated by the State Council on January 31, 2008, came into effect on May 12, 2008 and amended on March 27, 2020, provides that a nurse must obtain a nurse's Practicing Certificate, which is valid for five years. The number of nurses on staff at a medical institution shall not be less than the standard number as prescribed by the competent public health administrative authorities.

### Rules on Medical Incidents

#### *Tort Liability Law of the PRC*

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



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On May 28, 2020, the Civil Code of the PRC (中華人民共和國民法典) was adopted by the third session of the 13th National People's Congress, which will become effective on January 1, 2021 and simultaneously replace the current effective Tort Liability Law of the PRC. The Civil Code of the PRC provides that if a medical institution or its medical personnel is at fault for damage inflicted on a patient during the course of diagnosis and treatment, the medical institution will be liable for compensation, which further clarifies that either the medical institution or its medical personnel is at fault, the medical institution should bear the relevant responsibilities.

### ***Regulations on Handling Medical Malpractice***

The Regulations on Handling Medical Malpractice (醫療事故處理條例), which was promulgated by the State Council on April 4, 2002 and came into effect on September 1, 2002, provides detailed provisions regarding the prevention, disposition, technical identification, administrative disposition and supervision and compensation of medical malpractice. "Medical malpractice" means an accident caused by medical institutional medical institution or its medical personnel resulting in personal injuries to a patient due to faults in medical activities as a result of violation of the laws, administrative regulations or departmental rules on medical and health administration, or of standards or procedures for diagnosis, cure and nursing. Medical institution and the patient may, through negotiation, settle the disputes on civil liability such as the compensation for medical malpractice; if they are unwilling or fail to reach settlement, the parties concerned may apply for mediation to the health administration department, or may directly bring a civil lawsuit in the people's court. The following factors shall be taken into account for determining the actual amount of compensation for medical malpractice: the grade of the medical malpractice; the extent of responsibility of the medical fault for the injury in the medical malpractice; and the relationship between the injury in the medical malpractice and the illness of the patient. Where a medical institution produces a medical malpractice, health authority may give the penalty to such medical institution according to the grade of the medical malpractice and circumstances.

### **Regulations on Medical Advertising in China**

#### ***Advertisement Law of the PRC***

The Advertisement Law of the PRC (中華人民共和國廣告法), which was promulgated by the Standing Committee of the NPC on 27 October 1994, came into effect on 1 February 1995, and revised on October 26, 2018, provides that advertisements shall not contain false statements and be deceitful or misleading to consumers. Advertisements legally required to receive censorship, including those that are relating to pharmaceuticals and medical devices, shall be reviewed by relevant authorities in accordance with relevant rules before being distributed by broadcasting, movies, television, newspapers, journals or otherwise. The Advertisement Law further stipulates that any advertisement for medical treatment, pharmaceuticals or medical devices shall not contain: (i) any assertion or guarantee for efficacy and safety; (ii) any statement on cure rate or effective rate; (iii) any comparison with the efficacy and safety of other pharmaceuticals or medical devices or with other medical institutions; (iv) any use of endorsements or testimonials; or (v) other items as prohibited by laws and administrative regulations.

#### ***Administrative Measures on Medical Advertisement***

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

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### GOOD SUPPLY PRACTICES OR GSP

According to the Administrative Measures of Good Supply Practices (藥品經營質量管理規範) which was promulgated by the NMPA on April 30, 2000 and was amended on July 13, 2016 and became effective on the same day, drug distributors should take quality control measures in the processes of procurement, storage, sale and transportation to ensure drug quality and establish drug trace system. In addition, if the pharmaceutical manufacturing enterprises are involved in the storage and transportation of drugs when selling and distributing drugs, they are also subject to the Good Supply Practices.

Pursuant to the Opinions on Accelerating the Advancement of the Construction of the Important Product Traceability System (國務院辦公廳關於加快推進重要產品追溯體系建設的意見) issued by the General Office of the State Council on December 30, 2015, the government will drive pharmaceutical manufacturing and operating enterprises to accelerate the construction of the traceability system and define the responsibilities and obligations of pharmaceutical manufacturers and operators to form an all-varieties, whole-process complete traceability and supervision chain.

### Regulations on PRC Coverage and Reimbursement

#### *Coverage of the National Medical Insurance Program*

The national medical insurance program was first adopted according to the Decision of the State Council on the Establishment of the Urban Employee Basic Medical Insurance Program (國務院關於建立城鎮職工基本醫療保險制度的決定) issued by the State Council on December 14, 1998, under which all employers in urban cities are required to enroll their employees in the basic medical insurance program and the insurance premium is jointly contributed by the employers and employees. On July 10, 2007, the State Council issued the Guiding Opinions of the State Council about the Pilot Urban Resident Basic Medical Insurance (國務院關於開展城鎮居民基本醫療保險試點的指導意見), further enlarged the coverage of the basic medical insurance program, under which urban residents of the pilot district, rather than urban employees, may voluntarily join Urban Resident Basic Medical Insurance. In addition, on January 3, 2016, the Opinions on Integrating the Basic Medical Insurance Systems for Urban and Rural Residents (國務院關於整合城鄉居民基本醫療保險制度的意見) issued by the State Council required the integration of the urban resident basic medical insurance and the new rural cooperative medical care system and the establishment of a unified basic medical insurance system, which will cover all urban and rural residents other than rural migrant workers and persons in flexible employment arrangements who participate in the basic medical insurance for urban employees.

#### *Medical Insurance Catalogue*

Program participants are eligible for full or partial reimbursement of the cost of medicines included in the medical insurance catalogue. The Notice Regarding the Tentative Measures for the Administration of the Scope of Basic Medical Insurance Coverage for Pharmaceutical Products for Urban Employee (關於印發城鎮職工基本醫療保險用藥範圍管理暫行辦法的通知), or the Medical Insurance Coverage Notice, jointly issued on May 12, 1999 by several authorities including, among others, the Ministry of Labor and Social Security and the Ministry of Finance, provides that a pharmaceutical product listed in the medical insurance catalogue must be clinically necessary, safe, effective, reasonably priced, easy to use, available in sufficient quantity, and must meet the following requirements: (1) be set forth in the pharmacopoeia of the PRC, (2) satisfy the standards promulgated by the NMPA, and (3) be approved by the NMPA for imported pharmaceutical products.

The National Drug Catalog for Basic Medical Insurance, Work-related Injury Insurance and Maternity Insurance (國家基本醫療保險、工傷保險和生育保險藥品目錄), or the NRDL, sets forth the payment standard for pharmaceutical products under the basic medical insurance, work-related injury insurance and maternity insurance funds. The MOHRSS (According to the above institutional reform, the functions with respect to change the NRDL have been transferred to the PRC National Health Insurance Bureau), together with other government authorities, has the power to determine which medicines are listed in the NRDL. Medicines listed in the NRDL are divided into two parts,

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List A and List B. List A drugs are widely used clinical treatments with good efficacy and lower prices compared to similar drugs, while List B drugs are clinical treatments with good efficacy and slightly higher prices compared to List A drugs.

### ***Diagnosis Related Groups (“DRG”)***

The Notice on Issuing the List of Notional Pilots for DRG Payment (關於印發按疾病診斷相關分組付費國家試點城市名單的通知) which was promulgated by the National Medical Security Administration and other departments on May 21, 2019, sets forth 30 cities as pilot cities to implement the DRG. Those pilot cities shall ensure that the simulation operation of DRG will be started in 2020 and the actual payment of the DRG will be initiated in 2021. The DRG aims to further regulate medical service behaviors and improve the efficiency of the use of the medical insurance fund.

The Notice on Issuing the Technical Specifications and Grouping Plans for National Pilots for DRG Payment (關於印發疾病診斷相關分組(DRG)付費國家試點技術規範和分組方案的通知) which was promulgated by the Office of the National Medical Security Administration on October 16, 2019, specifies the China Healthcare Security Diagnosis Related Groups, which is the unified national standard including 26 major diagnosis categories and 376 adjacent DRGs.

### **Regulations on Intellectual Property Rights**

#### ***Trademark Law of the PRC and its Implementing Rules***

The Trademark Law of the PRC (中華人民共和國商標法) which was promulgated on August 23, 1982, revised on April 23, 2019 and came into effect on November 1, 2019 as well as the Implementation Regulations of the PRC Trademark Law (中華人民共和國商標法實施條例) promulgated by the State Council on August 3, 2002 and revised in 2014. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks. The Trademark Office of National Intellectual Property Administration handles trademark registrations and grants a term of ten years to registered trademarks, renewable every ten years where a registered trademark needs to be used after the expiration of its validity term.

### **Regulations on Environmental Protection Related to Medical Institutions**

#### ***Environmental Protection Law of the PRC and Environmental Impact Assessment Law of the PRC***

Pursuant to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated by the Standing Committee of the NPC on December 26, 1989, revised on April 24, 2014 and came into effect on January 1, 2015, the waste discharge licensing system has been implemented in the PRC and entities that discharge medical sewage to water bodies directly or indirectly shall obtain a waste discharge license. Furthermore, installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project.

Pursuant to the Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法) promulgated by the Standing Committee of the NPC on October 28, 2002 and revised on December 29, 2018, the State implements administration by classification on the environmental impact of construction projects according to the level of impact on the environment. The construction unit shall prepare an environmental impact report, or an environmental impact form or complete an environmental impact registration form (the “Environmental Impact Assessment Documents”) for reporting and filing purpose. If the Environmental Impact Assessment Documents of a construction project have not been reviewed by the approving authority in accordance with the law or have not been granted approval after the review, the construction unit is prohibited from commencing construction works.

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### ***Regulations on the Management of Medical Waste and its implementation measures***

The Regulations on the Management of Medical Waste (醫療廢物管理條例), which was promulgated by the State Council on June 16, 2003, came into effect on the same day and revised on January 7, 2011, and the Implementation Measures of the Management of Medical Waste (醫療衛生機構醫療廢物管理辦法), which was promulgated by the NHC on October 15, 2003 and came into effect on the same day, stipulates that medical institutions must timely deliver medical waste to a specially designated location for centralized disposal of medical waste and categorize the medical waste in accordance with the Classified Catalog of Medical Waste. High-risk waste such as the culture medium or specimens of pathogens and the preserving liquid of bacteria strains or virus strains must be sterilized on the spot before disposal. Sewage generated by any medical institution and excretion of its patients or patients suspected of infectious diseases must be sterilized in accordance with the relevant laws, rules and regulations, and must not be discharged into sewage until the relevant standards are met.

### ***Regulations on Urban Drainage and Sewage Treatment***

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

### **Laws and Regulations on Prices of Medical Services and Medicine**

#### ***The Notice of Issues Related to the Implementation of Market Price Adjustment by Non-Public Healthcare institutions***

According to the Notice of Issues Related to the Implementation of Market Price Adjustment by Non-Public Healthcare Institutions (關於非公立醫療機構醫療服務實行市場調節價有關問題的通知) promulgated and implemented on 25 March 2014 by the NDRC, the NHC and the Ministry of Human Resources and Social Security, private for-profit healthcare institutions may set their own pricing for medical services but the reasonable prices shall be formulated under the principles of fairness, lawfulness and faithfulness and maintained the relatively stable price level within a specific period. The system of explicitly specifying the price and the breakdown list of medicine costs shall be executed as required. The prices of medical services and medicine shall be displayed to the patients publicly through various means. Healthcare institutions shall take the initiative to accept social supervision. The private healthcare institutions in compliance with the relevant stipulations of medical insurance designated institutions shall be included according to the procedure in the designated scope of services for the social insurances such as the employees' medical insurance, the urban and rural residents' medical insurance, the new rural cooperative medical service, the work-related injury insurance and the maternity insurance and shall carry out the payment policy in the same way as the public hospitals.

#### ***The Notice Concerning the Standardisation of Price Management for Medical Services and Related Issues***

On 4 May 2012, the NDRC, the NHC and the State Administration of Traditional Chinese Medicine promulgated the Notice Concerning the Standardisation of Price Management for Medical Services and Related Issues (國家發展改革委、衛生部、國家中醫藥管理局關於規範醫療服務價格管理及有關問題的通知) and announced the National Medical Services Price Project Standardisation (2012 Version) and the. The price projects of medical services announced by the project standardisation 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.

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### Laws and Regulations on Pharmaceutical Distribution

#### *Regulations on Centralized Pharmaceutical Procurement by Medical institutions*

The Opinion on Further Regulating Centralized Pharmaceutical Procurement by Medical Institutions (進一步規範醫療機構藥品集中採購工作的意見) and the Interpretations of Issues Related to the Opinions on Further Regulating Centralized Pharmaceutical Procurement by Medical Institutions (關於進一步規範醫療機構藥品集中採購工作的意見有關問題的說明), which was jointly promulgated by the NHC 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 (醫療機構藥品集中採購工作規範) which was jointly promulgated by the NHC and other six departments on July 7, 2010, stipulates that the general framework and detailed operational procedures with respect to the centralized pharmaceutical procurement mechanism under which not-for-profit medical institutions established by governments or state-owned enterprises are required to procure pharmaceuticals through the non-profit centralized pharmaceutical procurement platform organized by the competent governmental authorities. According to the Opinion on Further Regulating Centralized Pharmaceutical Procurement by Medical Institutions, Medical institutions of other forms, such as for-profit medical institutions, are also encouraged (but not enforced) to participate in the centralized pharmaceutical procurement system.

The Opinion on Promoting Pharmaceutical Pricing Reform (推進藥品價格改革的意見), promulgated by the NDRC, NHC, NMPA, MOFCOM and other three departments on May 4, 2015, and came into effect on the same day, set forth that from June 1, 2015, except for narcotic pharmaceuticals and Class I psychotropic pharmaceuticals, the restrictions on the prices of the pharmaceuticals that were subject to government pricing will be cancelled. Specifically, the prices of narcotic pharmaceuticals and Class I psychotropic pharmaceuticals are still subject to maximum factory prices and maximum retail prices set by the NDRC for the time being. The medical insurance regulatory authority shall, along with other competent departments, draw up provisions in relation to the standards, procedures, basis and methods of the payment of pharmaceuticals paid by medical insurance funds. With regard to patent pharmaceuticals and exclusively produced pharmaceuticals, the prices thereof are set through transparent and public negotiation among multiple parties. The prices for blood products not listed in the Medical Insurance Pharmaceuticals List, immunity and prevention pharmaceuticals that are purchased by the State in a centralized manner, and AIDS antiviral pharmaceuticals and contraceptives provided by the State for free, shall be set through tendering purchase or negotiation. Except as otherwise mentioned as above, the prices for other pharmaceuticals may be determined by the manufacturers and the operators on their own on the basis of production or operation costs and market supply and demand.

The Circular on Fully Carrying out the Work of Promoting the Comprehensive Reform of Public Hospitals (關於全面推開公立醫院綜合改革工作的通知), which was jointly promulgated by the NHC and other departments on April 19, 2014, and came into effect on the same day, set forth that all public hospitals shall cancel pharmaceutical profit (excluding ready-for-use Chinese herbs) prior to September 30, 2017. However, private hospitals like Henan Honliv Hospital are not subjected to such zero-margin requirement. As for private hospitals, according to the Opinions on Promoting the Sustainable and Healthy Development of Medical Institution Invested by Private Capital (關於促進社會辦醫持續健康規範發展的意見), the Opinions, which was jointly promulgated by NHC, National Healthcare Security Administration and the other eight National Ministries on June 10, 2019, private hospitals who are Medical Insurance Designated Medical Institutions are encouraged (but not enforced) to purchase on the provincial centralized pharmaceutical procurement system. Private hospitals could negotiate the price independently with suppliers, and, according to the Opinions, the local medical insurance authority shall reimburse such private hospitals according to the payment standard not exceeding the price of the pharmaceuticals in centralized pharmaceutical procurement system.

#### *Policy Regarding Anti-Corruption and Anti-Commercial Bribery*

The governmental departments of the PRC have formulated the relevant laws and regulations for standardising the anti-corruption and anti-commercial bribery in medical treatment and health industry. In accordance with the Code of Conduct for Practitioners in Healthcare Institutions (醫療機構從業人員行為規範), the practitioners in healthcare institutions should perform their duties honestly, be self-disciplined and abide by medical ethics. They develop and expand medical ethics.

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They are strictly self-disciplined and do not ask for or illegally receive any property from patients. They do not make improper benefits by utilising 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, organised 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 the Notice on Printing and Distributing of the “Nine Prohibitions” for Strengthening Ethical Conduct in the Healthcare Industry (關於印發加強醫療衛生行風建設“九不准”的通知) promulgated and implemented by the NHC and the State Administration of Traditional Chinese Medicine on 26 December 2013, medical institutions are required to implement the policy of the “Nine Prohibitions” (“九不准”), 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 subsidies 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 packets” from patients. As for those medical and health institutions which are in violation of the “Nine Prohibitions”, the health and family planning administrative departments shall handle the case by issuing criticisms 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 Prohibitions”, such staff shall receive criticisms 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 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 Opinion of the Ministry of Health and the State Administration of Traditional Chinese Medicine on the Launching of Specialised Compliance Project Regarding Commercial Bribery in Respect of the Procurement of Medicines (衛生部、國家中醫藥管理局關於開展治理醫藥購銷領域商業賄賂專項工作的實施意見) promulgated and implemented by the NHC 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 (關於建立醫藥購銷領域商業賄賂不良記錄的規定) promulgated and implemented by the NHC on 25 December 2013, the key points of launching specialised compliance projects regarding commercial bribery in respect of the procurement of medicines are: (i) 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 personnel in various names during the procurement of medicines, medical equipment, and medical consumables; (ii) the act of the leaders and the relevant personnel of healthcare institutions of receiving such property or commission granted by the manufacturing and business enterprises and their marketing and sales personnel in various names during the clinical, diagnosis and treatment; (iii) the act of medical institutions of receiving such property granted by the manufacturing and business enterprises and their marketing and sales personnel in various names. Personnel in violation of the relevant provisions shall be punished by having their possession granted illegally being confiscated and by revoking their business licenses. Should a crime be constituted, criminal liability on the relevant parties shall be pursued according to laws.

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## REGULATORY OVERVIEW

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### LAWS AND REGULATIONS RELATED TO FOREIGN INVESTMENT IN CHINA

#### *Company Law of the PRC*

The Company Law of the PRC (中華人民共和國公司法), which was promulgated by the Standing Committee of NPC on December 29, 1993, came into effect on July 1, 1994 and revised on October 26, 2018, provides that companies established in China may take form of company of limited liability or company limited by shares. Each company has the status of a legal person and owns its assets itself. Assets of a company may be used in full for the company's liability. The Company Law applies to foreign-invested companies unless relevant laws provide otherwise.

#### *Foreign Investment Law of the PRC*

The Foreign Investment Law of the PRC (外商投資法) (the “**FIL**”), which was promulgated by the Standing Committee of the NPC on March 15, 2019, came into effect on January 1, 2020, and the Implementation Measures for the Foreign Investment Law of the PRC (外商投資法實施條例), which was promulgated by the State Council on December 26, 2019 and came into effect on January 1, 2020, provides that the “foreign investment” refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (“**Foreign Investors**”), including the following: (1) Foreign Investors establishing foreign-invested enterprises in China alone or collectively with other investors; (2) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (3) Foreign Investors investing in new projects in China alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. The State adopts the management system of pre-establishment national treatment and negative list for foreign investment. The pre-establishment national treatment refers to granting to foreign investors and their investments, in the stage of investment access, the treatment no less favorable than that granted to domestic investors and their investments; the negative list refers to special administrative measures for access of foreign investment in specific fields as stipulated by the State. The State will give national treatment to foreign investments outside the negative list. The negative list will be released by or upon approval by the State Council. Meanwhile, a foreign investment information reporting system shall be established. The registration of foreign-invested enterprises shall be legally handled by the competent authorities for market regulation. Foreign investors or foreign-invested enterprises shall submit its investment information to the competent commercial departments through the enterprise registration system and the National Enterprise Credit Information Publicity System instead of obtaining the approval and filing by the competent department of commerce.

#### *Interim Provision on Investment Made by Foreign-Invested Enterprises in China*

The Interim Provisions on Investment Made by Foreign-Invested Enterprises in China (關於外商投資企業境內投資的暫行規定), which was jointly promulgated by MOFCOM and the State Administration of Industry and Commerce on July 25, 2000, came into effect on 1 September, 2000 and revised on October 28, 2015, stipulates that the provisions of the Interim Provisions Guiding Foreign Investment Direction and the Industry Catalog for Guiding Foreign Investment will govern foreign-invested enterprises' investment in China. Foreign-invested enterprises are not permitted to invest in any sector prohibited to foreign investment. Where a foreign-invested enterprise makes investment in a restricted sector, the foreign-invested enterprise must file an application with the provincial commercial department of the place where the investee company is located. The relevant company registration authority will, in accordance with the relevant provisions of the Company Law and the Regulations on the Administration of Company Registration of the PRC (中華人民共和國公司登記管理條例), decide whether to approve the registration or not. If the registration is approved, a Business License of an Enterprise Legal Person will be issued with the designation “Invested by a Foreign-Invested Enterprise” added. The foreign-invested enterprise is required to report the establishment of the investee company within 30 days of the date of its establishment to the original examination and approval authority for record-filing.

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## REGULATORY OVERVIEW

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### ***Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors***

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”), which was jointly promulgated by the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC, and the SAFE on August 8, 2006, came into effect on September 8, 2006 and revised on June 22, 2009, requires that foreign investors acquiring domestic companies by means of asset acquisition or equity acquisition shall comply with relevant foreign investment industry policies and shall be subject to approval by relevant commerce authorities.

### ***The Industry Catalogue for Guiding Foreign Investment and Interim Provisions Guiding Foreign Investment Direction***

The current Industry Catalogue for Guiding Foreign Investment (外商投資產業指導目錄) (the “Foreign Investment Catalogue”) was jointly promulgated by the NDRC and MOFCOM on June 28, 2017 and came into effect on July 28, 2017, and amended on June 29, 2018 and June 30, 2019, and the Provisions Guiding Foreign Investment Direction (指導外商投資方向規定), which was promulgated by the State Council on February 11, 2002 and came into effect on April 1, 2002, classify all foreign investment projects into four categories includes encouraged projects, permitted projects, restricted projects, and prohibited projects. If the industry in which the investment is to occur falls into the encouraged category, foreign investment, in certain cases, may enjoy preferential policies or benefits. If restricted, foreign investment may be conducted in accordance with applicable legal and regulatory restrictions. If prohibited, foreign investment of any kind is not allowed. According to the current Foreign Investment Catalogue, foreign investment in medical institutions is restricted to the form of sino-foreign cooperation or joint venture.

### ***Special Management Measures for Access of Foreign Investment***

The Special Management Measures for Access of Foreign Investment (Negative List) (2019 Version) (外商投資准入特別管理措施(負面清單)(2019年版)), which was promulgated by the NDRC and MOFCOM on June 30, 2019 and came into effect on July 30, 2019, also provides that the foreign investment in medical institutions is restricted to the form of sino-foreign cooperation or joint venture.

### ***Interim Measures for the Administration of Record-filing on the Incorporation and Changes in Foreign-invested Enterprises and Measures on Reporting of Foreign Investment Information***

Pursuant to the Interim Measures for the Administration of Record-filing on the Incorporation and Changes in Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法) promulgated by the MOFCOM on October 8, 2016, revised on June 29, 2018 and came into effect on June 30, 2018, record-filing will be administered on the incorporation and changes in foreign-invested enterprises if implementation of special management measures for access according to State regulations are not applicable. The relevant foreign-invested enterprise shall make arrangement to complete the Application Form for Reporting and Filing Changes in Foreign-Invested Enterprises (外商投資企業變更備案申請表) and submit it together with the relevant documents online through the integrated administration system within 30 days after occurrence of such changes to complete the procedure for filing changes. For the purpose of incorporation of a foreign-invested enterprise, the investor of the foreign-invested enterprise shall also file the incorporation and filing information of foreign-invested enterprise online when carrying out the registration of incorporation. Additional Provisions to the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions.

On December 30, 2019, the MOFCOM and the State Administration for Market Regulation jointly promulgated the Measures on Reporting of Foreign Investment Information (外商投資信息報告辦法), which took effective on January 1, 2020 and replaced the Interim Measures for the Administration of Record-filing on the Incorporation and Changes in Foreign-invested Enterprises. Foreign investors carrying out investment activities in the PRC directly or indirectly shall submit investment information to the commerce administrative authorities pursuant to the Measures on Reporting of Foreign Investment Information.



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## REGULATORY OVERVIEW

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### ***Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions***

The Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法), which was promulgated by the Ministry of Commerce on May 15, 2000 and came into effect on July 1, 2000, allow foreign investors to partner with Chinese medical entities to establish a medical institution in China by means of equity joint venture or cooperative joint venture. Establishment of equity joint venture or cooperative joint venture shall meet certain requirements, including that total investment sum is not less than RMB20 million, and that the equity percentage of the Chinese partner in the joint venture shall not be less than 30%. Establishment of equity joint venture or cooperative joint venture shall be subject to approval by relevant authorities.

The Additional Provisions to the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法的補充規定), which was jointly promulgated by the MOFCOM and the NHC on December 30, 2007 and came into effect on January 1, 2008, provides that the total investment by Hong Kong or Macau service provider in establishing equity or cooperative medical institution in China shall not be less than RMB10 million. Hong Kong and Macau service providers shall comply with the Closer Economic Partnership Arrangement between Mainland China and Hong Kong (內地與香港關於建立更緊密經貿關係的安排) and Arrangement regarding Establishing Closer Economic Partnership between Mainland China and Macau (內地與澳門關於建立更緊密的經貿關係的安排), respectively. The Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions apply to equity or cooperative medical institutions invested by Hong Kong or Macau service providers to the extent not provided under the Additional Provisions to the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions.

### ***Additional Provisions (Second) to the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions***

The Additional Provisions (Second) to the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (中外合資、合作醫療機構管理暫行辦法的補充規定二), which was jointly promulgated by the MOFCOM and the NHC on December 7, 2008 and came into effect on January 1, 2009, allows Hong Kong and Macau service providers to establish wholly-owned clinics within Guangdong Province without limitation of total investment. Hong Kong and Macau service providers may partner with Chinese medical entities to establish a clinic in Guangdong Province by means of equity joint venture or cooperative joint venture without limitation on total investment or equity percentage.

## **LAWS AND REGULATIONS RELATED TO LABOR PROTECTION IN CHINA**

### ***Labor Law of the PRC***

The Labor Law (中華人民共和國勞動法), which was promulgated by the Standing Committee of the NPC on July 5, 1994, came into effect on January 1, 1995 and revised on December 29, 2008, provides that an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national protocols and standards on labor safety and health, conduct labor safety and 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 the necessary labor protection equipment that complies with labor safety and health conditions stipulated under national regulations, as well as provide 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 develop a vocational training system. Vocational training funds must be set aside and used in accordance with national regulations and vocational training for workers must be carried out systematically based on the actual conditions of the company.

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## REGULATORY OVERVIEW

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### *Labor Contract Law of the PRC and its implementation regulations*

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

### *Laws and Regulations on the Supervision over the Social Security and Housing Funds*

According to the Temporary Regulations on the Collection and Payment of Social Insurance Premium (社會保險費徵繳暫行條例), the Regulations on Work Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例) and the Trial Measures on Employee Maternity Insurance of Enterprises (企業職工生育保險試行辦法), enterprises in China must provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and must pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance (中華人民共和國社會保險法), which was promulgated on October 28, 2010, came into effect on 1 July, 2011 and revised on December 29, 2018, regulate basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

The Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), which was promulgated, came into effect on April 3, 1999 and revised on March 24, 2002 and March 24, 2019, stipulate that housing provident fund contributions paid by an individual employee and housing provident fund contributions paid by his or her employer all belong to the individual employee.

## LAWS AND REGULATIONS RELATED TO TAXATION IN CHINA

### *Enterprise Income Tax*

According to the EIT Law, which was promulgated by the NPC on March 16, 2007, came into effect on January 1, 2008 and revised on December 29, 2018, and the Implementation Regulations on the EIT Law (企業所得稅法實施條例), which was promulgated by the State Council on December 6, 2007, came into effect on January 1, 2008 and revised on December 29, 2018, a uniform income tax rate of 25% will be applied to domestic enterprises, foreign-invested enterprises and foreign enterprises that have established production and operation facilities in China. These enterprises are classified as either resident enterprises or non-resident enterprises. Resident enterprises refer to enterprises that are established in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises refer to enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but who (whether or not through the establishment of institutions in the PRC) derive income from the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not established institutions in the PRC, or if they have established institutions in the PRC but there is no actual relationship between the relevant income derived in the PRC and the institutions set up by them, enterprise income tax is set at the rate of 10%.

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## REGULATORY OVERVIEW

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### *Withholding Tax and International Tax Treaties*

According to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “Tax Treaty”), if the non-PRC parent company of a PRC enterprise is a Hong Kong resident which beneficially owns a 25% or more interest in the PRC enterprise, the 10% withholding tax rate applicable under the EIT Law may be lowered to 5% for dividends and 7% for interest payments once approvals have been obtained from the relevant tax authorities.

Pursuant to the Notice on the Several Issues of the Implementation of Tax Treaty (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT and came into effect on February 20, 2009, the non-resident taxpayer or the withholding agent is required to obtain and keep sufficient documentary evidence proving that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty if the main purpose of an offshore transaction or arrangement is to obtain a preferential tax treatment.

Pursuant to the Administrative Measures on Non-residents to Enjoy the Treatment Under Tax Treaties (非居民納稅人享受稅收協定待遇管理辦法), which was promulgated by the SAT on August 27, 2015, came into effect on November 1, 2015 and revised on June 15, 2018, a non-resident tax payer subject to taxation shall enjoy the tax treatment under a tax treaty automatically during the tax declaration after submission of corresponding documents and be subject to the post medical institution supervision of the tax bureaus.

### *Value-added Tax*

The Temporary Regulations on Value-added Tax (增值稅暫行條例), which was promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994 and revised on November 19, 2017, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (增值稅暫行條例實施細則), which was promulgated by the MOFCOM, came into effect on December 25, 1993 and revised on 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.

Furthermore, according to the Notice of the Ministry of Finance and the State Administration of Taxation on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax (財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知), all business tax payers in consumer service industry shall pay value-added tax in lieu of business tax from 1 May 2016 and the medical services provided by medical institutions may enjoy tax incentives of VAT if required filing procedures are completed.

The Notice on Relevant Tax Policies on Medical and Health Institutions (關於醫療衛生機構有關稅收政策的通知) which was promulgated by the MOFCOM and the SAT on July 10, 2000 and came into effect on the same day, provides that incomes of for-profit medical institutions are taxable in accordance with relevant rules. Nevertheless, for-profit medical institutions are granted a three years’ tax holiday commencing from the issuance of practice license if the profit is directly used for improving the medical and health conditions, during which self-produced preparations for self-use by for-profit medical institutions are exempted from value-added tax and properties, land and vehicles for self-use by for-profit medical institutions are exempted for property tax, urban land use tax and vehicle use tax. Pharmaceutical retail enterprises spun-off from drug stores of for-profit medical institutions shall subject to applicable taxations.

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## REGULATORY OVERVIEW

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### LEGAL SUPERVISION OVER FOREIGN EXCHANGE IN CHINA

#### *The Regulations on the Control of Foreign Exchange*

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

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

On July 4, 2014, SAFE issued Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment and Financing and Inbound Investment via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知), or Circular 37, which has replaced Circular 75, and states that (i) a PRC resident, including a PRC resident natural person or a PRC legal person, shall register with the local branch of the SAFE before it contributes the assets of or its equity interest into a special purpose vehicle for the purpose of investment and financing as defined in the implementing guidelines of Circular 37, the definition of PRC resident also includes certain foreigners who have economic connections in the PRC, and (ii) when the special purpose vehicle undergoes change of basic information, such as change of a PRC resident natural person shareholder, name or operating period, or a material event, such as change in share capital of a PRC resident natural person, merger or split, the PRC resident shall register such change with the local branch of the SAFE timely.

The Notice on Further Improving and Adjusting Policies Relating to Foreign Exchange Administration in Direct Investment (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知), which was promulgated by the SAFE on November 19, 2012, came into effect on December 17, 2012 and revised on October 10, 2018, improves foreign exchange administration in direct investment by repealing or adjusting certain approval items for foreign exchange administration in direct investment.

The Notice on Further Promoting Cross-border Trade and Investment Facilitation (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知), which was promulgated by the SAFE on October 23, 2019, came into effect on the same day, states that canceling restrictions on domestic equity investments by capital of non-investment foreign-funded enterprises on the basis that investment foreign-funded enterprises (including foreign investment companies, foreign-funded venture capital enterprises and foreign-funded equity investment enterprises) may make domestic equity investments by using capital according to laws and regulations, non-investment foreign-funded enterprises are allowed to lawfully make domestic equity investments by using their capital on the premise of no violation of prevailing special administrative measures for access of foreign investments (negative list) and the authenticity and compliance with the regulations of domestic investment projects.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### OUR CORPORATE HISTORY

The history of our Group can be traced back to 2004 when Henan Honliv Group established Honliv Medical Investment, our predecessor, on May 24, 2004 as a limited liability company in the PRC. In December 2006, Honliv Medical Investment commenced operation as one of the earliest private general hospitals in Changyuan County, Henan Province. On February 2, 2007, Honliv Medical Investment was renamed as Henan Honliv Hospital.

Henan Honliv Group is ultimately controlled by Mr. Qin Zili, the father of Mr. Qin Yan, one of our Controlling Shareholders, our Chairman and an executive Director, and Mr. Qin Hongchao, a non-executive Director. In October 2007, Mr. Qin Yan joined our Group as the assistant office manager of Henan Honliv Hospital and has been participating in the overall strategic planning and business development of our Group. Mr. Qin Yan has become one of our Controlling Shareholders since July 2009. For more details of Mr. Qin Yan's experiences, please refer to the paragraph headed "Directors and Senior Management — Board of Directors — Executive Directors" in this prospectus.

Henan Honliv Group is a limited liability company established under the laws of the PRC on April 9, 1998 with a registered and paid up capital of RMB412,000,000. Henan Honliv Group primarily engages in, among others, construction and installation works, road works and highway constructions, and real estate development.

### OUR BUSINESS MILESTONES

The following table sets forth the key milestones of our business development:

	<u>Key Milestones and Achievements</u>
May 2004 .....	Our hospital was established
December 2006 .....	Our hospital commenced operation as a private general hospital
February 2007 .....	Honliv Medical Investment was renamed as Henan Honliv Hospital
October 2011 .....	Our hospital was awarded "The Trustworthy Private Hospital in China" (全國誠信民營醫院) by the Chinese Hospital Association (中國醫院協會)
August 2014 .....	Our hospital was awarded "The Reliable Model Hospital in China" (全國百姓放心示範醫院) by the Chinese Hospital Association (中國醫院協會)
November 2015 .....	Our hospital was awarded "The Most Valuable Private Hospital in China" (全國最具價值民營醫院) by the China Hospital Association (中國醫院協會)
December 2015 .....	Our hospital's number of beds in operation reached 1,500
June 2016 .....	Our hospital entered into the Management Agreement with Jutan Hospital
December 2018 .....	Our academician workstation for Chinese Academy of Engineering (中國工程院院士工作站) was launched at Henan Honliv Hospital
January 2020 .....	Our hospital obtained the Class-III hospital approval issued by the Health Commission of Henan Province

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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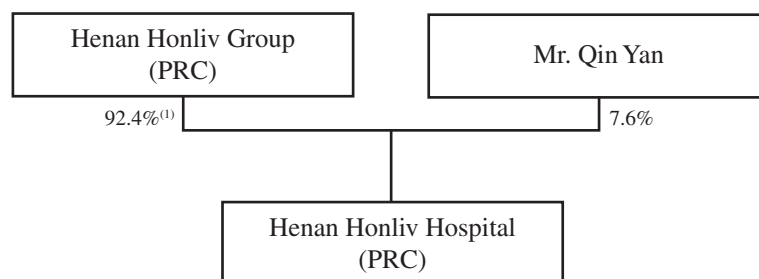
### OUR MAJOR SUBSIDIARY

Throughout the Track Record Period, Henan Honliv Hospital had been our principal operating subsidiary in China and has made almost all contributions to our Group's results for the Track Record Period.

#### Henan Honliv Hospital

Henan Honliv Hospital was incorporated on May 24, 2004 in Changyuan County, Henan Province and commenced operation as a private general hospital since December 2006. As of January 1, 2017, Henan Honliv Hospital was owned as to 92.4% by Henan Honliv Group and 7.6% by Mr. Qin Yan. Upon completion of the Reorganization, Henan Honliv Hospital was held as to 99% by Henan Hongyong, our wholly-owned subsidiary, and 1% by Henan Honliv Group. For details, please refer to the paragraph headed “— Transfer of equity interest in Henan Honliv Hospital” below. On December 4, 2018, the registered capital of Henan Honliv Hospital was increased by Henan Hongyong and Henan Honliv Group to RMB131,900,000, in proportion to their respective shareholdings, and, on November 7, 2019, the registered capital of Henan Honliv Hospital was increased by Henan Hongyong and Henan Honliv Group to RMB146,900,000, in proportion to their respective shareholdings, both of which were fully paid up.

Set forth below is the shareholding structure of Henan Honliv Hospital immediately before the Reorganization:



*Note:*

- (1) Henan Honliv Group held 62.4% equity interest and 30% equity interest in Henan Honliv Hospital on behalf of Mr. Qin Yan and Mr. Qin Hongchao, respectively. For details, please refer to the paragraphs headed “— Entrustment Arrangement” and “— Transfer of equity interest in Henan Honliv Hospital” in this section.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### THE REORGANIZATION

#### Offshore Reorganization and Development

##### *Incorporation of our Company and Shareholding Change*

On November 17, 2015, Mr. Qin Yan established Sunny Rock as a limited liability company under the laws of the British Virgin Islands. On the same day, Mr. Qin Hongchao established Rubrical Investment as a limited liability company under the laws of the British Virgin Islands.

On January 6, 2016, our Company was incorporated in the Cayman Islands with limited liability as the listing entity and a holding company of our Group and one Share was allotted and issued to the initial subscriber who immediately transferred such Share to Rubrical Investment at a par value of US\$1.00 per Share. On the same day, our Company additionally allotted 1,499 Shares to Rubrical Investment and 3,500 Shares to Sunny Rock at a par value of US\$1.00 per Share. Upon completion of these transactions, the total number of issued Shares of our Company was 5,000, of which Sunny Rock held 3,500 Shares while Rubrical Investment held 1,500 Shares, representing 70% and 30% of the total issued share capital of our Company respectively. The above share transfer and allotments were properly and legally completed and the consideration was fully settled on January 7, 2016.

On June 7, 2016, our Company subdivided its authorized share capital, immediately following which the authorized share capital of our Company was HK\$390,000 divided into 3,900,000,000 ordinary shares of a par value of HK\$0.0001 each.

On June 11, 2019, our Company issued 5,284,960 ordinary shares to the Pre-IPO Investor (as defined below) for a total consideration of the USD equivalent to RMB15,000,000 determined at arm's length with reference to such investor's financial forecasts for our Company, which was fully paid in equivalent U.S. dollars on the same day. For details of the Pre-IPO Investment, please refer to the paragraph headed "— The Pre-IPO Investment" in this section.

##### *Incorporation of Honliv Hong Kong and Honor Living*

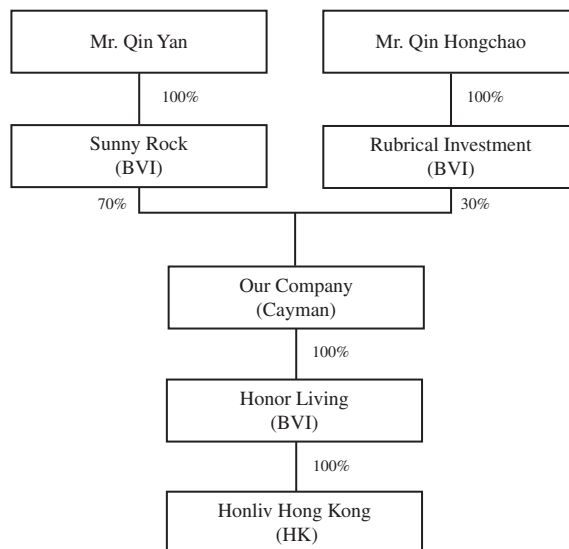
After the incorporation of our Company, on January 18, 2016, our Company established Honliv Hong Kong, a limited liability company under the laws of Hong Kong, as its wholly-owned subsidiary, with a registered share capital of US\$5,000. On March 24, 2016, our Company established Honor Living as a limited liability company under the laws of the British Virgin Islands, with a registered share capital of US\$1.00. On March 31, 2016, our Company transferred its entire shareholding in Honliv Hong Kong to Honor Living at a nominal consideration of HK\$5.00. The above share transfer was properly and legally completed and the consideration was fully settled on March 31, 2016.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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The offshore shareholding structure of our Company immediately after the formation of the offshore companies is as follows:



### Onshore Reorganization and Development

#### *Establishment of Henan Hongyong*

On May 4, 2016, Honliv Hong Kong established Henan Hongyong in the PRC with a registered capital of RMB100,000 which was fully paid up. Henan Hongyong was established as a holding company in the PRC and was a wholly foreign-owned subsidiary of Honliv Hong Kong upon its establishment. On September 17, 2018, the registered capital of Henan Hongyong was increased by Honliv Hong Kong to RMB15,000,000, which was fully paid up. There has been no change in its shareholdings since such registered capital increase.

#### *Transfer of Equity Interest in Honliv Tonghang*

Honliv Tonghang was established in March 2014 as a non-wholly owned subsidiary of Henan Honliv Hospital, with its principal business activity solely being the provision of usage of helicopters for our helicopter ambulance services.

Pursuant to an agreement dated January 1, 2016 (as amended by a supplemental agreement dated August 10, 2016 (the “**Supplemental Agreement**”)), Henan Honliv Hospital transferred its 70.9% equity interests in Honliv Tonghang to Henan Honliv Group for a consideration of RMB30,779,900, with reference to the net asset value of Honliv Tonghang as of March 31, 2016. Pursuant to an agreement dated July 20, 2016 (as amended by the Supplemental Agreement), Henan Honliv Hospital transferred its remaining 20% equity interest in Honliv Tonghang to Henan Honliv Group for a consideration of RMB8,057,400, with reference to the net asset value of Honliv Tonghang as of June 30, 2016. The above transfers were properly and legally completed on February 1, 2016 and July 26, 2016, respectively and the considerations were fully settled. Upon completion of the transfers, Honliv Tonghang was wholly owned by Henan Honliv Group.



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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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The above equity transfers were carried out for the purpose of complying with the relevant requirements under the then amended Foreign Investment Catalogue (外商投資產業指導目錄) (2015). Upon communication with the Civil Aviation Administration of China, Central and Southern Regional Administration (中國民用航空中南地區管理局), or the Civil Aviation Administration, if our Group still hold any equity interest in Honliv Tonghang, the reorganization process would require obtaining the approval from the Civil Aviation Administration. For the purpose of the Reorganization and compliance with the relevant requirements under the then amended Foreign Investment Catalogue (外商投資產業指導目錄) (2015), we decided to transfer the equity interests in Honliv Tonghang to Henan Honliv Group.

Honliv Tonghang did not generate any revenue and incurred net loss of RMB2.4 million as recognized and recorded in the consolidated financial statement of our Group from January 1, 2016 to March 20, 2016. From an accounting perspective, Honliv Tonghang ceased to be our subsidiary upon completion of the disposal of 70.9% equity interest on March 21, 2016 and as such, its results of operations were no longer consolidated with that of our Group from March 21, 2016 onwards. Our Group recorded this transaction as a disposal of subsidiary with no gain or loss because the consideration was determined based on the carrying amount of net assets of Honliv Tonghang. Subsequently, our Group used equity method to account for our residual equity interests in Honliv Tonghang. During the period between March 21, 2016 and July 26, 2016, when our Group further disposed the remaining 20% equity interest, the carrying amount of equity investment in Honliv Tonghang decreased by RMB0.6 million, which was recognized as “other (losses)/gains net” in the consolidated financial statement of our Group, representing 20% of the losses in Honliv Tonghang during such period. No gain or loss was recognized in this transaction because the consideration was equal to the carrying amount of our investment in Honliv Tonghang.

### *Entrustment Arrangement*

Pursuant to an agreement dated May 14, 2019 entered into by, amongst others, Henan Honliv Group, Mr. Qin Yan and Mr. Qin Hongchao, it is acknowledged that since June 2011, as a family arrangement and in order to facilitate the daily business operation of Henan Honliv Hospital, Henan Honliv Group held 62.4% equity interest and 30.0% equity interest in Henan Honliv Hospital on behalf of Mr. Qin Yan and Mr. Qin Hongchao, respectively. The parties entered into the entrustment arrangement primarily because at the time both Mr. Qin Yan and Mr. Qin Hongchao were mainly studying and living abroad. The parties believed that by entering into such entrustment arrangement, Henan Honliv Group was able to conduct certain administrative functions (such as making necessary filings, attending shareholder meetings, and signing documents or resolutions) on behalf of Mr. Qin Yan and Mr. Qin Hongchao, thereby facilitating the business operation of Henan Honliv Hospital. As advised by our PRC Legal Adviser, the entrustment agreement is legal, valid and binding on all relevant parties.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### *Transfer of equity interest in Henan Honliv Hospital*

In order to release the entrustment arrangement and complete the Reorganization, Henan Hongyong acquired 91.4% equity interests in Henan Honliv Hospital from Henan Honliv Group and 7.6% equity interests in Henan Honliv Hospital from Mr. Qin Yan, pursuant to a share transfer agreement dated July 26, 2016, entered into among Henan Hongyong, Henan Honliv Group and Mr. Qin Yan (the “**Share Transfer Agreement**”). Under the Share Transfer Agreement, the parties agreed that the consideration was to be determined according to a valid appraisal report issued by an independent professional valuer. The acquisition was approved by Henan Provincial Commerce Department on July 29, 2016. Henan Honliv Hospital was valued at approximately RMB156.47 million as at March 31, 2016 in the initial appraisal report, which, per the provisions contained therein, had expired by March 31, 2017. Upon the expiration of the initial appraisal report, after arm’s length negotiation, in order to reflect the then fair value of Henan Honliv Hospital, Henan Hongyong, Henan Honliv Group and Mr. Qin Yan decided to enter into a supplemental share transfer agreement dated September 17, 2018 to adjust the consideration based on a new appraisal report. As such, the total consideration for the acquisitions was set at RMB163.85 million, which was determined after arm’s length negotiations with reference to a subsequent appraisal of Henan Honliv Hospital as at December 31, 2017 conducted by the same independent professional valuer using the asset-based valuation approach.<sup>(1)</sup> The considerations were fully paid on September 28, 2018 and the transfer was properly and legally completed on September 29, 2018.<sup>(2)(3)</sup> The transfer was duly approved by Henan Honliv Group (with the consent of all of its shareholders at the time) and Mr. Qin Yan. Subsequent to the acquisition, Henan Honliv Hospital was owned as to 99% indirectly by our Company through Henan Hongyong and as to 1% by Henan Honliv Group, a connected person of our Company. This arrangement was designed to comply with the relevant requirements under the then amended Foreign Investment Catalogue (外商投資產業指導目錄) (2015), pursuant to which foreign investment in PRC healthcare institutions is restricted to the form of Sino-foreign equity joint venture or cooperative joint venture. For details, please refer to the paragraph headed “— PRC Legal Compliance” in this section.

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#### *Notes:*

- (1) In the subsequent appraisal, Henan Honliv Hospital was valued at approximately RMB165.39 million. Both the initial and subsequent appraisals adopted the same valuation approach; the change between initial and subsequent appraisal values can be attributed to the different timing at which the independent professional valuer conducted the respective appraisals.
- (2) The subsequent appraisal and change of consideration was made to reflect the fair value of Henan Honliv Hospital when the acquisition was settled. According to the Interim Provisions on the Investment of Foreign-invested Enterprises in China (關於外商投資企業境內投資的暫行規定) (the “**Interim Provisions**”) which the acquisition of Henan Honliv Hospital is subject to, the change in consideration of such acquisition does not require approval. Our PRC Legal Adviser is therefore of the view that the change in consideration due to the subsequent appraisal did not require further approval by the relevant government authority.
- (3) The transfer was not completed immediately after entering into the Share Transfer Agreement, primarily because of the parties’ voluntary decisions, but a procedural impediment also partially contributed to the delay in the completion, the details of the procedural impediment are set forth below. Henan Honliv Group was involved in certain commercial disputes with an Independent Third Party, concerning certain construction projects unrelated to our Group’s business (the “**Disputes**”). Between May 2017 and August 2018, Henan Honliv Group was subject to a temporary freezing order over certain of its assets, including its then entire shareholding in Henan Honliv Hospital (being 92.4% of the equity interest in Henan Honliv Hospital). The Disputes had been fully settled by August 2018 and the temporary freezing order in relation to the equity interest in Henan Honliv Hospital had been released since.

As advised by our PRC Legal Adviser, the Disputes did not constitute any non-compliance matters of, nor did they result in any material adverse impact to Henan Honliv Hospital. Our PRC Legal Adviser further confirmed that (i) the Disputes do not affect the validity of the reorganization of the Group; and (ii) given the equity interest in Henan Honliv Hospital which was once held by Henan Honliv Group has been legally transferred to our Company and Henan Honliv Group has no equity interests in our Company, no third parties shall have any lawful ground to claim against the equity interest in or assets owned by our Company resulting from their past disputes with Henan Honliv Group.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### *Establishment of Henan Hongjie*

Henan Hongjie was established on August 9, 2017 as a wholly owned subsidiary of Henan Hongyong for providing pharmaceuticals and medical devices in support to our healthcare service. As of the Latest Practicable Date, Henan Hongjie had not commenced any business operations.

### THE PRE-IPO INVESTMENT

#### Information regarding the Pre-IPO Investor

In order to further expand our business, we invited Ms. Wang Xiaoqing, an Independent Third Party to our Company, to invest in our Company.

On April 30, 2019, Ms. Wang Xiaoqing established Amerson Investment Limited (the “**Pre-IPO Investor**”), a limited liability company under the laws of the British Virgin Islands, as the investing entity. Amerson Investment Limited is wholly owned by Ms. Wang Xiaoqing. Amerson Investment Limited is an Independent Third Party other than its shareholding in our Company.

Ms. Wang Xiaoqing is an Independent Third Party with experience in the electricity power industry across the PRC, South East Asia and Australasia. She became acquainted with Mr. Qin Yan through introduction by a mutual friend in 2016 and was introduced to our Group thereafter. Ms. Wang Xiaoqing decided to invest in our Group because she was optimistic about our Group’s growth potential and prospects.

#### Details of the Pre-IPO Investment

On June 6, 2019, our Company and the Pre-IPO Investor entered into a share subscription agreement, pursuant to which the Pre-IPO Investor agreed to subscribe for 5,284,960 shares for a consideration of the US dollars equivalent of RMB15,000,000. The below table summarizes the principal terms of the Pre-IPO Investment:

<b>Name of the Pre-IPO Investor</b>	Amerson Investment Limited
<b>Completion date of the Pre-IPO Investment</b>	June 11, 2019
<b>Number of Shares subscribed</b>	5,284,960
<b>Shareholding in our Company upon the completion of the Pre-IPO Investment on a fully-diluted basis</b>	1.337%

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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<b>Shareholding in our Company immediately following the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised)</b>	1.00%
<b>Amount of consideration paid</b>	the US dollars equivalent of RMB15,000,000
<b>Cost per Share</b>	Approximately RMB2.84
<b>Date of payment of consideration</b>	June 5, 2019
<b>Basis of determination of the consideration</b>	The consideration was determined with reference to the timing of subscription, including the market conditions, industry outlook, comparable company valuation, business operations and financial performance of our Company at the time of subscription and was based on arm's length negotiations.
<b>Premium over and above the Offer Price<sup>1</sup></b>	A premium of approximately 32.9% over and above HK\$2.05 the midpoint of the indicative Offer Price range of HK\$1.80 to HK\$2.30, on the basis of our enlarged share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
<b>Use of proceeds</b>	We intend to use the proceeds to acquire, manage or develop our hospital, and for working capital and business development purposes of any existing member of our Group. As of the Latest Practicable Date, the net proceeds from the pre-IPO investment by the Pre-IPO Investor had been fully utilized.
<b>Strategic benefits</b>	In conjunction with the investment, the Pre-IPO Investor and its shareholder provided capital and strategic advice to our Group in relation to our Group's business which our Directors believe have brought strategic benefits to our Group.

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<sup>1</sup> The arm's length negotiations between parties, the basis on which the Pre-IPO Investor determined the consideration, and the market valuation of comparable companies listed on the Stock Exchange at the time of subscription resulted in the premium over and above the Offer Price. The Pre-IPO Investor believes the premium is fair and reasonable.

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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### **Lock-up**

The Pre-IPO Investor shall not transfer any shares in our Company within 12 months commencing from the date of completion of the Global Offering. The securities held by the Pre-IPO Investor will be considered part of the public float for the purpose of Rule 8.08 of the Listing Rules.

### **Special rights**

No special right is granted to the Pre-IPO Investor.

### **Sole Sponsor's Confirmation**

The Sole Sponsor has confirmed that the terms of the Pre-IPO Investment are in compliance with (i) the Interim Guidance on the Pre-IPO investments issued by the Hong Kong Stock Exchange on October 13, 2010 and as updated in March 2017; (ii) the Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and (iii) the Guidance Letter HKEX-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

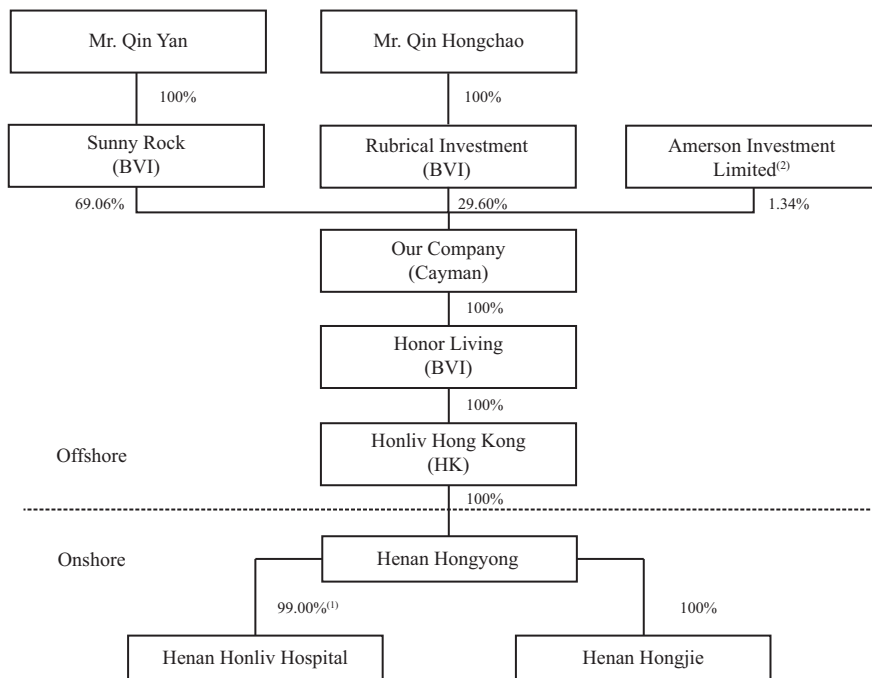
### **CONCERT PARTY AGREEMENT**

In order to strengthen voting rights in our Company, Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock and Rubrical Investment (together, the “**Concert Parties**”) entered into a concert party agreement on December 10, 2019 (the “**Concert Party Agreement**”) pursuant to which, amongst others, (i) the Concert Parties shall act in concert in respect of their voting rights and actively cooperate to consolidate control over voting rights of our Company; (ii) in the event of failing to reach a consensus, Mr. Qin Yan or Sunny Rock’s decision will prevail; and (iii) the Concert Parties also acknowledge that since January 1, 2016 to the date thereof, the Concert Parties have been acting in concert and operating and exercising their voting rights in a consistent manner.

# HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

## GROUP STRUCTURE IMMEDIATELY BEFORE THE GLOBAL OFFERING

The corporate and shareholding structure of our Group upon completion of the Reorganization, Pre-IPO investment and immediately before the Global Offering is as follows:



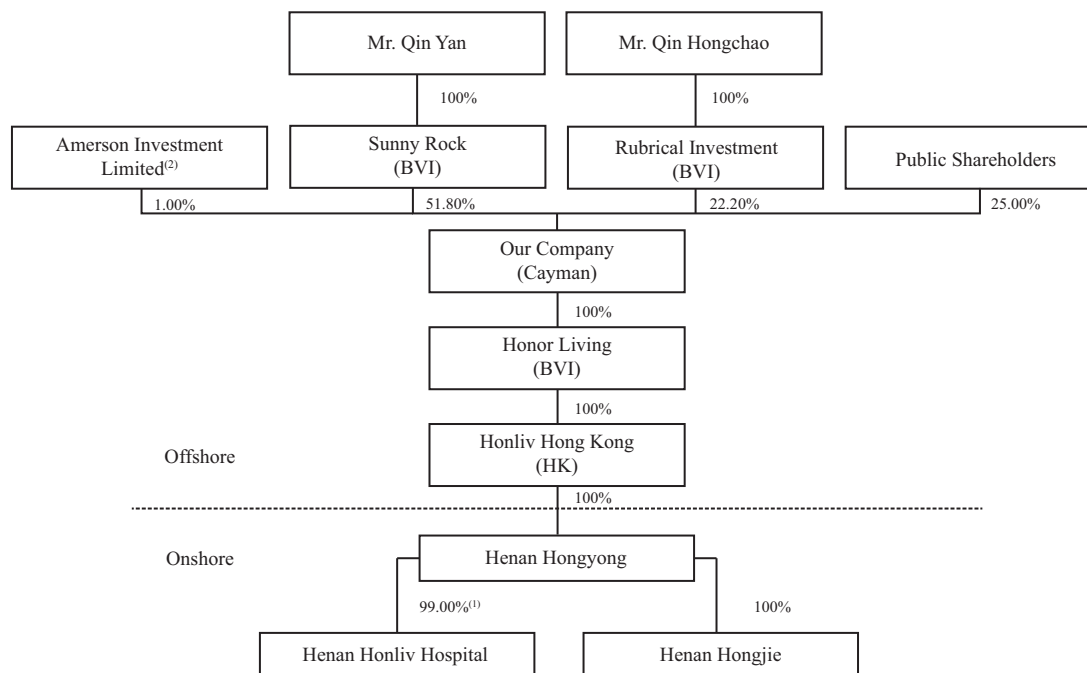
*Notes:*

- (1) The 1% interest of Henan Honliv Hospital is held by Henan Honliv Group. Henan Honliv Group is owned as to 80% by Mr. Qin Zili, as to 15% by Mr. Guo Xiangpu, an Independent Third Party, and as to 5% by Mr. Wei Yaping, an Independent Third Party. Mr. Qin Zili is the father of Mr. Qin Yan and Mr. Qin Hongchao. Thus, Henan Honliv Group is a connected person of our Company by virtue of Chapter 14A of the Listing Rules.
- (2) Amerson Investment Limited is wholly owned by Ms. Wang Xiaoqing, an Independent Third Party.

# HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

## GROUP STRUCTURE UPON LISTING

The corporate and shareholding structure of our Group immediately upon the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised) is as follows:



### Notes:

- (1) The 1% interest of Henan Honliv Hospital is held by Henan Honliv Group. Henan Honliv Group is owned as to 80% by Mr. Qin Zili, as to 15% by Mr. Guo Xiangpu, an Independent Third Party, and as to 5% by Mr. Wei Yaping, an Independent Third Party. Mr. Qin Zili is the father of Mr. Qin Yan and Mr. Qin Hongchao. Thus, Henan Honliv Group is a connected person of our Company by virtue of Chapter 14A of the Listing Rules.
- (2) Amerson Investment Limited is wholly owned by Ms. Wang Xiaoqing, an Independent Third Party.

## PRC LEGAL COMPLIANCE

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”), which were jointly promulgated by the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC and the SAFE on August 8, 2006, came into effect on September 8, 2006 and subsequently amended on June 22, 2009, require that foreign investors acquiring domestic companies by means of asset acquisition or equity acquisition shall comply with relevant foreign investment industry policies and shall be subject to approval by the relevant commerce authorities. Article 11 of the M&A Rules stipulates that an offshore special purpose vehicle established or controlled by a PRC domestic company, enterprise or natural person shall obtain approval from the MOFCOM prior to the acquisition of any domestic enterprise related to such company, enterprise or natural person. Mr. Qin Yan, a Controlling Shareholder, became a permanent resident of Canada on May 3, 2014 and renounced his status in PRC’s residential registration system on June 6, 2016. Mr. Qin Hongchao, a Controlling Shareholder, became a permanent resident of Gambia on October 9, 2012 and renounced his status in PRC’s residential registration system on June 6, 2016. As such, as advised by our PRC Legal Adviser, Mr. Qin Yan and Mr. Qin Hongchao were no longer a “PRC domestic

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## HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

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natural person” under the M&A Rules at the time of the acquisition of the 91.41% and 7.59% equity interest in Henan Honliv Hospital from Henan Honliv Group and Mr. Qin Yan, respectively, by Henan Hongyong. Accordingly, the above transfers of equity interest in Honliv Hospital to Henan Hongyong are not subject to approval from the MOFCOM under the M&A Rules.

According to the then applicable Foreign Investment Catalogue (2015)(外商投資產業指導目錄(2015)), which came into effect on April 10, 2015, foreign investment in medical institutions is restricted to the form of sino-foreign equity joint venture or cooperative joint venture. Under the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions, or the JV Interim Measures (中外合資、合作醫療機構管理暫行辦法), which were promulgated by the MOFCOM and the Ministry of Health of the PRC (currently known as the NHC) and have been in effect since July 2000, foreign parties cannot directly hold more than 70% in a Sino-foreign equity or cooperative joint venture healthcare institution. However, as advised by our PRC Legal Adviser, neither the Foreign Investment Catalogue, nor the JV Interim Measures stipulate any restriction on the equity percentage of a medical institution that can be held indirectly by a non-PRC entity through its subsidiary in the PRC. The acquisition of Henan Honliv Hospital by Henan Hongyong is governed by the Interim Provisions. The Interim Provisions provides that, a foreign enterprise intending to invest in a Foreign Investment Catalogue-restricted field, as did Henan Hongyong, shall apply for the approval from the provincial commerce department where the investee company is located. Upon receipt of such application, the provincial commerce department shall seek the opinion of the appropriate provincial industry administrative authority for the investee company. In accordance to the above, we sought and obtained approvals from Henan Provincial Commerce Department and Health Commission of Henan Province, each of which, as advised by our PRC Legal Adviser, is the competent authority in Henan Province, regarding the indirect 99% shareholding in our hospital. We then completed the registration with competent administration of industry and commerce in respect of the acquisition of Henan Honliv Hospital by Henan Hongyong. As advised by our PRC Legal Adviser, the legal formalities carried out for such acquisition are legal and valid, and such acquisition shall not be deemed to be a circumvention of the foreign ownership restriction under the JV Interim Measures. Our PRC Legal Adviser is of the view that the risk of the approval granted by Henan Provincial Commerce Department being challenged or overturned by a higher authority is remote. On the above basis, the Sole Sponsor concurs with our PRC Legal Adviser’s view that the legal formalities carried out for the acquisition are legal and valid, and such acquisition shall not be deemed to be a circumvention of the foreign ownership restriction under the JV Interim Measures.

In addition, as advised by our PRC Legal Adviser, Mr. Qin Yan and Mr. Qin Hongchao, our Controlling Shareholders who are subject to the registration requirements under Circular 37, completed their registration with Bank of China, Xinxiang Branch on April 11, 2016. Our PRC Legal Adviser has confirmed that all relevant material registrations, approvals and permits required under PRC laws and regulations in relation to the Reorganization and the share transfers in respect of the PRC subsidiaries of our Group as described above have been completed and obtained and the Reorganization has, in all material aspects, complied with applicable PRC laws, rules and regulations.



**OVERVIEW**

We operate one of the largest for-profit private general hospitals in China, Henan Honliv Hospital. According to the Frost & Sullivan Report, among all the for-profit private general hospitals in China, our hospital ranked the third (on par with three other hospitals) in terms of number of beds in operation as of December 31, 2019, the fifth in terms of number of inpatient visits in 2019, and the ninth in terms of number of outpatient visits in 2019. In addition, our hospital is the largest for-profit private general hospital in Central China in terms of number of outpatient visits and inpatient visits in 2019, and in terms of number of beds in operation as of December 31, 2019, according to the Frost & Sullivan Report.

Operating since December 2006, our hospital is the first for-profit private general hospital established in Henan Province and one of the first few large private general hospitals in China focusing on county-level healthcare service market, according to the Frost & Sullivan Report. Our hospital was Class-II hospital during the Track Record Period and had been upgraded to Class-III hospital in January 2020. Benefiting from favorable government policies that encourage the development of the private hospital sector in China, our hospital has expanded rapidly in the past decade and grew to a large general hospital with 30 clinical departments, 13 medical technology departments and 1,500 beds in operation as of December 31, 2019, and we have initiated a two-phase construction plan to further expand our hospital. Located in Changyuan, a county-level city in Henan Province, our hospital primarily provides services to patients in Changyuan County, Hua County, Fengqiu County, Yanjin County, Dongming County, Yuanyang County and Puyang County, a region with a population of over 5.8 million as of December 31, 2018. During the Track Record Period, our hospital had 2,933,498 outpatient visits and 167,586 inpatient visits, respectively.

We are committed to providing high-quality, differentiated and safe healthcare services to our patients. Among our 30 clinical departments, our obstetrics and gynecology department and cardiovascular department are particularly strong, and are highly regarded by patients and other medical professionals. Our professional medical staff consists of highly qualified and experienced medical professionals specialized in their respective fields. We equip our hospital with advanced equipment and diagnostic instruments with an aim to provide our patients with accurate diagnoses and effective treatments. As an early entrant in China's private general hospital market, we believe that our long-term commitment to and extensive experience in providing high-quality healthcare services to local communities have boosted our reputation and earned recognition among patients, and healthcare practitioners in China.

Leveraging our experience in successfully operating our hospital, we have expanded our business by providing hospital management services to an independent third-party hospital, Jutan Hospital, starting from 2016. Jutan Hospital has achieved significant growth under our management and was successfully upgraded to Class-II hospital from Class-I in January 2019.

We achieved steady revenue growth during the Track Record Period. Our revenue was RMB478.9 million, RMB496.6 million and RMB531.1 million in 2017, 2018 and 2019, respectively. Our net profit was RMB71.7 million, RMB73.5 million and RMB49.9 million in 2017, 2018 and 2019, respectively. Our non-HKFRS measure adjusted net profit was RMB71.7 million, RMB73.5 million, and RMB61.0 million in 2017, 2018 and 2019, respectively. Please refer to the paragraph headed "Financial Information — Description of Key Components of Comprehensive Income — Non-HKFRS Measures" in this prospectus for details.

**OUR COMPETITIVE STRENGTHS****One of the Largest For-profit Private General Hospitals in China with First-mover Advantage**

According to the Frost & Sullivan Report, among all the for-profit private general hospitals in China, our hospital ranked the third (on par with three other hospitals) in terms of number of beds in operation as of December 31, 2019, the fifth in terms of number of inpatient visits in 2019, and the ninth in terms of number of outpatient visits in 2019. In addition, our hospital is the largest for-profit private general hospital in Central China in terms of number of outpatient visits and inpatient visits in 2019, and in terms of number of beds in operation as of December 31, 2019, according to the Frost & Sullivan Report.

Operating since December 2006, our hospital is the first for-profit private general hospital established in Henan Province and one of the earliest large private general hospitals established in China focusing on county-level healthcare service market, according to the Frost & Sullivan Report. Since January 2007, our hospital has expanded significantly to provide a full spectrum of general healthcare services. Our hospital has 30 clinical departments and 13 medical technology departments, including core departments such as obstetrics and gynecology, cardiovascular, orthopedics, nephrology and rheumatology, neonatal, neurology, gastroenterology, pediatrics, neurosurgery, oncology, cardiac surgery and thoracic surgery, as well as medical technology departments such as anesthesiology, clinical laboratory, medical imaging, rehabilitation and ICU. As a result of the high-quality services offered by our obstetrics and gynecology department, we are recognized as one of the Best Baby-friendly Hospitals (全國優秀愛嬰醫院) by the NHC. Due to strong technical competency and research capability of our cardiovascular department, our hospital is also recognized as a Certified Unit of Chest Pain Center in China (中國胸痛中心通過認證單位) by the China Chest Pain Center Certification Working Committee. As of December 31, 2019, our hospital had an aggregate GFA of 128,438 sq.m., while an additional building with a total GFA of 52,453 sq.m. is expected to commence operation by the end of 2020. We believe our large operational scale helps us achieve economies of scale, attract high-caliber medical professionals, and allow our doctors to benefit from a broad range of clinical experiences and enable us to have an in-depth understanding of the diverse needs of our patients.

Our hospital is the first private hospital in China with the ability to provide air ambulance service. As of December 31, 2019, our hospital had a designated team of five medical professionals for the air ambulance service. The air ambulance service enables us to quickly reach our patients in need and transport them to our hospital over a long distance or from a less accessible area. For more details, please refer to the paragraph headed “— Our Hospital — Air Ambulance Service” in this section.

**Strategically Positioned to Capture Growth of County-level Healthcare Service Market**

We are a pioneer and one of the few private general hospitals in China focusing on county-level healthcare service market, according to the Frost & Sullivan Report. Counties play a significant role in the development of private healthcare service industry in China. The State Council promulgated the Guiding Opinions of the General Office of the State Council on Propelling the Building of a Hierarchical Diagnosis and Treatment System (國務院辦公廳關於推進分級診療制度建設的指導意見) in 2015 and further issued the Notice on Key Work Concerning the Construction of Hierarchical Diagnosis and Treatment System (關於進一步做好分級診療制度建設有關重點工作的通知) in 2018, in which the PRC government stated (1) the aim to establish a

hierarchical healthcare system, in which county-level hospitals are responsible for providing treatments for common and chronic diseases, as well as emergency care of severe patients and transferring patients to higher-level healthcare institutions if needed, and (2) the goal to achieve treatment of critical diseases within counties (大病不出縣), by 2020. Historically, NRCMIP was the major public medical insurance program for county residents. The PRC government started the process to integrate NRCMIP with URBMIP in 2016 and completed such integration in 2019. Henan Province completed the integration in 2017. According to the Frost and Sullivan Report, since the integration of NRCMIP and URBMIP, the PRC government has been continuously increasing funding for and expanding coverage under the new insurance regime. Such efforts are expected to further stimulate the growth of county-level healthcare service market as medical services will become more affordable for patients.

Driven by preferential governmental policies and benefit from the medical insurance reform, the revenue of county-level hospitals grew from RMB747.2 billion in 2014 to RMB1,079.3 billion in 2018, representing a CAGR of 9.6%, which was higher than the CAGR of the revenue for all hospitals in China during the same period. The revenue of county-level hospitals is expected to further grow to RMB1,655.8 billion in 2023 at a CAGR of 8.9% from 2018, according to the Frost & Sullivan Report.

Our hospital is located in Henan Province, which is part of Central China, one of the largest and fastest-growing healthcare service markets in China, according to the Frost & Sullivan Report. As of the end of 2019, Henan Province was the third largest province in China in terms of population with a population of approximately 96.4 million. According to the Frost & Sullivan Report, the revenue of hospitals in Henan Province grew from RMB94.7 billion in 2014 to RMB159.3 billion in 2018, representing a CAGR of 13.9%. We believe that we benefit from the large population and the fast-growing health-care service market of Central China, and our location provides us with a large potential customer base for our future and continuous growth and we are well positioned to capture the growth of the county-level healthcare service market.

### **Experienced Medical Professionals and Structured Training Programs**

We believe our experienced and stable medical professionals are key to our success. As of December 31, 2019, our hospital had 1,192 medical professionals, including 299 doctors, of which 27 were chief doctors and 47 were associate-chief doctors, and 893 other medical professionals.

Our doctors possess extensive experience and are qualified medical professionals specialized in their respective fields. As of December 31, 2019, our doctors had on average around 14 years of working experience, and our chief and associate-chief doctors had on average around 28 years of working experience. Many of our doctors are renown experts in their respective fields, and our surgeons are known for capable of performing complicated surgeries. For example, our cardiac surgeons performed mitral valve, aortic valve replacement and tricuspid valve plasty on a 73-year-old patient with complex valvular heart disease in March 2018, and a successful tetralogy of fallot surgery on a two-year-old patient in July 2019; our neurosurgeons performed internal carotid artery aneurysm on a 73-year-old patient in April 2018 and intracranial hematoma removal on a 92-year-old patient in June 2019.

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In order to ensure sufficient medical professionals to consistently provide high-quality healthcare services and grow our operations, we regularly recruit doctors and other medical professionals through various recruitment channels including, among others, on-campus recruitment, referrals and professional recruitment agencies. We believe our brand and reputation in the healthcare industry have also helped us attract high-caliber medical professionals. We have maintained a relatively stable medical professional team during the Track Record Period. In 2017, 2018 and 2019, the turnover rate of our doctors was 11.2%, 13.3% and 9.1%, respectively, which were lower than the typical doctors turnover rate at similar private general hospitals in China, according to the Frost & Sullivan Report.

We closely collaborate with selected medical institutions and provide our medical professionals with comprehensive learning, training and research programs and opportunities. We have close relationships with a number of China's leading hospitals and medicine departments of universities. In addition, we had over 500 visits by medical professionals from various medical institutions over the Track Record Period for consultation sessions at our hospital, and such visits provided continuous learning and collaboration opportunities for our medical professionals. Over the corresponding period, we also sent over 90 medical professionals from our hospital to our collaborating hospitals and universities for vocational training and academic study. We have also been actively participating in national-level research projects, such as the Chinese Hypertension Intervention Efficacy Study with respect to cardiovascular disease. We believe such collaborations with other medical institutions and participations in national research programs not only enhance the skills of our medical professionals, but also provide opportunities for making medical breakthroughs.

### **Smart Hospital Backed by Advanced Technology Systems and Equipment**

Our hospital operates with advanced information technology systems. As of the Latest Practicable Date, we have implemented 36 medical information technology systems in our hospital, such as the Hospital Information System (HIS), which manages patient records and billing history, pharmacy and inventory level and staffing of doctors and nurses, and the Laboratory Information System (LIS), which performs functions such as processing data from medical test results. Furthermore, we are one of the first few private hospitals in Henan Province to adopt digital medical records keeping system, according to the Frost & Sullivan Report. Advanced information technology systems are implemented throughout the various departments of our hospital and regulate processes such as medical records storage, medication dispensing, meal-ordering and billing. Our hospital also has a pneumatic tube system for quick transportation of items such as blood samples, pharmaceuticals, blood products, medical reports and receipts. We believe these measures have improved our operational efficiency and enhanced patients' experience. In 2017, 2018 and 2019, we reached out to 55,032, 55,698 and 56,403 patients, respectively, of which 48,431, 50,128 and 51,326 patients provided their feedback, and over 99.6% of the patients who provided their feedback expressed that they were generally satisfied with our services.

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In addition, we also equip our hospital with advanced equipment and diagnostic instruments with an aim to provide our patients with accurate diagnoses and effective treatments while minimizing the pain they suffer and the time they consume. For example, our hospital is equipped with Discovery CT750 HD (Volume Helical Shuttle), one of the most advanced high-end CT equipment in the world, Philips 1250MA Digital Subtraction Angiography (飛利浦1250MA數字減影血管造影機), Philips 1.5T Superconductive Nuclear Magnetic Resonance (飛利浦1.5T超導核磁共振), Philips Digital X-ray Photographic Imaging System (飛利浦數字化X線攝影成像系統), GE Vivid E9 Cardiac Ultrasonic Scanner (GE Vivid E9心臟超聲診斷系統) and UniCel DxC800 Automatic Biochemical Analyzer (UniCel DxC800全自動生化分析儀).

### **Proven Track Record in Hospital Management Business**

Leveraging our experience in successfully operating our hospital, we have expanded our business by providing hospital management services to an independent third party hospital, Jutan Hospital. Jutan Hospital has achieved significant growth under our management and was successfully upgraded from Class-I to Class-II hospital in January 2019. The outpatient visits at Jutan Hospital increased from 36,043 in 2017 to 47,942 in 2018 and further to 56,668 in 2019, while the inpatient visits increased from 7,176 to 8,626 and further to 8,753 over the corresponding periods.

With our highly effective and standardized hospital management governance structure, we believe we will be able to replicate our success in managing Jutan Hospital in other hospitals that we may manage in the future.

### **Experienced and Dedicated Management Team**

We are led by an experienced and dedicated senior management team committed to providing quality private healthcare services in China. They have extensive industry and management experiences, deep understanding of market trends and policies, and proven execution capabilities. Our senior management members have, on average, around 25 years of experience working in the healthcare industry in China and most of them have been working for our Group for over 10 years. Mr. Qin Yan, our Chairman, has over ten years of experience working in the healthcare industry. Dr. Teng Qingxiao, our Chief Operating Officer and executive Director, is a doctor and has over 30 years of experience working in the healthcare industry in China. Dr. Hua Xiuzhi, our vice president, is a doctor and has over 25 years of experience working in the healthcare industry in China. We believe our senior management team have been crucial to our success and possess the strategic foresight, strong execution capabilities and in-depth industry knowledge and experience necessary to formulate and implement sound business strategies and to capture growth opportunities.

We also benefit significantly from the accumulated expertise and experience of our mid-level management team and administrative staff. Over the past decade, we have accumulated a large talent pool, which we believe will be crucial to our future expansion.

### OUR STRATEGIES

Our goal is to become a leading private hospital group in China. We intend to achieve our goal by implementing the following strategies.

#### **Expand through Organic Growth**

We plan to continue to upgrade the facilities at our existing hospital to increase our operation capacity and invest in more advanced medical equipment and technologies. As of December 31, 2019, our hospital had an aggregate GFA of 128,438 sq.m. hospital floor in operation. In 2017, 2018 and 2019, the bed occupancy rate at our hospital was 93.1%, 94.5% and 94.8%, respectively. We currently have a two-phase construction plan for our hospital. We substantially completed the construction of our first-phase building with a GFA of 52,453 sq.m., which is expected to commence operation by the end of 2020. Our first-phase building is expected to provide healthcare services for inpatients and add up to 500 additional beds in operation to our hospital. In addition, our second-phase building is currently at preparatory stage. For details of the timetable and capital commitment for our hospital expansion work and plans, please refer to the paragraph headed “— Our Hospital — Hospital Expansion Work and Future Acquisition Plans” in this section. We believe we will be able to attract more patients with our enlarged facility and improved ward environment in the new buildings.

#### **Expand through greenfield and brownfield investments**

We plan to expand our business by establishing new large-scale private hospitals, and by acquiring large- or medium-scale new private hospitals developed by third parties. In particular, an affiliate of Henan Honliv Group entered into two strategic framework agreements with entities representing local governments in two other cities in Henan Province to establish new hospitals. We have the preemptive purchase right in respect of the new hospitals to be established by Henan Honliv Group pursuant to the Deed of Non-competition. For details, please refer to the paragraph headed “Relationship with Our Controlling Shareholders — Non-competition Undertakings” in this prospectus. Henan Honliv Group and its affiliates have experience in establishing hospitals and communicating with local governments. Acquiring well-established hospitals from Henan Honliv Group and/or its affiliates by exercising preemptive purchase right will give us the flexibility in targeting quality hospitals, save us the significant costs of hospital constructions, and shorten the cycle for collecting returns on investments. Although there is no impediment or disadvantage for our Group to enter into such strategic framework agreements with the local governments, we believe that current arrangements are in the best interest of our Company and our shareholders as a whole. When exercising our pre-emptive purchase right, we will strictly comply with the notification, announcement, reporting and independent Shareholders’ approval requirements set out in Chapters 14 and 14A of the Listing Rules for notifiable and connected transactions (as applicable). In selecting target hospitals to acquire, we plan to primarily focus on large- or medium-scale private hospitals located in other parts of Henan Province. When evaluating a new target, we would take into account factors such as patients’ average spending on healthcare services, availability of healthcare professionals, regulatory environment and competitive landscape in the region. As of the Latest Practicable Date, we had not identified any specific target for acquisition.

We believe that our leading position, market reputation and extensive experience in the full-spectrum of healthcare services position us well to expand into a hospital group and enter into new markets quickly and successfully.

### **Continue to Recruit, Train and Retain High-Quality Medical Professionals**

High-quality medical professionals are key to our success. We intend to strengthen our integrated human resources management system to further enhance the recruitment, training and retention of high-quality medical professionals. We will continue to leverage our relationship with collaborating schools and medical institutions to source entry level medical professionals. We will also utilize other recruitment channels such as professional medical talent recruiting agencies and internal referrals to attract experienced medical professionals in order to establish new clinical departments such as radio therapy department, as well as to strengthen our existing clinical departments.

In addition to regular training at our hospital, we intend to continue to send selected doctors, technicians and nurses to our collaborating hospitals and medical institutions to receive additional training. We also plan to increase our communications and collaborations with leading institutions and experts in different medical areas to improve our diagnostic, treatment and research capabilities. In addition, in order to better retain and incentivize our medical professionals, we will continue to enhance our performance-based compensation and review system to reward and promote service excellence. Leveraging the renowned specialists from our high quality medical professional team, we aim to boost our brand recognition and reputation and attract more patients.

### **Focus on Social Responsibility and Further Improve the Quality and Efficiency of Our Healthcare Services**

We will continue to improve the quality and efficiency of our healthcare services, which remain top priorities of our operations. We will continue to invest in advanced medical facilities, equipment and technologies to enhance the quality of our services. We believe our efforts will enhance our reputation among existing and potential patients. We will also continue to leverage our scale and market leading position to further enhance our operational efficiency and profitability. We intend to apply for Joint Commission International's accreditation for hospital, which is recognized worldwide as one of the highest benchmarks for quality and safe healthcare services.

In addition, we promote a corporate culture of excellence. We believe in operating our hospital with the highest level of integrity by making our patients our first priority. We highly prize our social responsibility and actively participate in public welfare activities, such as providing free medical services or pharmaceuticals to those in need. For example, up to December 31, 2019, we provided free gastroscopy to over 90,000 people. We plan to continue to provide free gastroscopy and other free medical services to patients in need. We believe our culture will be one of the factors that distinguish us from competitors and serve as a foundation for our future development.

We also plan to further upgrade our information technology systems by improving existing information technology systems in our hospital, such as Hospital Information System (HIS) and Laboratory Information System (LIS), to enhance the efficiency of our operations. In addition, we intend to introduce additional information technology systems to further improve our service quality. For example, we have purchased HANA database and plan to set up a cloud database to analyze patient data. By comparing diagnostic data with treatment effect data, we aim to better understand our patients' needs and develop better services and procedures to serve our patients. We also plan to develop a mobile application to allow our doctors to review inpatients' medical information anytime and anywhere, which would enable them to make prompt judgment in light of inpatients' changing conditions. We believe the implementation of such plans will improve our service process and quality. Our vision is to become a modernized hospital group that embraces and implements new information technologies in our daily operation and strategic planning.

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## BUSINESS

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### OUR BUSINESS MODEL

We operate one for-profit private general hospital, Henan Honliv Hospital, and manage one not-for-profit private general hospital, Jutan Hospital. During the Track Record Period, we generated substantially all of our revenue from the provision of treatments and general healthcare services and pharmaceuticals sales at our hospital, Henan Honliv Hospital.

#### General Healthcare Services

We generate our revenue primarily from providing diagnosis, treatment and general healthcare services and from pharmaceuticals sales at our hospital, Henan Honliv Hospital, which is a for-profit private general hospital. Commenced operation in December 2006 in Changyuan County, Henan Province, our hospital is the first for-profit private general hospital established in Henan Province and one of the earliest large private general hospitals in China focusing on county-level healthcare service market, according to the Frost & Sullivan Report. Our hospital primarily serves patients in Changyuan County and surrounding counties including Hua County, Fengqiu County, Yanjin County, Dongming County, Yuanyang County and Puyang County.

Our hospital provides a full spectrum of general healthcare services with 30 clinical departments and 13 medical technology departments, of which the core clinical departments include obstetrics and gynecology, cardiovascular, orthopedics, nephrology and rheumatology, neonatal, neurology, gastroenterology, pediatrics, neurosurgery, oncology, cardiac surgery and thoracic surgery. In particular, as a result of high-quality services offered by our obstetrics and gynecology department, we are recognized as one of the Best Baby-friendly Hospitals (全國優秀愛嬰醫院) by the NHC. Due to strong technical competency and research capability of our cardiovascular department, our hospital is also recognized as a Certified Unit of Chest Pain Center in China (中國胸痛中心通過認證單位) by the China Chest Pain Center Certification Working Committee.

#### Hospital Management Services

Leveraging our experience in successfully operating our hospital, we have expanded our business to providing hospital management services. We entered into the Management Agreement with Jutan Hospital and its organizer on June 14, 2016, pursuant to which we provide hospital operation and management services in return for management fees fixed at 5% of Jutan Hospital's annual revenue pursuant to the Management Agreement. Our Managed Hospital is a not-for-profit private general hospital that offers medical diagnosis, treatment and preventative care services at Neixiang County, Nanyang City, Henan Province and was successfully upgraded from Class-I to Class-II hospital in January 2019 under our management.

We have experienced steady revenue growth during the Track Record Period, generating total revenue of RMB478.9 million, RMB496.6 million and RMB531.1 million, respectively, in 2017, 2018 and 2019. The following table sets forth the components of our revenue for the periods indicated.



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	Year ended December 31,					
	2017		2018		2019	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Treatments and general healthcare service .....	319,088	66.6%	332,744	67.0%	354,924	66.8%
Pharmaceutical sales .....	158,176	33.0%	161,461	32.5%	173,404	32.7%
Hospital management services .....	1,660	0.4%	2,346	0.5%	2,780	0.5%
<b>Total .....</b>	<b>478,924</b>	<b>100.0%</b>	<b>496,551</b>	<b>100.0%</b>	<b>531,108</b>	<b>100.0%</b>

### OUR HOSPITAL

#### Henan Honliv Hospital

We operate Henan Honliv Hospital, one of the largest for-profit private general hospitals in China. According to the Frost & Sullivan Report, among all the for-profit private general hospitals in China, our hospital ranked the third (on par with three other hospitals) in terms of number of beds in operation as of December 31, 2019, the fifth in terms of number of inpatient visits in 2019, and the ninth in terms of number of outpatient visits in 2019. In addition, our hospital is the largest for-profit private general hospital in Central China in terms of number of outpatient visits and inpatient visits in 2019, and in terms of number of beds in operation as of December 31, 2019, according to the Frost & Sullivan Report.

#### *Geographic location*

Our hospital is located in Henan Province, which is part of Central China, one of the largest and fastest-growing healthcare service markets in China, according to the Frost & Sullivan Report. As of the end of 2019, Henan Province was the third largest province in China in terms of population with a population of approximately 96.4 million. According to the Frost & Sullivan Report, the revenue of hospitals in Henan Province grew from RMB94.7 billion in 2014 to RMB159.3 billion in 2018, representing a CAGR of 13.9%. We believe that we benefit from the large population and the fast-growing health-care service market of Central China, and our location provides us with a large potential customer base for our future and continuous growth and we are well positioned to capture the growth of the county-level healthcare service market.

#### *Operational capacity*

Our hospital had 1,500 beds in operation as of December 31, 2019, and we have initiated a two-phase construction plan to further expand our hospital. Our hospital provides a full spectrum of general healthcare services with 30 clinical departments, including obstetrics and gynecology, cardiovascular, orthopedics, nephrology and rheumatology, pediatrics, neurology, neonatal, gastroenterology, oncology, neurosurgery, endocrinology, gastrointestinal and hepatobiliary surgery, respiratory, emergency treatment department, thyroid and breast surgery, ICU, thoracic surgery, otorhinolaryngology, cardiac surgery, hematology, infectious disease department, urology, dermatology, rehabilitation, ophthalmology, pain treatment, proctology, stomatology, traditional Chinese medicine treatment and plastic surgery, as well as 13 other medical technology departments, such as anesthesiology, clinical laboratory and medical imaging.

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In addition to the services provided by clinical departments, our hospital also aims to provide comprehensive services to our patients, including clinical telepathology services, preventive healthcare and medical examinations. The comprehensive healthcare services we offer enable us to effectively identify and develop new service offerings, attract new patients and boost our brand recognition.

The following table sets forth certain information relating to our hospital for the periods indicated:

	Year ended December 31,		
	2017	2018	2019
Outpatient visits <sup>(1)</sup> .....	947,269	960,458	1,025,771
Average spending per outpatient visit (RMB).....	201.7	209.9	226.3
Inpatient visits .....	55,175	55,724	56,687
Average spending per inpatient visit (RMB) .....	5,186.7	5,250.2	5,240.8
Average length of stay per inpatient visit (days) <sup>(2)</sup> .....	9.2	9.3	9.0
Number of inpatient surgeries .....	11,322	11,584	11,894
Number of beds in operation as of the end of the relevant period .....	1,500	1,500	1,500
Bed occupancy rate <sup>(3)</sup> .....	93.1%	94.5%	94.8%
Total medical professionals as of the end of the relevant period .....	1,142	1,181	1,192
Of which, chief doctors.....	27	29	27
Of which, associate-chief doctors .....	51	48	47
Of which, attending doctors.....	139	130	150
Of which, resident doctors .....	108	99	75
Of which, other medical professionals <sup>(4)</sup> .....	817	875	893

*Notes:*

- (1) Outpatient visits included patient visits for our medical examination services, which amounted to 31,360, 35,002 and 39,516 for 2017, 2018 and 2019, respectively.
- (2) Average length of stay per inpatient visit is calculated by dividing the aggregate hospitalization days of all discharged inpatients at the hospital divided by total number of discharged inpatients during the relevant period.
- (3) Bed occupancy rate was calculated by dividing aggregate length of stay (in terms of days) for all inpatient visits during the relevant period by the product of (i) number of beds in operation multiplying (ii) aggregate number of days during the relevant period.
- (4) Other medical professionals include doctors, licensed nurses, pharmacists, medical technicians and patient service staff working in supporting departments.

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Of the 30 clinical departments at our hospital, the core clinical departments are obstetrics and gynecology, cardiovascular, orthopedics, nephrology and rheumatology, neonatal, neurology, gastroenterology, pediatrics, neurosurgery, oncology, cardiac surgery and thoracic surgery. During the Track Record Period, the 30 clinical departments contributed the majority of the revenue of our hospital. The following table sets forth the revenue contribution from our top 20 clinical departments in terms of revenue in 2019 and as percentage of total revenue of our hospital for the periods indicated:

Clinical Department	Year ended December 31,					
	2017		2018		2019	
	Revenue RMB'000	% of total revenue	Revenue RMB'000	% of total revenue	Revenue RMB'000	% of total revenue
Obstetrics and gynecology.....	60,564	12.7%	62,146	12.6%	64,434	12.2%
Cardiovascular.....	34,408	7.2%	35,486	7.2%	37,687	7.1%
Orthopedics.....	34,175	7.2%	35,251	7.1%	36,064	6.8%
Nephrology and rheumatology.....	27,748	5.8%	30,380	6.1%	35,149	6.7%
Pediatrics.....	26,687	5.6%	29,612	6.0%	30,390	5.8%
Neurology.....	27,114	5.7%	28,201	5.7%	30,001	5.7%
Neonatal.....	27,597	5.8%	27,776	5.6%	28,827	5.5%
Gastroenterology.....	23,983	5.0%	24,743	5.0%	25,161	4.8%
Oncology.....	21,206	4.4%	21,629	4.4%	22,913	4.3%
Neurosurgery.....	21,333	4.5%	21,649	4.4%	22,757	4.3%
Endocrinology.....	14,802	3.1%	15,310	3.1%	17,647	3.3%
Gastrointestinal and hepatobiliary surgery.....	14,085	3.0%	12,411	2.5%	15,006	2.8%
Respiratory.....	11,983	2.5%	13,362	2.7%	14,631	2.8%
Emergency treatment department.....	10,552	2.2%	11,865	2.4%	14,556	2.8%
Thyroid and breast surgery.....	7,390	1.5%	9,847	2.0%	13,238	2.5%
ICU.....	14,729	3.1%	13,848	2.8%	10,799	2.0%
Thoracic surgery.....	7,644	1.6%	7,996	1.6%	8,389	1.6%
Otorhinolaryngology.....	7,058	1.5%	7,083	1.4%	7,944	1.5%
Cardiac surgery.....	7,541	1.6%	7,672	1.6%	7,472	1.4%
Hematology.....	6,102	1.3%	6,748	1.4%	6,697	1.3%
Other departments <sup>(1)</sup> .....	70,562	14.8%	71,190	14.4%	78,567	14.9%
<b>Total.....</b>	<b>477,264</b>	<b>100.0%</b>	<b>494,205</b>	<b>100.0%</b>	<b>528,328</b>	<b>100%</b>

Note:

- (1) Include (1) the remaining 10 clinical departments such as infectious disease department, urology and dermatology, (2) invasive technology department, a medical technology department and (3) three other departments providing comprehensive services to our patients, such as medical examinations, convenient pharmacy and preventive healthcare services.

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## BUSINESS

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Our hospital is a Medical Insurance Designated Medical Institution (醫保定點醫療機構), in particular, a URRBMIP Designated Medical Institution (城鄉居民醫保定點機構). These qualifications help us tremendously in attracting insured patients who want to obtain medical treatment under public medical insurance programs without pre-approval from medical insurers.

As of December 31, 2019, our hospital had 1,192 medical professionals, including 299 doctors and 893 other medical professionals. Among our doctors, 27 were chief doctors, 47 were associate-chief doctors, 150 were attending doctors and 75 were resident doctors. As of the Latest Practicable Date, our hospital had 1,500 beds in operation.

### **Obstetrics and Gynecology Department**

Our obstetrics and gynecology department boasts state-of-the-art medical equipment, advanced techniques and attentive services of our medical professionals. With respect to gynecology, we can provide outpatient services to diagnose and treat common gynecology diseases such as gynecologic inflammation, as well as perform comprehensive surgery treatment for various gynecology diseases, including cancers. With respect to obstetrics, we are committed to providing high-quality, private and personalized healthcare services to mothers and newborns by offering comprehensive prenatal, delivery and postpartum care services during pregnancy, delivery and after birth. We perform both natural delivery and caesarean delivery at our hospital, and we encourage natural delivery and breast feeding which we believe are beneficial for the mothers and babies. We performed 1,436, 1,095 and 1,034 caesarean deliveries in 2017, 2018 and 2019, which only accounted for 18.2%, 15.5% and 15.4%, respectively, of all deliveries at our hospital in the same periods, significantly lower than the national average, according to the Frost & Sullivan Report. In 2015, we were recognized as one of the Best Baby-friendly Hospitals in China (全國優秀愛嬰醫院) by NHC in 2015 and passed NHC's review for such recognition in 2017. In July 2018, a research project on the study of induction of labor in women with uterine scar carried out by our obstetrics and gynecology department was awarded the third prize of Henan Province Medical Science and Technology Progress Award (河南省醫學科學技術進步獎三等獎).

### **Cardiovascular Department**

Our cardiovascular department is dedicated to the non-surgical and interventional treatment of diseases relating to the cardiac electrophysiology and blood vessels. Our doctors at cardiovascular department have rich experience and strong technical competency in routine treatment of cardiovascular diseases and specialize in interventional treatment of heart diseases. Our cardiovascular department performed the first coronary angiography, stent implantation, radiofrequency ablation surgery and transesophageal atrial pacing (TEAP) in Changyuan County, according to the Frost & Sullivan Report. Our cardiovascular department is also experienced in performing intra-aortic balloon pump counterpulsation (IABPC) treatment to enhance heart function of our patients. In April 2017, our hospital was recognized as a Certified Unit of Chest Pain Center in China (中國胸痛中心通過認證單位) by the China Chest Pain Center Certification Working Committee.

**Orthopedics Department**

Our orthopedics department provides treatments and therapies for traumatic fracture, bone diseases, bone tumors and congenital malformation, and performs both open surgery and mini-invasive treatment for microsurgery, spine surgery, and joint surgery, among others. Our orthopedics department focuses on introducing advanced medical treatment, such as hand microsurgery and bilateral total hip replacement. In particular, our orthopedics department performed the first minimally invasive spinal surgery in 2014 in Changyuan County, according to the Frost & Sullivan Report. Leveraging our expertise in minimally invasive surgery and postoperative care, our orthopedics department has successfully performed numerous operations on elderly patients over 80 years old.

**Nephrology and Rheumatology Department**

Our nephrology and rheumatology department consists of nephrology division, rheumatology and immunology division and a dialysis center. Our nephrology division provides an integrative practice that combines traditional Chinese medicine and western medical practices and has extensive experience in diagnosing and treating primary and secondary chronic renal diseases and hereditary renal diseases. Our rheumatology and immunology division has adopted advanced clinical methods in practice, including introducing biologics for treatment and delay of rheumatic disease development, and immunosorbent for blood purification. Our dialysis center is capable of using around ten dialysis methods to treat renal failure and improve the life quality of our patients. Our nephrology and rheumatology department operates the largest dialysis center in Henan Province in terms of number of patients receiving dialysis in 2019, according to the Frost & Sullivan Report. Our hospital is a network member of the National Clinical Research Center of Kidney Diseases, Jinling Hospital (國家腎臟疾病臨床醫學研究中心(南京)). Our nephrology and rheumatology department is a member of the Peritoneal Dialysis Division Alliance of Henan Province (河南省腹膜透析專科聯盟).

**Neonatal Department**

Our neonatal department provides diagnostic and preventive medical care to newborns as an extension to our obstetrics services. Our services include treatment of complicated diseases, regular health assessment, laboratory tests, ultrasound examinations, physical assessment and newborn care consultation. We have established a treatment center capable of treating premature newborns with low birth weight and providing first-aid and safety transportation of newborns in severe condition in our hospital and surrounding areas. In addition, our wards are equipped with Drager babylog 8000 respirator, Drager Evita 2 dura respirator, oxygen-air mixer and other equipment to provide high-quality care and treatment to our patients. Our neonatal department is a member of the Neonatal Emergency Care Network Center of Henan Province (河南省新生兒重症救護網路成員單位).

### **Neurology Department**

Our neurology department is dedicated to treatment of diseases relating to disorder of nervous system, such as treatment of acute cerebral infarction, stroke rehabilitation, early thrombolytic therapy for ischemic stroke and endovascular interventional therapy. Our neurology department has doctors with extensive clinical experience and professional rehabilitation specialists. Our neurology department is one of the collaborative partners of China Stroke Center Alliance, an organization under guidance of the Quality Control Center of Neurology Treatments of the NHC. Our hospital actively participates in the prevention of cerebrovascular diseases and health management, and is a base hospital in Henan province of the National Cerebrovascular Health Management Network (全國腦血管健康管理物聯網).

### **Gastroenterology Department**

Our gastroenterology department is dedicated to treatment of diseases relating to the digestive system and its disorders, such as gastric polyps and intestinal polyps. The endoscopy room in our gastroenterology department is equipped with advanced Olympus digital imaging system from Japan which can produce high-resolution images. The doctors at our gastroenterology department are capable of performing painless gastroscopy and colonoscopy and providing relevant treatments, including endoscopic foreign body retrieval, diagnosis and treatment of stomach and colorectal cancer, endoscopic resection of early gastrointestinal tumors, endoscopic treatment of gastrointestinal hemorrhages, dilatation and stent placement for treatment of esophageal stricture, and endoscopic retrograde cholangiopancreatography (ERCP) among others. We have established an academican workstation in April 2019 and will conduct indepth research on the diagnosis and treatment of digestive diseases.

### **Pediatrics Department**

Our pediatrics department is dedicated to the diagnosis and treatment of various pediatrics diseases. Our doctors at pediatrics department are experienced in treating complicated pediatrics diseases such as anhidrotic ectodermal dysplasia, sea-blue histiocytosis, chronic granulomatous disease, alternating hemiplegia of childhood, among others. According to the Frost & Sullivan Report, our pediatrics department were the first to introduce technology of fiber bronchoscope for infants in Changyuan County. Working together with our neonatal department, our pediatrics department has become the treatment center for critically ill children for Changyuan and surrounding counties. Our hospital joined the Henan pediatric medical alliance led and established by Henan Children's Hospital in November 2017, which is expected to enhance the capabilities of our pediatrics department by cooperating with other member hospitals by way of remote consultation and information sharing.

**Neurosurgery Department**

Neurosurgery is the medical specialty concerned with the prevention, diagnosis, treatment, and rehabilitation of disorders which affect the central nervous system, including the brain and spinal cord. Our neurosurgery department provides a series of featured medical treatments to complex intracranial tumors, cerebrovascular diseases, congenital and functional diseases and craniocerebral injuries. We also have successful experiences in whole-brain angiography, aneurysm embolization and clipping. Our hospital is a collaborative hospitals of the Neurosurgery Medical Association of the Chinese Non-government Medical Institutions Association (中國非公立醫療機構協會神經外科醫協體). During the Track Record Period, we performed over 1,800 operations to treat various craniocerebral diseases.

**Oncology Department**

Our oncology department is dedicated to the diagnosis and treatment of various cancers in different stages. Our treatment is mainly focused on chemotherapy, combined with endocrinotherapy and traditional Chinese medicine. Our oncology department provides customized treatment for each patient. In recognition of our expertise in this area, our oncology department has been recognized as Model Ward for Standardized Treatment of Cancer and Pain (癌痛規範化治療示範病房) since 2012 by the Health Commission of Henan Province. Our oncology department has purchased Varian CX linear accelerator (瓦裡安CX直線加速器) for external beam radiation treatments of cancers and expects to put it to use when our first-phase building commences operation. For details of our first-phase building, please refer to the paragraph headed “— Our Hospital — Hospital Expansion Work and Future Acquisition Plans” in this section.

In addition to our core clinical departments mentioned above, certain of our other clinical departments are also well-known in Henan Province in their respective fields. For example, our urology department features minimally invasive procedures and has the world’s advanced operating equipment including fourth generation lithotripter, vaporization prostatectomy equipment, laparoscope and ultrasonic scalpel, cystoscope and ureteroscopy. Our endocrinology department, in their long-time commitment to serve the local community, hosts free healthcare education lectures for diabetes patients annually. Our proctology department features integrated treatment with traditional Chinese and Western medicine and is equipped with comprehensive medical facilities and talents. Our proctology department is the largest proctology department of for-profit private general hospitals in Henan Province in terms of number of beds in operation as of December 31, 2018, according to the Frost & Sullivan Report. Moreover, we are one of the early movers in Henan Province to introduce oral implantology in our stomatology department, according to the Frost & Sullivan Report.

**Other Healthcare Services**

We aim to provide comprehensive healthcare services to our patients to address their different needs. In addition to clinical departments, we have also established a broad range of services to address the healthcare demand from the region. In particular, we provide high-quality preventive healthcare including medical examination services, disease screening and other services. Our customers for these services are primarily governmental and corporate customers from Changyuan County who request us to provide medical examination services to their employees. We also provide our medical examination services to individual customers.

### **Air Ambulance Service**

Our hospital was the first private hospital in China with the ability to provide air ambulance service, according to the Frost & Sullivan Report. The heliambulances were acquired by Honliv Tonghang, our former subsidiary which was disposed by us in March 2016. The air ambulance service team carried out its first mission in October 2014 and has carried out over 30 missions since then. During the process of our Reorganization, Honliv Tonghang was spun off for the purpose of the Reorganization and compliance with the relevant requirements under the then amended Foreign Investment Catalogue (外商投資產業目錄) (2015). For more details, please refer to the paragraphs headed “History, Reorganization and Corporate Structure — The Reorganization” in this prospectus. The air ambulance service was provided by Honliv Tonghang to us free of charge and pursuant to the Property Lease and Air ambulance Service Agreement entered into between us and Honliv Tonghang, Honliv Tonghang will continue to provide usage of helicopters to us for the air ambulance service free of charge for a period of three years. For more details, please refer to the paragraph headed “Connected Transactions — Our Continuing Connected Transactions” in this prospectus. As of December 31, 2019, our hospital had a designated team of five medical professionals for the air ambulance service. The air ambulance service enables us to quickly reach our patients in need and transport them to our hospital over a long distance or from a less accessible area.

### **Hospital Expansion Work and Future Acquisition Plans**

We plan to continue to upgrade the facilities at our hospital to increase our operational capacity, invest in more advanced medical equipment and technologies to further enhance our service quality and recruit more seasoned doctors and specialists in selected medical areas. As of December 31, 2019, our hospital had an aggregate GFA of 128,438 sq.m. hospital floor in operation. We currently have a two-phase construction plan for our hospital. We substantially completed construction of the first-phase building with a GFA of 52,453 sq.m., which is expected to commence operation by the end of 2020. Our first-phase building is expected to provide healthcare services for inpatients and add up to 500 additional beds in operation to our hospital.

Our construction of the first-phase building commenced in 2011 and was suspended in July 2017 in response to certain new government policies on the design of hospitals, including the Assessment Standard for Healthcare Green Building, which was adopted by the Ministry of Housing and Urban-Rural Development as national standard and became effective since August 2016 (the “**2016 Standard**”), and the Construction Standard for Comprehensive Hospitals (Revised Draft for Comment) published by the NHC in September 2018 (the “**2018 Standard**”). Such policies contain detailed instructions and requirements on the energy-saving, function and utilization of hospital facilities. Our construction of the first-phase building was first suspended in 2017 as we modified the construction designs in compliance with the 2016 Standard. We did not resume the construction immediately after the modification under the 2016 Standard because according to a notice issued by the Ministry of Housing and Urban-Rural Development in 2014, it was expected that a revised national construction standard for comprehensive hospitals would be published soon. In light of the uncertainties caused by the evolving governmental policies and in order to reduce repetitive work, our Company waited until the 2018 Standard was published in September 2018 to further adjust and finalize its modification plan. As of the Latest Practicable Date, we had completed such modification but had not yet resumed the construction because (i) according to a government policy on air quality control published in 2019, any site construction work that may generate heavy dusts



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in Beijing and surrounding provinces, including Henan province, was required to suspend from the period from October 1, 2019 to March 31, 2020, and (ii) the outbreak of COVID-19 further delayed the commencement of construction after March 2020. Please refer to the paragraph headed “Summary — Recent Development — Outbreak of Novel Coronavirus Disease 2019 (COVID-19)” in this prospectus for details. As the local government has gradually lifted travel restrictions and allowed enterprises to resume businesses since March 2020, we expect to resume the construction of the first-phase building by end of June 2020. As approximately 85% of the total construction work had been completed before the suspension and the remaining construction work is primarily related to interior decorations of the building, based on the previous construction speed and the remaining workload, we expect that the construction of the first-phase building will be completed by the end of 2020. We have obtained a written confirmation issued by the Natural Resources and Planning Department of Chang Yuan City, which is the competent authority for the identification of idle land in Chang Yuan City as advised by our PRC Legal Adviser, confirming that the parcel of land where the first-phase building is located is not idle land. We have obtained all applicable approvals and licenses for the commencement of constructions of the first-phase building, except for the building completion acceptance report (竣工驗收報告) which is expected to be obtained in or around July 2020.

Our second-phase building with an estimated GFA of 60,000 sq.m. is expected to provide healthcare services for both inpatients and outpatients and add up to 500 additional beds in operation to our hospital. We have acquired the relevant land use rights certificates and construction land planning permits. Our second-phase building is currently at preparatory stage and expected to commence operation in 2023. We plan to finance the construction of our second-phase building with funds generated from our operations and bank borrowings or other borrowings. However, the development of our second-phase building will be subject to various factors, including the utilization of our first-phase building, the demand of our patients, and our available capital resources.

For details of risks associated with the construction of our first-phase and second-phase building, please refer to the paragraph headed “Risk Factors — Risks Relating to Our Business and Industry — We may not be able to secure adequate or timely financing for investments in our hospital, and our projects under development may not be completed within the expected time frame and within our budget, or at all, and may not achieve the intended economic results” in this prospectus.

The estimated costs (including the capital commitment contracted and other costs) for the ramp up of our first-phase building are approximately RMB70 million and the estimated total costs (including land costs) for the construction of our second-phase building are approximately RMB300 million. In addition to upgrading and expanding Henan Honliv Hospital, we plan to expand our business by establishing large-scale new private hospitals or acquiring medium- or large-scale new private hospitals developed by third parties. We plan to finance part of our expansion plans with the proceeds from the Global Offering. For details of the above, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus. As of the Latest Practicable Date, we had no specific acquisition plans or identified any specific targets.

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### OUR MANAGED HOSPITAL

We entered into the Management Agreement with Jutan Hospital and its organizer in June 2016. Pursuant to the Management Agreement, we provide hospital operation and management services to Jutan Hospital, and receive management fees in return. The management fees are calculated based on 5% of Jutan Hospital's annual revenue pursuant to the Management Agreement. Commenced operation in early 2015, Jutan Hospital is a not-for-profit private general hospital located in Neixiang County, Nanyang City, Henan Province. Jutan Hospital offers medical diagnosis, treatment and preventative care at Neixiang County, the core clinical departments of which include obstetrics and gynecology, pediatrics, orthopedics, Chinese medicine among others, which are supported by other medical technology departments, such as clinical laboratory, medical imaging, anesthesiology, medical examination and medical rehabilitations. Jutan Hospital has achieved significant growth under our management and was successfully upgraded from Class-I to Class-II hospital in January 2019. As of December 31, 2019, Jutan Hospital had an aggregate GFA of 60,000 sq.m., and over 250 beds in operation according to the operating data provided by Jutan Hospital. During the Track Record Period, Jutan Hospital had 140,653 outpatient visits and 24,555 inpatient visits, according to the operating data provided by Jutan Hospital. In 2017, 2018 and 2019, our revenue generated from hospital management services was RMB1.7 million, RMB2.3 million and RMB2.8 million, respectively.

### Management Agreement

Set forth below is a summary of the major terms of our current Management Agreement:

<b>Date:</b>	June 14, 2016
<b>Parties:</b>	(1) the organizer of Jutan Hospital, an Independent Third Party; (2) Jutan Hospital; and (3) our hospital.
<b>Term:</b>	Ten years from 2016 to 2026. Upon expiry of the Management Agreement, we shall have the preemptive right to continue to provide the management service to Jutan Hospital subject to the requirements of the Listing Rules.
<b>Scope of Services and Major Rights and Obligations:</b>	Pursuant to the Management Agreement, we provide certain services to the Managed Hospital, including management, human resources sharing, medical facilities sharing, information technology support and supply chain management. We manage the Managed Hospital on an exclusive basis and the Managed Hospital and its organizer have agreed not to cooperate with any third party regarding hospital management services without our prior written consent.
<b>Management Fees:</b>	We are entitled to receive management fees for our services for 10 years. Our annual management fee is fixed at 5% of the Managed Hospital's annual revenue as stated on its audited accounts.

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<b>Managed Hospital's Management Structure:</b>	The Managed Hospital has a management structure that includes an executive committee (理事會), a supervisory committee (監事會) and a hospital management committee (院委會). The executive committee is the highest authority within the hospital and consists of three members nominated by the organizer and three members nominated by us. The executive committee exercises key decision-making powers over important business decisions for the Managed Hospital, such as the approval of annual hospital budget, investment in fixed assets, hiring of key personnel and hospital organization. Ordinary matters are determined by a simple majority of the votes of the members of the executive committee. Certain matters, such as merger, dissolution, liquidation and amending the articles of association of the Managed Hospital, require approval by more than two-thirds of the members of the executive committee.
<b>Cost Sharing Arrangement:</b>	We did not share any cost of the Managed Hospital.
<b>Loss Compensation Arrangement:</b>	We will not compensate the Managed Hospital for any losses incurred by it after commencement of operation except as a result of our breach of the Management Agreement.
<b>Insurance Arrangement:</b>	Any insurance expenses will be borne by the Managed Hospital.
<b>Legal Liabilities Arising from Medical Accidents or Disputes:</b>	The agreement did not contemplate any arrangement with respect to such liabilities. As advised by our PRC Legal Adviser, the Managed Hospital, as the holder of the relevant Medical Institution Practicing Certificate, shall be primarily responsible for such liabilities; however if such liabilities were as a result of our willful misconduct or gross negligence, the Managed Hospital may have a claim against us as the hospital manager. To the best knowledge of our Directors, the Managed Hospital did not have any material non-compliance or medical disputes during the Track Record Period.
<b>Preemptive right to acquire:</b>	We have preemptive right to acquire the entire interests in the Managed Hospital if it transforms into a for-profit hospital within the term of the Management Agreement in accordance with applicable laws and regulations. According to the Frost & Sullivan Report, such preemptive right is common among the not-for-profit private hospitals in China. To the best knowledge of our Directors, the Managed Hospital has not planned or commenced for its transformation into a for-profit hospital.

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**Renewal and  
Termination:**

The terms of the Management Agreement are subject to periodic review and approval by our independent non-executive Directors and independent Shareholders approximately once every three years, and may be amended or terminated based on such review.

The Managed Hospital and its organizer may terminate the Management Agreement if we violate any laws or regulations in providing the management services and cause material damages to the Managed Hospital, or if the Managed Hospital fails to obtain Class-II certification within five years since the commencement of management services.

We may terminate the Management Agreement and seek compensations from the Managed Hospital and its organizer if the Managed Hospital and its organizer do not perform their obligations under the Management Agreement. We may also terminate the Management Agreement if we fail to obtain approval from our independent non-executive Directors and independent Shareholders for the Management Agreement.

We do not anticipate termination of the Management Agreement in the near future. For more details on risks associated with the termination of our Management Agreement, please refer to the paragraph headed “Risk Factors — Risks Relating to Our Business and Industry — If our Managed Hospital breaches, decides to terminate or declines to renew our Management Agreement, our business may suffer” in this prospectus.

As advised by our PRC Legal Adviser, entering into the Management Agreement does not require approval from any PRC regulatory authority according to PRC laws, rules and regulations, and the Management Agreement is valid, legally binding and enforceable.

### **OUR FACILITIES AND EQUIPMENT**

As of December 31, 2019, our hospital has an aggregate GFA of 128,438 sq.m. Our first-phase building with a GFA of 52,453 sq.m. is expected to commence operation by the end of 2020. Our second-phase building is currently at preparation stage. For more details, please refer to the paragraph headed “— Our Hospital — Hospital Expansion Work and Future Acquisition Plans” in this section.

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We aim to provide high-quality healthcare services to our patients. Our doctors are equipped with advanced equipment and diagnostic means to provide our patients with accurate diagnoses and treatment while minimizing pain, time and the amount of invasive procedures. Our advanced equipment, among others, includes:

Equipment	Usages
Discovery CT750 HD (Volume Helical Shuttle) (GE寶石CT(動態500排)).....	It is primarily used to detect small and micro tumors in early stages, identify benign or malignant of lesion as well as its cystic solid states conduct qualitative and quantitative analysis of coronary artery vulnerable plague, among others.
Philips 1250MA Digital Subtraction Angiography (飛利浦1250MA數字 減影血管造影機) .....	It is primarily used in coronary artery angiography, percutaneous transluminal coronary angioplasty, arrhythmia radiofrequency catheter ablation, anesthesia of cardiac catheterization in patients with congenital heart diseases, balloon mitral valvuloplasty, peripheral vascular intervention, neurological intervention and various tumor treatments.
Philips 1.5T Superconductive Nuclear Magnetic Resonance (飛利浦1.5T超導核磁共振).....	It can be used in imaging examination of all parts in human body, especially for brain and facial features, spine and spinal canal, heart and great vessels, joints, parenchymal organs in abdomen (such as liver, spleen, pancreas and kidney) and various other lesions.

In addition, we also have other advanced surgical instruments, gastroscopy equipment, minimally-invasive instruments, dialysis equipment and other equipment used in different areas of our operations, including Philips Digital X-ray Photographic Imaging System (飛利浦數字化X綫攝影成像系統), GE Vivid E9 Cardiac Ultrasonic Scanner (GE Vivid E9 心臟超聲診斷系統), UniCel Dx C800 Automatic Biochemical Analyzer (UniCel Dx C800 全自動生化分析機) and BD FACSCanto (流式細胞分選儀).

We plan to continuously improve and upgrade our facilities and equipment to provide better services to our patients, which improvement and upgrade will be partially funded with proceeds from the Global Offering. For details, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus. We plan to purchase additional equipment and devices including next-generation equipment with better features, and new equipment to gradually replace timeworn equipment. For example, we purchased equipment which will be put to use at the first-phase building after fine-tuning, including GE Discovery MR750 3.0T (GE磁共振成像系統) and Varian CX linear accelerator (瓦裡安CX直線加速器), among others.

### MANAGEMENT AND OPERATION OF OUR HOSPITAL

We have implemented standardized management and operational procedures across our hospital to enhance patients’ experience. We manage our hospital through different aspects including medical treatment, medical techniques, nursing, pharmacy, administration, human resources, finance, patient service, medical equipment, research and development, among others.

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Our senior management oversees major decisions about operations and strategies of our hospital. For example, our vice president, Dr. Hua Xiuzhi, is primarily responsible for the overall operation and management of our hospital. With respect to medical treatment-related management, we have established standardized operational procedures and protocols based on national and local laws, regulations and industry practice, which are implemented through each clinical department. The operating protocols and standards for each clinical department, qualification and experience requirements for doctors and other medical professionals and equipment requirements are implemented to ensure consistent high-quality and efficiency in our hospital, and reduce operational risks and associated costs in our operations. We conduct regular evaluations and reviews of the performances at our hospital to verify our operational procedures and protocols are strictly complied with. Particularly, we have established a quality control office which is responsible for the quality control and supervision of the entire hospital. The quality control office reports to our senior management team directly and issues a monthly bulletin to raise potential issues and provide suggestions for improvement.

In addition, we have also established 15 hospital-level committees including the following key committees:

- Hospital Quality and Safety Management Committee, primarily responsible for managing the overall service quality and safety of the hospital;
- Medical Quality and Safety Management Committee, primarily responsible for managing, evaluating and advising on improvement of medical quality and safety related matters;
- Hospital Clinical Care Quality and Safety Management Committee, primarily responsible for managing, evaluating and advising on improvement of nursing care quality related matters;
- Hospital Pharmaceutical Administration and Therapeutics Committee, primarily responsible for supervising management of pharmaceuticals, providing guidance to clinical departments on the reasonable prescription of drugs, preventing misconducts in relation to procurement of pharmaceuticals and evaluating the efficacy and safety of pharmaceuticals; and
- Hospital Infection Control Committee, primarily responsible for monitoring infectious diseases, formulating and supervising the implementation of various measures and internal control systems to prevent or control the spread of infectious diseases in the hospital.

We believe our management system, which embodies the “PDCA” (Plan, Do, Check, Adjust) four-stage management control cycle, facilitates our continuous improvement and sustainable development for the future.

### **OUR DOCTORS AND MEDICAL PROFESSIONALS**

The qualifications and experience of our doctors and other medical professionals are vital to the quality of healthcare services we provide at our hospital. We place great emphasis on recruiting, training and retaining our doctors and other medical professionals. We maintain high standards in selecting quality medical professionals and provide competitive compensation packages.

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In the PRC, licensed doctors are subject to periodic assessment of their professional skills, achievements and professional ethics by institutions or organisations authorised by the public health department in the PRC. In the PRC, there are three professional qualification ranks for doctors, which are, from the lowest to the highest rank: (i) junior qualification for resident doctors (住院醫師) who must have a medical degree, and typically undertake entry-level tasks such as patients' medical records preparation and practice under the supervision of attending doctors or other superiors; (ii) qualification for attending doctors (主治醫師) who may supervise resident doctors and typically undertake routine clinical treatments, teaching, research and diseases prevention tasks; and (iii) qualification for associate chief doctors (副主任醫師) who may supervise attending and resident doctors, direct research work of a specific discipline, and typically undertake complex and rare clinical treatments and chief doctors (主任醫師) who typically command the highest level of medical capability in a specific discipline and are generally the head of a clinical practice. The following table sets forth the number of our doctors by professional ranks and the number of other medical professionals as of the dates indicated:

	As of December 31,		
	2017	2018	2019
Chief doctors .....	27	29	27
Associate-chief doctors .....	51	48	47
Attending doctors .....	139	130	150
Resident doctors .....	108	99	75
Other medical professionals <sup>(1)</sup> .....	817	875	893

*Note:*

- (1) Other medical professionals include licensed nurses, pharmacists and medical technicians working in supporting departments.

We have various channels to recruit doctors and other medical professionals, such as through college recruitment, referrals, professional recruitment agencies, recruitment meetings and advertisements. We conduct background searches on the candidates to be recruited to ensure they have the required working experience and qualifications for the new positions. We believe we provide our medical professionals with competitive compensation packages, continued medical education opportunities and a respectful and professional working environment. Our human resources department maintains the license records of our medical professionals and monitors their compliance with the continued medical education requirements. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material complaints or penalties in relation to our medical professionals practicing beyond the scope of their respective fields. As of December 31, 2019, our doctors had on average around 14 years of working experience, of which our chief and associate-chief doctors had on average approximately 28 years of working experience, while our licensed nurses had on average over six years of working experience.

We also provide periodic training to our doctors and other medical professionals on topics in their relevant fields and send them to other well-established medical institutions for training. We closely collaborate with selected medical institutions and provide our medical professionals with comprehensive learning, training and research programs and opportunities. During the Track Record Period, we had over 500 visits by medical professionals from various medical institutions for consultation sessions at our hospital, and such visits provided continuous learning and collaboration opportunities for our medical professionals. Over the corresponding period, we also

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sent over 90 medical professionals to other medical institutions for training. We had a relatively stable medical staff team during the Track Record Period. The following table sets forth the turnover rate of our medical professionals for the periods indicated:

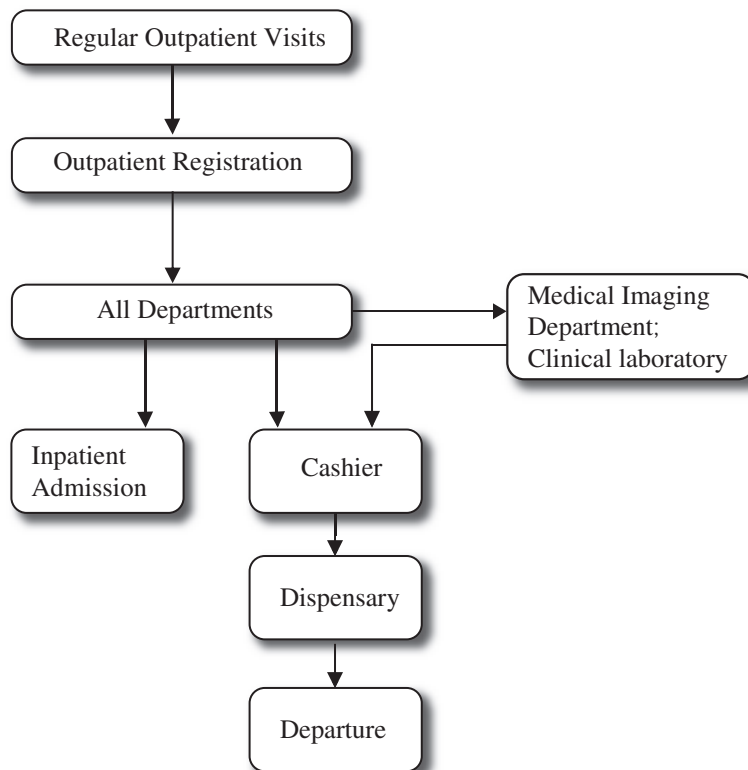
	Year ended December 31,		
	2017	2018	2019
Doctors turnover rate.....	11.2%	13.3%	9.1%
Other medical professionals turnover rate .....	9.8%	8.7%	8.6%

*Note:* Turnover rate is calculated as the total number of doctors/other medical professionals who resigned during the period divided by the aggregate of (i) the total number of doctors/other medical professionals at the end of such period and (ii) the total number of doctors/other medical professionals who resigned during the period.

### PATIENT SERVICES

Our daily operations follows our patient-centric values. We aim to offer our patients high-quality, cost-effective and first-class healthcare services. Aiming to provide personalized treatment for our patients in a safe and friendly environment, we have developed and implemented standardized healthcare service procedures and continuously review our processes for potential improvement. The following flowcharts illustrate our treatment processes for outpatient, inpatient and emergency patient visits:

#### Outpatient Treatment Process



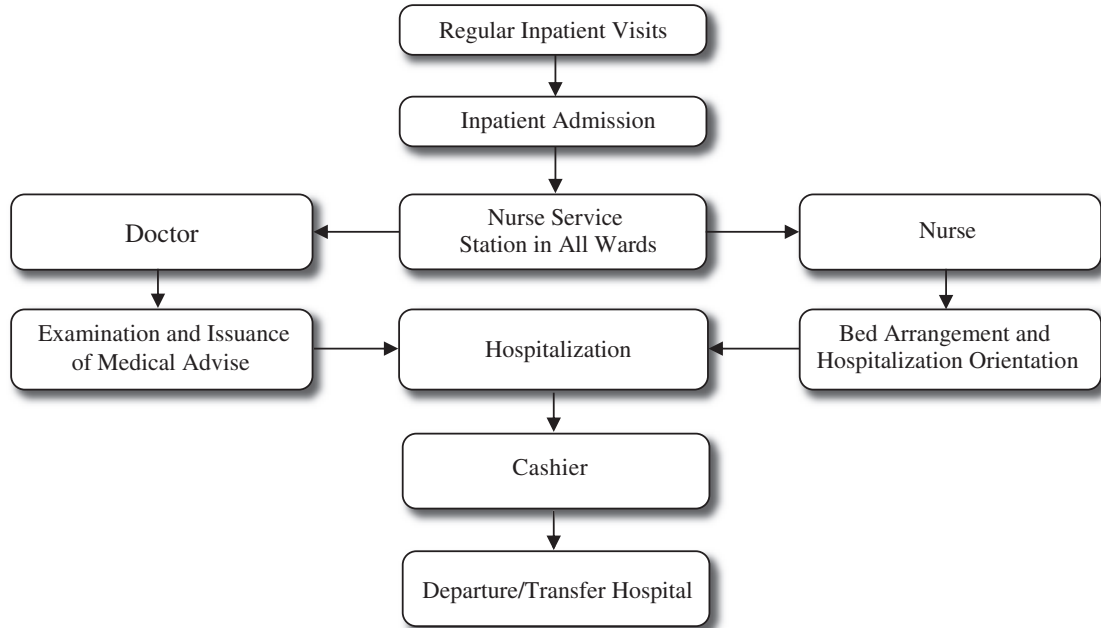


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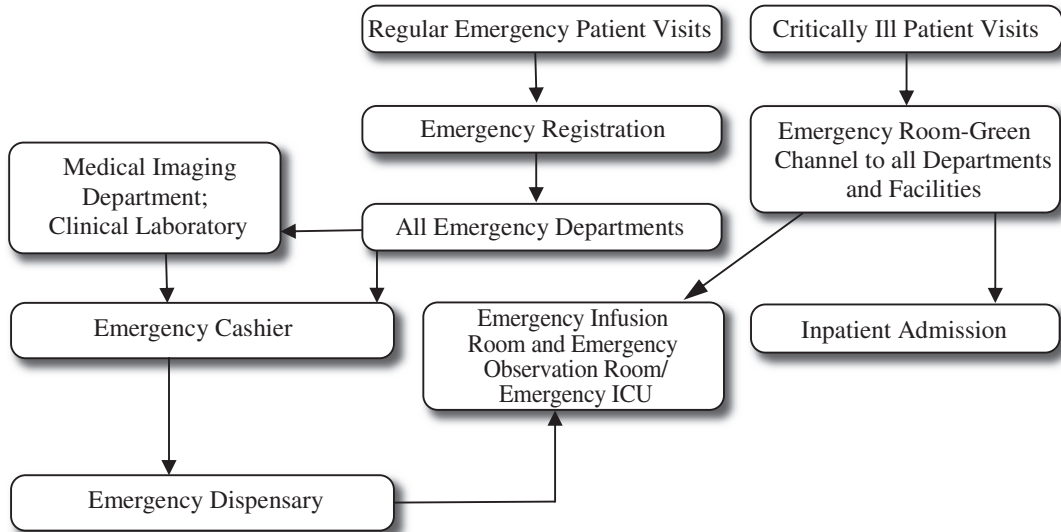
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### Inpatient Treatment Process



### Emergency Treatment Process



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In addition, we demonstrate our commitment to providing high-quality healthcare services to the communities by investing heavily in our patient services. We strive to ensure that our patients receive timely and personalized information, care and services before, during and after their time spent in our hospital. Approximately 2.4% of the staff at our hospital are dedicated patient services personnel. Prior to entering our hospital system, potential patients may contact our hospital through dedicated hotlines and our online and mobile platforms. At each department, our patient services personnel are responsible for responding to inquiries regarding our hospital, scheduling appointments, providing guidance on things to do before going to our hospital, and sending reminders regarding scheduled appointments. During a patient's visit, our dedicated patient services personnel, together with nurses and hospital administrative personnel, provide continuous support to the patient, anticipating various needs depending on the nature of his/her visit.

### **Patient Complaints Management**

We carefully consider customer feedback and complaints, and respond to them quickly and in a systematic way. We have established a policy to reach out to all of our discharged inpatients and inquire about their current conditions and their views with respect to our treatment provided, services received at our hospital, effect of medication prescribed, and the areas that we can improve. According to our internal policy, our staff will reach out to all of our discharged inpatients who had left valid contact information with our hospital for feedback. In 2017, 2018 and 2019, we reached out to 55,032, 55,698 and 56,403 patients, respectively, of which 48,431, 50,128 and 51,326 patients provided their feedback, and over 99.6% of the patients who provided their feedback expressed that they were generally satisfied with our services.

We have a designated team to take charge of any complaint raised by our patients and/or their families, who actively respond to the complaints and offer explanation and comfort, and coordinate with relevant departments involved. Our patients may lodge a complaint in person or by telephone, mail and other ways convenient for them. We have a "first contact responsible system" (首訴負責制) to handle patient complaints. The initial contact who receives the complaints should be responsible for taking immediate actions to resolve the complaints on the spot or if further actions required, reporting to our complaint office for further handling. The contact information of our complaint office is published at prominent places of our hospital. Our complaint office acts as the primary complainant point of contact, explains the complaint process to the complainants, directs patient complaints to appropriate departments for detailed investigation and root-cause analysis, conducts in-depth fact-finding, proactively oversees and manages the complaint processes, coordinates and communicates with the parties involved, accurately records all relevant findings and formulates the appropriate replies to the complainants. During the Track Record Period, we had received a total of 12 patient complaints, all of which were resolved within three days from receiving the complaints.

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We maintain detailed records of the disputes. We have procedures for handling medical disputes and accidents which are required to be followed by all our departments and staff. Any material incident which has caused or may cause injury, death or any other serious consequences shall immediately be reported to the department of medical administration, office of doctor-patient relationship and the relevant department head, which shall investigate the incidents. The department of medical administration and office of doctor-patient relationship are responsible for preserving relevant evidence and offering our patients and/or their families an explanation, and try to solve the disputes amicably. Although we have adopted preventive measures, we cannot completely eliminate the inherent risks related to medical procedures. For details of our medical disputes and accidents, please refer to the paragraph headed “— Legal Proceedings and Compliance — Medical Disputes” in this section.

### **Customer Information Security**

The PRC laws and regulations generally require medical institutions to protect the privacy of their patients or customers and prohibit unauthorized disclosure of personal information. We have taken measures to maintain the confidentiality of our patients’ medical information, including encrypting such information in our information technology systems so that it cannot be accessed without proper authorization and setting internal rules requiring our employees to maintain the confidentiality of our patients’ medical information. During the Track Record Period, we did not experience any breach of customer confidential information or any other customer information related incidents which could cause a material adverse effect on our business, financial condition or results of operations.

### **PROCUREMENT AND SUPPLIES**

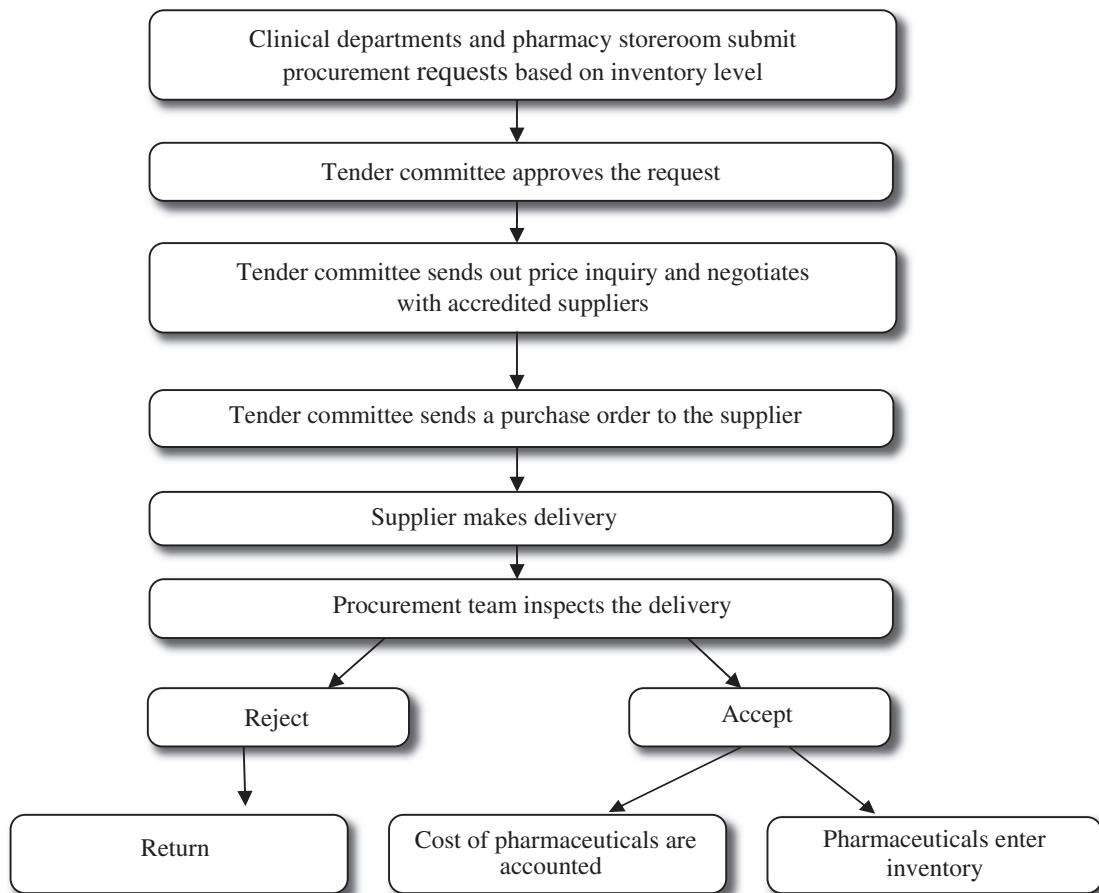
The supplies required in our operations primarily include pharmaceuticals and medical consumables. For the years ended December 31, 2017, 2018 and 2019, the procurement costs for pharmaceuticals and medical consumables in aggregate accounted for 56.2%, 53.9% and 53.2% of our total cost of sales, respectively. We have established a standard procurement process, whereby our hospital’s tender committee aggregates and negotiates with suppliers for our needs and all of our pharmaceuticals, medical equipment and medical consumables go through a tender process. Our hospital’s tender committee consists of a chief officer and six members. The nomination of the chief officer of the tender committee will be reviewed and discussed by our hospital management committee (院委會) and finally approved by our human resources department and Chief Operating Officer.

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First, the doctors at each department or pharmacists at the pharmacy storeroom consolidate and report the pharmaceuticals, medical equipment and medical consumables needs to their respective department head. Each department makes an independent judgment as to which types of pharmaceuticals, medical equipment and medical consumables to purchase. Second, the department heads review and approve the procurement orders. Third, the department heads report the purchase orders to the tender committee for final approval. The tender committee sends a price inquiry to at least three suppliers and negotiates with accredited suppliers over the prices, quantities and terms of sales. Fourth, after the tender committee chooses the supplier, we will enter into a purchase order with the selected supplier. The following flowchart illustrates our procurement process of our pharmaceuticals:



For all of the products ordered, inspections are conducted by the procurement team upon delivery to ensure strict quality control, including for expiration dates, packaging, product description and other quality indicators. We employ a standard product return policy, and return defective or expired products to the manufacturers or the distributors according to market practice and past dealings with our suppliers. During the Track Record Period, we did not encounter any quality issues or receive any defective products that would have a material adverse effect on our business, financial condition or results of operations.

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We procure pharmaceuticals, medical equipment and medical consumables from qualified suppliers selected based on their product offerings, quality, pricing, service, overall track record, and reputation, among others. We require our suppliers to maintain requisite licenses and permits to operate their business, such as business licenses and/or the pharmaceutical supply permit (藥品經營許可證). Our tender committee is in charge of approving qualified suppliers for our hospital to ensure that consistent quality and delivery standards are met, and regularly reviews and assesses each supplier's performance, checks their qualifications to ensure the legality and quality of the products we purchase and updates our supplier list accordingly. Suppliers who do not meet our supply standards or requirements will be removed from the list and will not be considered for further procurement. We usually have more than one supplier for each kind of our supply need to ensure we maintain sufficient inventory level and bargaining power. We do not rely on any single supplier for any of our major pharmaceuticals, medical equipment or medical consumables. During the Track Record Period, we did not experience any shortage of supplies that could materially or adversely affect our business, financial condition or results of operations.

We typically enter into agreements with our suppliers on an annual basis. We generally do not enter into any long-term agreements with our suppliers. The terms of the supply contracts vary depending on different types of supplies. For large medical equipment, the suppliers usually provide a warranty period during which the suppliers will provide maintenance service. The prices of the supplies are negotiated between our tender committee and the suppliers. During the Track Record Period, we did not experience significant fluctuation in the prices of our supplies. We believe we generally have a good working relationship with all of our suppliers. We typically have a credit term of two months for pharmaceuticals and four months for medical consumables. In terms of medical equipment, we typically pay for a substantial portion of the purchase amount within one to three months after installation and inspection of medical equipment, and settle the rest of the purchase amount upon or after expiration of warranty period pursuant to relevant contracts. The warranty period for our medical equipment typically varies from 12 months to 24 months. Our suppliers typically are responsible for and bear the risks of deliveries.

The prices of most pharmaceuticals, medical equipment and medical consumables in China sold to medical institutions and to patients are subject to government price controls. When sold to medical institutions in China, the wholesale prices of those pharmaceuticals, medical equipment and medical consumables on the price control list may not exceed the "bidding prices" or other price ceilings set by the relevant government authority. Consequently, consistent with industry practice, we are subject to such price controls when purchase pharmaceuticals, medical equipment and medical consumables from our suppliers.

During the Track Record Period, we had over 100 suppliers of pharmaceuticals, medical equipment and medical consumables, all of which are located in China. We procure pharmaceuticals and medical equipment that are manufactured by foreign manufacturers through domestic distributors who are licensed to import them. In 2017, 2018 and 2019, our five largest suppliers of pharmaceuticals, medical equipment and medical consumables accounted for approximately 46.1%, 46.8% and 50.8%, respectively, of our total purchases. In the same periods, our largest supplier accounted for 12.7%, 18.9% and 22.5%, respectively, of our total purchases. Our business relationship with our five largest suppliers of pharmaceuticals, medical equipment and medical consumables during the Track Record Period ranged from one year to ten years. We settled payment to our five largest suppliers by wire transfer.

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The following table sets forth certain information of our major suppliers during the Track Record Period.

Name of supplier	Amount of purchase (RMB'000)	% of total purchases	Product type supplied	Length of relationship (Years)
<b><i>For the year ended December 31, 2019</i></b>				
Supplier A .....	45,540	22.5%	Pharmaceuticals	> 5
Supplier B .....	28,956	14.3%	Pharmaceuticals	> 5
Supplier C .....	17,390	8.6%	Pharmaceuticals	> 5
Supplier D .....	6,011	3.0%	Medical consumables	> 1
Supplier E.....	4,844	2.4%	Pharmaceuticals	> 5
<b><i>For the year ended December 31, 2018</i></b>				
Supplier A .....	35,959	18.9%	Pharmaceuticals	> 5
Supplier B .....	20,504	10.8%	Pharmaceuticals	> 5
Supplier C .....	16,537	8.7%	Pharmaceuticals	> 5
Supplier F.....	9,321	4.9%	Pharmaceuticals	> 5
Supplier G .....	6,579	3.5%	Pharmaceuticals	> 5
<b><i>For the year ended December 31, 2017</i></b>				
Supplier A .....	22,402	12.7%	Pharmaceuticals	> 5
Supplier C .....	19,112	10.8%	Pharmaceuticals	> 5
Supplier B .....	16,755	9.5%	Pharmaceuticals	> 5
Supplier F.....	14,096	8.0%	Pharmaceuticals	> 5
Supplier H .....	8,854	5.0%	Pharmaceuticals	> 3

To the best of our knowledge, none of our Directors, their respective associates or any Shareholders owning more than 5.0% of our issued Shares had any interest in any of our five largest suppliers during the Track Record Period.

### CUSTOMERS, SALES, MARKETING AND SOCIAL RESPONSIBILITY

For our general health care services, our customers are primarily patients who receive medical care and related services at our hospital. We also provide medical examinations, disease screening and other services to governmental and corporate customers in Changyuan County. For our hospital management business, our Managed Hospital is our customer.

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### Our Customers

Each department of our hospital has a broad patient base, with no individual patient accounting for more than 1.0% of our hospital's revenue during the Track Record Period. Our five largest customers in aggregate contributed to less than 1.0% of our revenue during the Track Record Period. In 2017, 2018 and 2019, our largest customer, the Managed Hospital, accounted for 0.4%, 0.5% and 0.5%, respectively, of our total revenue. Among our top five customers during the Track Record Period, Henan Honliv Group and Henan Honliv School, both corporate customers of our medical examination services, are connected persons of our Company. Apart from the above, none of our Directors, their respective associates or any shareholder who owns more than 5.0% of our issued shares had any interest in any of our five largest customers during the Track Record Period.

Patients at our hospital pay for treatments and healthcare services and pharmaceuticals by cash, bank card or social security card. For the same treatment and general healthcare services provided, and for the same medications prescribed, our hospital charges the patients the same price, without considering whether the relevant patients are covered by social insurance programs or not. If covered by insurance programs, depending on the terms of the insurance programs, patients may make full payment for the services upfront then claim it later with their insurance providers, or make partial payment with the remainder settled between us and the insurance providers directly. For the years ended December 31, 2017, 2018 and 2019, our revenue attributable to social insurance programs was RMB107.9 million, RMB134.7 million and RMB148.8 million, respectively, accounted for approximately 22.5%, 27.1% and 28.0% of our total revenue in the same periods, and we received payments of RMB104.8 million, RMB110.8 million and RMB175.7 million, respectively, from social insurance programs, representing 21.9%, 22.3% and 33.1% of our total revenue in the same periods, respectively. The discrepancies between our revenue attributable to social insurance programs and payments we received from the same during the Track Record Period were primarily due to the delay in settlement by social insurance programs. Please refer to the paragraph headed "Financial Information — Discussion of Selected Items from the Consolidated Statement of Financial Position — Trade receivables" in this prospectus for details. There are no specific rules or regulations limiting the amount which our Group could receive from such social insurance programs in a given year. However, social insurance programs may reject claims for reimbursement from time to time if certain medicines we prescribed or medical treatments we provided to patients are deemed as out of coverage after review. During the Track Record Period and up to the Latest Practicable Date, we failed to receive reimbursements in an aggregate amount of approximately RMB42,686 from social insurance programs, for which we have made full provision.

We generally do not extend any credit period to our individual patients. We have a credit period of 30 days to 180 days for treatments and general healthcare services payable by social insurance programs. For our corporate customers, we usually extend a credit period between 30 to 180 days, consistent with the industry norms.

### **Marketing**

We conduct minimal marketing activities. We have a WeChat public account through which our patients can make appointments and review laboratory reports. The public account also provides information on our hospital, clinical departments, equipment, experts, hospital map, floor plans and information technology systems. We also release news and updates of our hospital, share healthcare-related knowledge, and provide healthcare lectures on our WeChat public account. We also rely on word-of-mouth to market our services.

### **Social Responsibility**

We highly value our social responsibility and actively participate in public welfare activities, such as providing free medical services or pharmaceuticals to those in need, which help boost our brand recognition and reputation. In particular, since 2010, we have sent professional team and equipment to provide free gastroscopy to residents of more than 590 villages of Changyuan County, Henan Province. Up to December 31, 2019, we had provided free gastroscopy to over 90,000 people and discovered over 1,100 cases of esophageal cancers and high-grade intraepithelial neoplasia of upper gastrointestinal, most of which were subsequently treated at our gastroenterology department and thoracic surgery department. In 2012, CCTV reported our free gastroscopy services and praised our dedication to serving the community. Furthermore, CCTV also reported our air ambulance service in 2015. In addition, Civil Aviation Resource Net of China reported our air ambulance service in 2016. We believe our participation in these public welfare activities, and our repeated exposure on the national television has greatly enhanced our reputation and brand awareness.

### **PRICING AND PRICING CONTROL**

In terms of healthcare service pricing, for-profit private hospitals are generally entitled to setting the prices of healthcare services at their discretion. However, if a medical institution is a Medical Insurance Designated Medical Institution, it may only charge fees for provision of healthcare services in accordance with the pricing guidelines set by the relevant local healthcare administrative authorities and public medical insurance providers. Such pricing guidelines stipulate the range of healthcare service fees that can be charged for patients covered by public medical insurance programs. Medical institutions without such designation are also not subject to such pricing restrictions and are entitled to set healthcare service fees based on their cost structures, market demand and other factors.

Henan Honliv Hospital is a for-profit private general hospital and a Medical Insurance Designated Medical Institution. Part of our patients pay for their treatment primarily through public medical insurance programs, including UEBMIP and URRBMIP. Before 2017, our patients also made payments through NRCMIP and URBMIP. NRCMIP and URBMIP started to integrate gradually as URRBMIP in Henan Province since 2017. We typically follow pricing guidelines stipulated by relevant local authorities. For medical services not covered by the pricing guidelines, we also take into account the market price for similar healthcare services in the region and price our medical services close to and based on the market price in Changyuan County.



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As a for-profit private hospital, we are entitled to set the retail prices of pharmaceuticals at our discretion. However, as a Medical Insurance Designated Medical Institution, we may only sell pharmaceuticals to our patients at the retail prices listed in certain catalogs promulgated by government authorities. Such retail prices are determined according to the supplier's bidding prices in the centralized pharmaceutical procurement process for public hospitals in Henan Province. As a result, public hospitals in Henan Province are not allowed to make a profit on the sale of pharmaceuticals as there is no mark-up between the the retail and procurement prices for the pharmaceuticals they sell to their patients. As a for-profit private hospital, we are not required to participate in the centralized pharmaceutical procurement process and are allowed to make a profit on pharmaceutical sales through controlling our procurement costs of pharmaceuticals.

### INFORMATION TECHNOLOGY SYSTEMS

We have implemented 36 medical information technology systems in our hospital, including over 10 self-developed systems, such as our Enterprise Resource Planning System (ERPS), Human Resources Management System (HRMS), Clinical Pathway System (CPS) (臨床路徑系統) and Mobile Clinical Care System (MCCS) (移動信息護理系統), among others. We also purchased certain information technology systems from third-party suppliers, including Hospital Information System (HIS), Customer Relationship Management System (CRM), Picture Archiving and Communications System (PACS), Laboratory Information System (LIS), Social Insurance System (SIS) and Electronic Medical Records System (EMRS).

Our ERPS incorporates HRMS, HIS and other office automation systems to enable data sharing and medical resource integration. HRMS keeps license records of our medical professionals and their related information. CPS records doctor's instructions and treatment plans for our patients, monitors their implementation and regularly assesses the treatment effect. With data support from HIS, our nurses can use MCCS installed on personal digital assistants (PDA), smart phones or tablets to communicate with our patients on medical instructions.

HIS helps us with daily operations at our hospital by managing all clinical, medical, financial and administrative information, including the management of patient records and billing history, pharmacy warehouse and the staffing of doctors and nurses. Our HIS also incorporates SIS, which digitally connects our hospital's billing records with the local medical insurance centers and calculates the amount of medical insurance reimbursement payments. CRM is the main system that we use to manage our hospital's interactions with current and potential patients. Our CRM system includes a comprehensive online and mobile platform that allows all users to access readily available healthcare and pharmaceutical prescription information, schedule appointments, and connect directly with our patient services personnel. PACS is an integrated application system for digital medical equipment, such as CT and MRI scans. LIS performs various functions, including processing, storing and managing data from medical tests. EMRS provides digital storage of our patient's medical records. Benefiting from our sophisticated information technology systems, we are also able to provide clinical telepathology services.

We plan to further upgrade our information technology systems, the estimated capital expenditure for which is approximately RMB4.7 million, which will be funded by proceeds from the Global Offering. For more details, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

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### INSURANCE

As of the Latest Practicable Date, our hospital did not maintain a medical liability insurance or public safety insurance. According to our PRC Legal Adviser, there is no statutory requirement for our hospital to maintain such insurance coverage in Henan Province, and according to the Frost & Sullivan Report, it is not a common industry practice for private medical institutions to maintain public safety insurance coverage in the region where we operate.

Please refer to the paragraph headed “Risk Factors — Risks Relating to Our Business and Industry — The nature of our business exposes us to professional and other liabilities” in this prospectus.

### HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We are subject to various PRC laws, rules and regulations with respect to health, safety and environmental matters, including hospital sanitation, reduction of occupational hazards in hospital, prevention of medical accidents, disease control, disposal of medical waste, and discharge of waste water, pollutants and radioactive substances. For more details, please refer to the section headed “Regulatory Overview” in this prospectus.

We are committed to complying with applicable PRC regulatory requirements, preventing and reducing various hazards and risks associated with our operations, and ensuring the health and safety of the patients and employees of our hospital and surrounding communities.

#### Government Regulations and Inspections

The NHC has promulgated numerous rules and regulations to regulate medical professionals and standards for healthcare services. The rules and regulations apply to multiple aspects of healthcare services and provide detailed procedures for medical professionals to follow, including requirements for a hospital to implement 18 core procedures to ensure healthcare service quality. These include proper procedures for initial diagnosis, consultation, ward inspection, discussion of complicated cases, pre-operation discussions, discussion of death cases, medical record keeping, care of critically ill patients and shift relief system. We are subject to unscheduled inspections by relevant government authorities, including the provincial and county health bureaus, which review healthcare services provided by our hospital to determine areas that can be further improved, including the implementation of the relevant rules and procedures. During the Track Record Period, we had not been notified of any material non-compliance of the 18 core procedures, nor had we been found of any other material violations during the inspections conducted by the respective provincial and county health bureaus, the clearance of which is a prerequisite for our hospital to renew its licenses. We did not receive any written notice of material findings or recommendations from the latest inspections by relevant government authorities. The latest inspection by the Health Commission of Changyuan City, formerly the Health and Family Planning Commission of Changyuan County on our hospital was on March 29, 2019.

### **Quality Control over Medical Services**

To ensure that our hospital provides consistently high-quality services that meet or exceed the standards mandated by applicable laws, rules and regulations, we have established a comprehensive quality control system. The system primarily includes the following measures:

- ***Training programs.*** We have implemented a well-balanced curriculum of training programs that are designed both to familiarize our professionals with all core procedures of providing healthcare services and to provide the platforms for these professionals to master their specialty areas.
- ***Medical verification system.*** We require our employees to strictly verify patient information before dispensing prescription drugs, performing of surgeries, blood transfusion and sample collection and delivering laboratory and medical reports.
- ***Designated department.*** Our department of medical administration (醫務部), under the supervision of our Quality and Safety Management Committee, focuses on quality control over our provision of medical services. We evaluate our healthcare services regularly and our department of medical administration regularly publishes medical control data on our internal system, identifies areas of improvement, proposes improvement measures and oversees implementation of such measures.
- ***Patient feedback system.*** We encourage patients to express their opinions on their healthcare services received through patient feedback systems, including inpatient exit surveys, regular patient satisfaction surveys, regular ward visits by doctors to discuss patient experiences and patient comment boxes. We keep a record of all the patients' complaints and take measures to address their concerns.

### **Anti-bribery and Professional Integrity Requirements for Employees**

We maintain a zero-tolerance policy towards the acceptance of any form of bribes by doctors, staff and hospital management and have developed a set of anti-corruption policies and procedures. The design and implementation of anti-corruption policies and procedures are overseen by our management and audit committee. We have also established whistleblower programs, including dedicated email addresses to receive named or anonymous reports of corruption, and strict investigation protocols. Any employee found in breach of our anti-corruption policies faces termination of employment. Our hospital has implemented specific mechanisms to assess the reasonableness of pharmaceutical prescriptions. Any irregularities that could indicate instances of prescription abuse or corruption are immediately reported to the senior management team for further action. In addition, our employees take part in professional integrity and anti-corruption training on a regular basis, and receive periodic updates on the latest anti-corruption issues as such issues arise. We had no material non-compliance with the anti-corruption policies during the Track Record Period.

### **Safety Management for Patients and Employees**

To mitigate health, safety and environmental risks and reduce potential medical disputes, we have established a Quality and Safety Management Committee responsible for coordinating with other relevant departments to supervise and examine safety issues and quality control, such as medical treatment safety, environment safety and occupational safety within our hospital. We maintain an internal inspection procedure to ensure the safety of our hospital premises for patients, the public and staff. Our workplace is continuously monitored under the inspection procedure and any deficiencies in relation to our set standards will be remedied in a timely manner. We ensure that each of our hospital departments is periodically inspected for safety issues, such as medical treatment safety, environment safety and occupational safety. We actively encourage staff to report health and safety incidents and risks on a no repercussion basis, and our learning from proactive monitoring and findings from incident reviews will be used to further improve and refine our training programs, policies and working practices.

We have also adopted various measures to maintain a safe and sustainable environment. For example, each of our departments has an occupational exposure protection measure that provides guidance for safety operation to all doctors, technicians, nurses and other medical supporting personnel. We have also established a Hospital Infection Control Committee that oversees infectious disease prevention and report. In addition, we conduct regular sanitization to contain the potential spread of infectious diseases at our hospitals. We have established surveillance systems to closely monitor the prevalence of nosocomial infections (醫院感染現患率) at our hospitals and ensure that they are maintained at very low levels in compliance with NHC standards. We also provide periodical occupational safety education and training to augment our staff's awareness of safety issues. We provide our staff with regular health assessment to monitor their overall health. In particular, we adopt stringent assessment protocols for our medical professionals that are regularly exposed to high-risk environments such as radiation and clinical wastes to ensure their exposure is within acceptable safety limits.

Save as otherwise disclosed in this prospectus, no material medical accidents or work-related injuries happened at our hospital, and no material claims for personal or property damages were made by our employee during the Track Record Period which could cause a material adverse effect on our business, financial condition and results of operations.

### **Environmental Protection**

To ensure that our business is in line with the applicable requirements and standards of environmental protection, we have implemented internal policies and procedures in this regard and we have engaged qualified service providers to dispose of our medical and other wastes. For example, we have engaged Changyuan County Liying Medical Waste Disposal Co., Ltd. (長垣縣利盈醫療廢物處置有限公司), a qualified recycling company, for our medical waste disposal. Each of our departments collects, sorts, seals and places medical waste and household waste at a designated area for regular pick-up by the qualified recycling company, which sterilizes and disposes of the medical waste in accordance with relevant regulations. We also have self-owned wastewater treatment plant to process medical wastewater discharged by our hospital. Our medical wastewater is discharged into municipal sewage after national wastewater discharge standard is met. Such medical wastewater will be further processed by the wastewater treatment plant of Changyuan County. We do not produce any radioactive medical waste.

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Our cost for compliance with applicable environmental protection rules and regulations mainly consists of medical waste disposal cost and sewage treatment cost. In 2017, 2018 and 2019, our medical waste disposal cost and sewage treatment cost totaled RMB368,400, RMB441,150 and RMB920,511, respectively. During the Track Record Period, we did not encounter any material non-compliance or complaints in relation to the health, safety and environmental protection laws and regulations. Going forward, we expect that the annual cost of compliance with health, safety and environmental protection rules and regulations may increase in line with the growth and expansion of our business.

### INVENTORY

Our medical supplies, including pharmaceuticals, medical equipment and medical consumables are delivered by our suppliers in accordance with the terms of the supply contracts. Upon inspection by our quality control team, the medical supplies are then put into storage areas with controlled temperature and humidity in accordance with the storage requirements of the medical supplies and applicable laws and regulations. We have specific warehouse and storage for our inventory of pharmaceuticals, medical equipment and medical consumables and do not engage any third-party warehouse or logistics companies. During the Track Record Period, we were in full compliance with the applicable laws and regulations in relation to the storage of medical supplies in all material aspects.

Our inventory comprises primarily the inventory of pharmaceuticals, medical equipment and medical consumables at our hospital. As of December 31, 2017, 2018 and 2019, we had inventories of RMB12.5 million, RMB18.0 million and RMB23.1 million, respectively, in our hospital. We maintain strict control over our pharmaceuticals and medical consumables inventories by conducting regular physical inventory counts and have a policy of keeping approximately 30 days of inventory to meet the needs of our hospital. We closely monitor the shelf life for all medical supplies. Once the pharmaceuticals or supplies are expired, or the medical equipment have reached the end of their service lives, we safely dispose of them in accordance with applicable laws and regulations, and such medical supplies are written off accordingly. During the Track Record Period, we did not experience any significant write-offs of our inventories.

### OUR PROPERTIES

We occupy certain properties in China in connection with our business operations. We do not directly or indirectly hold or develop properties for letting or retention as investments, nor do we purchase or develop properties for subsequent sales or for retention as investments. We have engaged an Independent Valuer to value our property interests as of March 31, 2020, whose report is included in Appendix III to this prospectus.

#### *Owned Properties*

As of the Latest Practicable Date, we owned 16 parcels of land with a total area of 329,236.3 sq.m. and the building ownership right to 23 buildings with an aggregate GFA of 128,438.2 sq.m. located in Changyuan County, Henan Province, which is the premises for our hospital, Henan Honliv Hospital. We have obtained the land use right with respect to the aforesaid land, which will expire in 2053 or 2059, and building ownership certificate for the aforesaid buildings, which have all been registered.

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The following table summarizes the buildings we owned as of the Latest Practicable Date:

<b>Use of Property</b>	<b>Location</b>	<b>GFA (sq.m.)</b>
Medical .....	South Wenhua Avenue, West Boai Road, Puxi District, Changyuan County, Henan Province	75,032.7
Residential .....	South Wenhua Avenue, West Boai Road, Puxi District, Changyuan County, Henan Province	32,903.0
Administrative, logistics and ancillary.....	South Wenhua Avenue, West Boai Road, Puxi District, Changyuan County, Henan Province	20,502.6

### ***Leased Properties***

As of the Latest Practicable Date, we leased properties with an aggregate GFA of approximately 32,276 sq.m. under three lease agreements. We primarily use such properties for office premises and staff dormitories. Under one of the three lease agreements, we leased a property with an aggregate GFA of approximately 31,880 sq.m. from Henan Honliv Group, our Controlling Shareholder, which will constitute a connected transaction for our Group after the Listing. The property was used for staff dormitories. The lease agreement entered into between the parties has a term of two years from January 1, 2019 to December 31, 2020. We may renew the lease by giving a notice 30 days before its expiry. The annual lease for the property is RMB580,000.

As of the Latest Practicable Date, one of the three lease agreements had not been registered with the relevant local housing authorities. As advised by our PRC Legal Adviser, the relevant authorities may require us to complete the registration within a specified timeframe and impose a fine up to RMB10,000 on us for our failure to timely register such lease agreement, but the validity of the lease agreement and our use of such properties will not be affected.

### **COMPETITION**

The hospital and healthcare service industry in China is highly fragmented with numerous market participants. According to the Frost & Sullivan Report, as of the end of 2018, there were 19,693 general hospitals in China, out of which 12,144 were private general hospitals. We had a total of 1,500 beds in operation as of December 31, 2019. However, the number of our beds in operation as of December 31, 2018 represents less than 0.2% of the approximately 1.1 million total beds in operation of hospitals in Central China as of December 31, 2018, according to the Frost & Sullivan Report. Hospitals compete primarily with other hospitals in their areas of operations. The key competitive factors include healthcare service quality, reputation, convenience and price. Our main competitors are general hospitals in the area where we operate. As we expand our healthcare services, we will face competition from both public and private hospitals in the areas we operate and expand into. For more details on the competitive landscape and our market position, please refer to the paragraph headed “Industry Overview — Competitive Landscape” in this prospectus.

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### MAJOR AWARDS

We believe our high-quality and patient-oriented services have earned us a strong reputation among the customers and industry peers alike. The following table sets forth the recent major awards and achievements won by our hospital:

Year	Awards and Achievements	Award Issuing Body
2019 .....	Health Promotion Hospital of Henan Province (河南省健康促進醫院)	Health Commission of Henan Province
2019 .....	Advanced Unit in Safety and Fire Protection in 2018 (2018年度安全生產消防工作先進單位)	Health Commission of Henan Province
2018-2020 .....	Advanced Unit in Healthcare of Henan Province (省級衛生先進單位)	Patriotic Health Campaign Committee of Henan Province
2017 .....	Advanced Unit in Safety Production of Health and Family Planning System of Henan Province in 2016 (2016年度全省衛生計生系統安全生產先進單位)	Health and Family Planning Commission of Henan Province
2016 .....	Advanced Unit in Infectious Disease Report Management of Medical Institution (醫療機構傳染病報告管理先進集體)	Disease Control and Prevention Center of Henan Province
2016 .....	The Trustworthy Private Hospital in China (3A) (全國誠信民營醫院(3A))	Chinese Hospital Association
2016 .....	100 Top Reliable Model Hospital in China (全國百姓放心百佳示範醫院)	Chinese Hospital Association
2015 .....	The Most Valuable Private Hospital in China (全國最具價值民營醫院)	Chinese Hospital Association and others
	Best Baby-Friendly Hospitals in China (全國優秀愛嬰醫院)	NHC
2014 .....	The Reliable Model Hospital in China (全國百姓放心示範醫院)	Chinese Hospital Association
2013 .....	Provincial Advanced Unit in Health System (全省衛生系統先進集體)	Department of Human Resources and Social Security of Henan Province, The Health Department of Henan Province and Traditional Chinese Medicine Administration of Henan Province
2013 .....	Advanced Unit in Medical and Health System Reform (全省醫藥衛生體制改革先進單位)	The Health Department of Henan Province
2012 .....	Advanced Unit in National Hospital (Healthcare) Culture Development (全國醫院(衛生)文化建設先進單位)	Hospital Culture Specialty Committee of Chinese Hospital Association
2011-2012.....	Advanced Unit of Henan Province in Hospital Management Innovation (河南省醫院創新管理先進單位)	The Health Department of Henan Province
2011 .....	The Trustworthy Private Hospital in China (全國誠信民營醫院)	Private Hospital Management Branch of Chinese Hospital Association and National Institute of Hospital Administration
2010 .....	National Hospital in Reform and Innovation (全國改革創新醫院)	“Jian Kang Bao” and “Chinese Health” Newspaper

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### EMPLOYEES

As of December 31, 2019, we had a total of 1,610 employees in China, which includes management and administrative, logistics, procurement, finance, and medical professionals at our hospital, including doctors, nurses, pharmacists and medical technicians. Please refer to the paragraph headed “— Our Doctors and Medical Professionals” in this prospectus. The following table shows a breakdown of our employees by function as of December 31, 2019:

<b>Functions</b>	<b>Number of Employees</b>	<b>As % of Total Employees</b>
Management and administrative .....	205	12.7%
Logistics.....	196	12.2%
Procurement .....	6	0.4%
Finance.....	11	0.7%
Medical Professionals .....	1,192	74.0%
<b>Total .....</b>	<b>1,610</b>	<b>100.0%</b>

Our employees typically enter into standard employment contracts with us. Remuneration packages for our employees may comprise one or more of the following elements: base salary, performance-based bonus and discretionary bonus. We set performance targets for our employees based on their positions and departments and periodically review their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals. We offer various employee benefit plans, including housing provident funds, pension, medical, maternity, work-related injuries and unemployment benefits in accordance with applicable laws and regulations. We are not responsible for the remuneration packages and benefit plans of our Managed Hospital’s employees. Except for those disclosed below in this prospectus, we complied with applicable laws and regulations related to labor and employee benefit plans in all material aspects during the Track Record Period.

As of the Latest Practicable Date, our employees were represented by a labor union. All labor disputes are handled in accordance with all applicable laws, rules and regulations. We believe we maintain good relationships with our employees. During the Track Record Period, we did not experience any significant staff turnover or any disruption to our business operations due to labor disputes. During the Track Record Period, we failed to make registration with social insurance and housing provident funds authorities and make the relevant payments for certain employees. For details, please refer to the paragraph headed “— Legal Proceedings and Compliance — Non-compliance incident” in this section.

### RESEARCH AND DEVELOPMENT

Medical research is an integral part of our institutional practice. While we do not have a dedicated research and development department, we actively encourage our medical professionals to participate in national-level research projects, such as Chinese Hypertension Intervention Efficacy study (CHIEF) with respect to cardiovascular diseases. Our advanced medical facilities, wide patient base and clinical resources provide a robust research platform for our medical professionals. Since our establishment and up to the Latest Practicable Date, 13 of our research achievements contributed by our medical professionals involving neurosurgery, obstetrics and gynecology, renal rheumatology, gastroenterology and dermatology were certified as scientific and technological achievement (科學技術成果) by the Henan Provincial Department of Science and Technology, seven of which were awarded third prize of Medical Science Progress Award granted by the Health Commission of Henan Province, formerly the Health and Family Planning Commission of Henan Province.



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## BUSINESS

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As such research and development activities are conducted by our medical professionals outside the scope of our revenue-generating business operations and we typically reward our medical professionals undertaking research initiatives with career advancement opportunities, we did not incur any research and development expenses during the Track Record Period.

### INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we held one registered domain name in China. We have also registered certain trademarks in China and Hong Kong primarily relating to the name and logo of our hospital. As at the Latest Practicable Date, we had ten trademarks registered in China and seven trademarks registered in Hong Kong. As we direct more resources towards research and development, we may patent new techniques, technologies and other innovations.

We recognize the importance of our intellectual property rights and will protect and enforce our intellectual property rights if we discover any infringement on our rights. During the Track Record Period and up to the Latest Practicable Date, we were not engaged in or threatened with any claim for infringement of any intellectual property rights, whether as a claimant or as a defendant. For more details on our intellectual property rights, please refer to the paragraph headed “B. Further Information about Our Business — 2. Our material intellectual property rights” in Appendix V to this prospectus.

### LICENSES, PERMITS AND CERTIFICATES

We operate in a heavily regulated industry and as a result, we are required to obtain various licenses, approvals, permits and certificates for our operations. As advised by our PRC Legal Adviser, we had obtained the material licenses, approvals, permits and certificates for our current business operations as of the Latest Practicable Date. The following table sets forth the major licenses, permits and certificates for our hospital as of the Latest Practicable Date:

<u>License/Permit/Certificate</u>	<u>Effective Date</u>	<u>Expiration Date</u>
<b>Henan Honliv Hospital</b>		
Medical Institution Practicing License .....	January 13, 2020	January 12, 2035

In addition to the above licenses, permits and certificates, we have also obtained other licenses and permits such as License for the Deployment of Large Medical Equipment (大型醫用設備配置許可證), License for Radiotherapy (放射診療許可證), and Seal Card for the Purchase and Use of Narcotic Pharmaceuticals and Class I Psychotropic Substances (麻醉藥品、第一類精神藥品購用印鑒卡). For more details on our licenses, permits and certificates, please refer to the paragraph headed “Regulatory Overview — Laws and Regulations Related to the Healthcare Service Sector in China — Regulations on the Supervision over Pharmaceuticals in Medical Institutions” in this prospectus. We plan to renew the necessary licenses, approvals, permits and certificates upon expiration. Our PRC Legal Adviser is of the view that there is no material legal impediment in renewing these licenses, approvals, permits and certificates as long as we are in compliance with applicable rules, laws and regulations.

**LEGAL PROCEEDINGS AND COMPLIANCE**

**Non-compliance Incident**

During the Track Record Period, we had the following non-compliance incident that arose in the operation of our business. Set forth below is a summary of our non-compliance matter during the Track Record Period and up to the Latest Practicable Date, as well as rectification actions and preventive measures that we have taken in respect of such matters:

Non-compliance Incident	Reasons for the non-compliance	Legal consequence and potential maximum penalties	Remedies and rectification measures taken to prevent future breach and ensure on-going compliance	Potential impact on our operations and financial condition
<p>1. Delayed income tax filings since our establishment and up to 2018</p>	<p>We delayed our income tax filings since our establishment and up to 2018 because our ex-employee<sup>(1)</sup> who was responsible for tax matters of our hospital misunderstood that income tax filings were not required for the hospitals which are exempted from paying income taxes.<sup>(2)</sup></p>	<p>As advised by our PRC Legal Adviser, the relevant authority may require the taxpayers who have delayed income tax filings to file the required tax returns within a stipulated period and impose a fine up to RMB10,000 on the taxpayer for such delay.</p> <p>As of the Latest Practicable Date, we did not receive any notice from any tax authorities requiring us to make tax filings or imposing any fine on us for the delay.</p>	<p>We have taken the following rectification measures to prevent future occurrence of such non-compliance:</p> <p>(i) We removed the employee who had delayed our income tax filings from all positions in our Group and engaged senior financial management officers with professional background and expertise to handle our income tax filings going forward;</p> <p>(ii) Since 2019, we began to file income tax return on a regular basis and settled all of our outstanding tax liabilities with the local tax authority in September 2019; and</p> <p>(iii) We have implemented certain internal control measures, including but not limited to directors briefings, internal trainings and external consultations, to prevent future breach and ensure on-going compliance. For details, please refer to paragraph headed “— Internal Control and Rectification Measures” in this section.</p>	<p>Our Directors believe that such non-compliance would not have a material and adverse effect on our business and results of operations, considering that:</p> <p>(i) The maximum fine that may be imposed on us for such non-compliance is immaterial and as of the Latest Practicable Date, we did not receive any notice from any tax authorities imposing any fine on us; and</p> <p>(ii) We obtained a confirmation letter in December 2019 from Changyuan Tax Bureau of State Taxation Administration (國家稅務總局長垣市稅務局), confirming that, amongst others, (1) no tax penalty has been imposed on us since the incorporation of our hospital, and (2) we are not subject to any investigation or disputes in relation to tax matters.</p>

Non-compliance Incident	Reasons for the non-compliance	Legal consequence and potential maximum penalties	Remedies and rectification measures taken to prevent future breach and ensure on-going compliance	Potential impact on our operations and financial condition
<p>2. Failure to pay social insurance and housing provident funds for certain employees during the Track Record Period</p>	<p>During the Track Record Period, we failed to make registration with social insurance and housing provident funds authorities and make the relevant payments for certain employees, primarily because some employees declined to participate in the social insurance and housing provident funds programs as they have already enrolled in the NRCMIP.</p>	<p>As advised by our PRC Legal Adviser, according to the relevant PRC laws and regulations: (i) with respect to social insurance, the relevant authorities may order us to pay the outstanding amounts within a stipulated period with a late charge at the daily rate of 0.05% on the outstanding amounts, and they may impose a maximum fine equivalent to three times the outstanding amounts if such payment is not made within a stipulated period; (ii) with respect to housing provident funds, the relevant authorities may order us to pay the outstanding amounts of the housing provident funds within a stipulated period. If we fail to do so, the relevant authorities may apply to a competent court for enforcement of the unpaid amounts.</p>	<p>We have taken the following rectification measures to prevent future occurrence of such non-compliance:</p> <ul style="list-style-type: none"> <li>(i) Training. Strengthen legal compliance training to our employees to increase their awareness of the relevant PRC laws and regulations and encourage their cooperation in making payments for social insurance and housing provident funds;</li> <li>(ii) Policy. Formulate and distribute to our employees an internal control policy with respect to social insurance and housing provident fund contribution in compliance with relevant PRC laws and regulations, which we have started to implement; and</li> <li>(iii) Review and record-keeping. Designate our human resources staff to monitor the payment status and prepare monthly reports of salary and contribution amounts, which shall be reviewed by our human resources department head and our finance department head to ensure that we make these payments in full and on time in accordance with relevant laws and regulations.</li> </ul>	<p>Our Directors believe that such non-compliance would not have a material and adverse effect on our business and results of operations, considering that:</p> <ul style="list-style-type: none"> <li>(i) we have made full provision in an amount of RMB3.5 million for the estimated total outstanding social insurance fund and housing provident fund contributions as of December 31, 2019;</li> <li>(ii) based on our consultations with the competent government authorities, the relevant authorities acknowledged our contributions of social insurance and housing provident fund for our employees during the Track Record Period and as advised by our PRC Legal Adviser, the risk for us to be fined by the relevant authorities is remote so long as we pay the outstanding amounts and the late payment charges (if applicable) within the stipulated period upon request from the relevant authorities;</li> <li>(iii) as of the Latest Practicable Date, we had not received any request from any relevant authorities to make such payments; and</li> <li>(iv) we were not aware of any material employee complaints nor were involved in any material labor disputes with our employees with respect to social insurance and housing provident funds during the Track Record Period and up to the Latest Practicable Date.</li> </ul>

Notes:

(1) The ex-employee is Ms. Chen Bing, who was a Director and head of the financial department of our hospital. Ms. Chen resigned as a Director in March 2018 for personal reasons. In December 2018, she was removed from the position of the head of the financial department of our hospital for delaying our income tax filings. To our Directors' best knowledge and belief, Ms. Chen is currently employed by an Independent Third Party who has no past or present relationship with our Controlling Shareholders and our Group, their directors, senior management or any of their respective associates.

(2) According to the relevant laws and regulations, not-for-profit hospitals in China are exempted from paying income taxes for their healthcare services rendered at a price prescribed by the relevant authorities. We had followed such pricing policies for our services despite our hospital is a for-profit private hospital. Based on our consultations (the "Consultations") with the deputy director, the competent officer as advised by our PRC Legal Adviser of Changyuan Tax Bureau, State Taxation Administration (國家稅務總局長垣市稅務局第二稅務分局), the competent tax authority directly responsible for the tax issues of our hospital as advised by our PRC Legal Adviser (the "Competent Tax Authority"), our hospital should be eligible for the same income tax exemption as not-for-profit hospital according to its interpretations of the Notice on Tax Policies for Medical Institutions (Cai shui [2000] No. 42) (《關於醫療衛生機構有關稅收政策的通知》財稅[2000]42號) (the "No. 42 Notice"). The No. 42 Notice provides that not-for-profit hospitals in China are exempted from paying income tax while it does not specify the tax treatment for private hospitals who has followed the pricing policies as those of not-for-profit hospitals and therefore leaves the discretion for the local tax bureau in its interpretation and enforcement.

In March 2018, Mr. Wang Zhongtao was appointed as a Director to succeed Ms. Chen Bing. Mr. Wang is a non-practicing member of the Chinese Institution of Certified Public Accountants with rich experience in accounting management and the enhancement of internal systems. Please refer to the section headed "Directors and Senior Management" in this prospectus for details. After Mr. Wang joined our Group, he took a supervising role and mainly supervised the financial management of our hospital. In the process of getting himself familiar with our businesses and operations and leveraging his strong expertise in accounting issues, Mr. Wang spotted that our Company delayed its income tax filings since its establishment as disclosed above and reported it to the management in November 2018. In the process of rectifying the above non-compliance, Mr. Wang, who is unfamiliar with hospital related taxation policies, also prudently suggested our Company review eligibility for income tax exemptions to ascertain our tax positions, based on his past experience in handling income tax matters for Henan Honliv Group.

In January 2019, our financial manager attended a tax training session held by a local tax adviser Mr. Zhao Zhiguo, a Certified Tax Agent (註冊稅務師) in China with over 15 years of experience in tax consultation. Following the training session, our financial manager further consulted with Mr. Zhao on our eligibility for income tax exemptions under the No. 42 Notice and understood that the interpretations on the No. 42 Notice are not always uniform among different government authorities, and in order to reduce the potential risks caused by such different interpretations, Mr. Zhao suggested our Company communicate with the Competent Tax Authority and consider seeking for voluntary application for enterprise income tax. Further to the advice obtained from the local tax adviser, we also checked with our PRC Legal Adviser and Reporting Accountant on the treatment of enterprise income tax of other PRC private hospitals. Upon our request, our PRC Legal Adviser and Reporting Accountant provided the prospectuses of private hospitals listed on the Stock Exchange for our reference. Having considered the discussion with aforementioned professional parties and with reference to the practice of PRC private hospitals, we decided to voluntarily elect application for enterprise income tax so as to minimize our potential risk exposure. After months of communications with the Competent Tax Authority, we paid the income tax accrued and late payment fees of RMB5.5 million as calculated by the Competent Tax Authority in full in September 2019. Since the relevant income tax exemptions are no longer applicable to our hospital, as advised by our PRC Legal Adviser, our hospital is required to pay income tax going forward as it will be treated as a PRC resident enterprise under the EIT Law.

We have obtained a clearance confirmation letter (the "Confirmation Letter") from Changyuan Tax Bureau of State Taxation Administration (國家稅務總局長垣市稅務局), being the direct higher authority of the Competent Tax Authority as advised by our PRC Legal Adviser, which further confirmed that (i) no tax penalty has been imposed since the incorporation of our hospital; (ii) our hospital has settled its tax liabilities in full; and (iii) our hospital is not subject to any investigation or disputes in relation to tax matters. As advised by our PRC Legal Adviser, late payment fee is not a type of administrative penalty under the PRC laws and regulations and thus does not jeopardize or undermine the opinions under Confirmation Letter. In addition, on April 23, 2020, our Company consulted with the deputy director of the second inspection department of Henan Provincial Tax Service, State Taxation Administration (河南省稅務局) ("Henan Tax Bureau"), who confirmed that Henan Tax Bureau had no objection to the confirmation in relation to the No. 42 Notice made by the Competent Tax Authority during the Consultations and held no contrary views on the Confirmation Letter issued by Changyuan Tax Bureau. As advised by our PRC Legal Adviser, the deputy director is a competent officer of Henan Tax Bureau for our Company to consult with. Based on the above, our PRC Legal Adviser is of the opinion that (1) our under-payment of income tax is not a non-compliance incident which may have a material adverse impact on our on our business and results of operations, and (2) the risk of the confirmation made by the deputy director of the Competent Tax Authority during the Consultations being overturned or challenged by a higher authority is remote.

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## BUSINESS

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During the Track Record Period and as of the Latest Practicable Date, we did not experience any non-compliance that, in the opinion of our Directors, is likely to have a material adverse effect on our business, financial condition or results of operations. As advised by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, save as disclosed in this prospectus, we had complied with the relevant laws and regulations in all material respects.

### Medical Disputes

We are subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical disputes brought by our patients and/or their families against us. These medical disputes were mostly related to bodily injuries that the patients suffered during or after receiving medical treatments at our hospital. Most of these bodily injuries were not material and could not be completely avoided due to the inherent risks related to diagnoses, treatments or procedures or unforeseeable conditions which may result in complications, bodily injuries or even death of the patients in some cases. As part of our risk management and internal control procedures, we have informed our patients of these inherent risks and obtained their consents before conducting relevant treatments or procedures. Most of the medical disputes with our patients and/or their families were settled through direct negotiations. However, they may choose to seek claims against us through legal proceedings if initial negotiation to reach a settlement fails. During the Track Record Period, we did not experience any material medical disputes that could cause a material adverse effect on our business, financial condition or results of operations.

During the Track Record Period, there were 19 cases of medical disputes with our patients and/or their families which resulted in, or are likely to result in, monetary compensation to them, only two of which involved a claim amount exceeding RMB100,000 and had been settled as of the Latest Practicable Date. For the years ended December 31, 2017, 2018 and 2019, the aggregate amount of medical treatment fees waived by us and the amount of monetary compensation paid to our patients and/or their families by us were approximately RMB135,050, RMB94,772 and RMB398,603, respectively, representing 0.03%, 0.02% and 0.08% of our total revenue, respectively, over the same periods.

As advised by our PRC Legal Adviser, none of our medical disputes settled during the Track Record Period involved any determination that we were liable for medical malpractice. In addition, as we did not receive any reprimand or administrative penalty from the health administration authorities in connection with our medical disputes over the Track Record Period, and no professional medical association had concluded that any of these medical disputes was a medical malpractice of any grade after a professional and technical appraisal, these medical disputes did not constitute medical malpractice and have not resulted in any material liability or adverse consequence to our hospital or the relevant physicians. The following table sets forth the numbers of medical disputes at our hospital which resulted in or are likely to result in monetary compensation to our patients and/or their families during the Track Record Period:

	Year ended December 31,		
	2017	2018	2019
Henan Honliv Hospital .....	4	6	9

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## BUSINESS

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### *Ongoing medical disputes*

We strictly adhere to the Regulations on Handling Medical Malpractice (醫療事故處理條例) as promulgated by the State Council in our handling of medical incidents that arise in our operations. As of the Latest Practicable Date, there was one ongoing medical dispute in legal proceedings at our hospital and we estimate that the maximum exposure in relation to the dispute will not exceed RMB20,000.

### *Medical disputes involving fatalities*

During the Track Record Period, among the 19 medical disputes, there were six cases of medical disputes which involved fatalities of patients. We waived our medical treatment fees and paid monetary compensation of an aggregate of RMB308,031 for these disputes during the Track Record Period, all had been settled as of the Latest Practicable Date. In each of these incidents, we believe our medical staff have followed appropriate treatment procedures and protocols and none of them has been determined to be liable for any medical malpractice. The following table sets forth the details of these disputes:

<u>Date of Incident</u>	<u>Nature of Incident</u>	<u>Amount Waived</u>	<u>Amount Paid</u>
July 5, 2018 .....	Patient mortality due to suffocation during hospitalization	RMB401	/
August 18, 2018.....	Patient mortality due to gastrointestinal bleeding during hospitalization	/	RMB31,413
September 1, 2018 .....	Patient mortality due to neonatal respiratory distress syndrome and neonatal septicemia during hospitalization	RMB5,549	RMB1,055
December 20, 2018 .....	Patient mortality due to multiple organ failure caused by fungal infection during hospitalization	RMB19,613	/
February 12, 2019.....	Patient mortality after percutaneous coronary intervention	/	RMB150,000
June 28, 2019.....	Patient mortality after percutaneous coronary intervention	/	RMB100,000

We believe these are isolated cases and reflect the inherent risks related to our business and operations. We may continue to face potential legal proceedings and claims in our operations. Please refer to the paragraph headed “Risk Factors — Risks Relating to Our Business and Industry — The nature of our business exposes us to professional and other liabilities” in this prospectus.

Save as otherwise disclosed above in this subsection, as of the Latest Practicable Date, we did not have any ongoing or unsettled material litigation, arbitration or administrative proceedings, and we are not aware of any claims or proceedings contemplated by government authorities or third parties that would have a material adverse effect on our business, financial condition or results of operations. Our Directors are not involved in any actual or threatened material claims and litigation.

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## BUSINESS

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Our PRC Legal Adviser and our Directors have confirmed that we have complied with applicable PRC laws and regulations in all material aspects and have obtained all material licenses, approvals, permits and certificates from appropriate regulatory authorities for our business operations in China.

### **INTERNAL CONTROL AND RECTIFICATION MEASURES**

Our Directors are responsible for monitoring our internal control system and reviewing its effectiveness. In accordance with applicable laws and regulations, we have implemented measures with a view to establishing and maintaining our risk management and internal control system, including the establishment of risk management policies, monitoring of operational processes and compliance with applicable laws and regulations. In particular, our Directors have attended trainings conducted by our Hong Kong legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the SFO and the Listing Rules and our Directors are fully aware of their duties and responsibilities as directors of a listed company in Hong Kong. We have established an audit committee which comprises three independent non-executive Directors. The audit committee has also adopted its terms of reference which set out clearly its duties and obligations for ensuring compliance with the relevant regulatory requirements. The audit committee is empowered under its terms of reference to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters. We have also appointed Central China International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to ensure that, among other things, we are properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines.

With respect to medical disputes, we require all our departments and staff to follow our internal procedures on handling medical disputes. Any material incident which has caused or may cause injury, death or any other serious consequences shall immediately be reported to the department of medical administration, office of doctor-patient relationship and the relevant department head, which shall investigate the incidents. The department of medical administration and office of doctor-patient relationship are responsible for preserving relevant evidence and offering our patients and/or their families an explanation, and try to solve the disputes amicably.

With respect to anti-corruption, we have specific policies and procedures in place. The design and implementation of anti-corruption policies and procedures are overseen by our management and audit committee. Related policies are set forth in the employee handbook and code of conduct. We have a zero tolerance policy towards acceptance of any form of bribes by doctors, staff and hospital management. We have also established a whistle blower program, dedicated hotline and email address to receive named or anonymous reports of corruption charges, and stringent investigation protocols. Any employee found in breach of the relevant hospital's anti-corruption policies faces termination of employment. Our employees undergo anti-corruption trainings on an annual basis and we maintain relevant training records.

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## BUSINESS

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With respect to short-term advances granted to and/or received from our related parties, all amounts due from related parties had been fully repaid to us as of December 31, 2019 and we will not grant new advances to related parties prior to the Listing. We will fully settle all of our non-trade amounts due to related parties prior to the Listing. For details, please refer to the paragraph headed “Financial Information — Related Party Transactions — Balances with Related Parties” in this prospectus. We have engaged an internal control consultant to review and strengthen the internal controls in relation to any advances to or from our related parties, in order to ensure the arrangement of any advances to or from connected persons and their associates are in compliance with the Listing Rules.

With respect to our non-compliance incident on delayed tax filings, we have put in place the following enhanced corporate governance measures since September 2019 to ensure that we will comply with relevant tax laws and regulations:

- Dedicated financial management team. We have engaged senior financial management officers with professional background and expertise, who are responsible for overseeing, among other things, our tax reporting and management system.
- Director briefings. Our Directors and senior management have received briefings conducted by our PRC Legal Adviser in relation to relevant tax laws and regulations, duty and liability applicable to our Group.
- Trainings. Our PRC Legal Adviser will provide trainings in relation to tax matters to the senior management and relevant staff of our Company from time to time.
- External tax advisers. We will engage external tax advisers to provide ad hoc tax-related trainings to the senior management and relevant staff from time to time.
- Internal control consultant. We have engaged an internal control consultant to help optimize our risk management and internal control systems, including tax-related operational and risk management matters and put in place enhanced corporate governance measures as advised by the internal control consultant.

With respect our non-compliance incident on failure to pay social insurance and housing provident funds for certain employees during the Track Record Period, we have put in place several internal control measures such as training to our employees, policy formulation and distribution, and review and record-keeping by our human resources department. For details, see the paragraph headed “— Legal Proceedings and Compliance — Non-compliance incident” in this section.

Based on (i) the facts and circumstances leading to our non-compliance incidents as described in the paragraph headed “— Legal Proceeding and Compliance — Non-compliance Incidents” in this section; (ii) the remedial actions taken to address such incidents and (iii) the foregoing internal control measures, our Directors are of the view, and the Sole Sponsor, after considering the facts and reviewing the above internal control measures, are satisfied, that (a) the above measures will effectively ensure a proper internal control system to prevent future similar non-compliance with the PRC laws and regulations and (b) our non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08, 3.09 and 8.15 on the Listing Rules and the suitability of our Company under Rule 8.04 of the Listing Rules.



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## FINANCIAL INFORMATION

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*The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements, including the notes thereto, as set forth in the Accountant’s Report contained in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with HKFRS which may differ in material aspects from generally accepted accounting principles in other jurisdictions.*

*The following discussion and analysis may contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the section headed “Risk Factors” in this prospectus.*

*For the purpose of this section, unless the context otherwise requires, references to 2017, 2018 and 2019 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.*

### OVERVIEW

We operate one of the largest for-profit private general hospitals in China, Henan Honliv Hospital. According to the Frost & Sullivan Report, among all the for-profit private general hospitals in China, our hospital ranked the third (on par with three other hospitals) in terms of number of beds in operation as of December 31, 2019, the fifth in terms of number of inpatient visits in 2019, and the ninth in terms of number of outpatient visits in 2019. In addition, our hospital is the largest for-profit private general hospital in Central China in terms of number of outpatient visits and inpatient visits in 2019, and in terms of number of beds in operation as of December 31, 2019, according to the Frost & Sullivan Report.

We achieved steady revenue growth during the Track Record Period. Our revenue was RMB478.9 million, RMB496.6 million and RMB531.1 million in 2017, 2018 and 2019, respectively. Our net profit was RMB71.7 million, RMB73.5 million and RMB49.9 million in 2017, 2018 and 2019, respectively. Our non-HKFRS measure adjusted net profit was RMB71.7 million, RMB73.5 million, and RMB61.0 million in 2017, 2018 and 2019, respectively. Please refer to the paragraph headed “ — Description of Key Components of Comprehensive Income — Non-HKFRS Measures” in this section for details.

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## FINANCIAL INFORMATION

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### BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on January 6, 2016 as an exempted company with limited liability. Our Company is an investment holding company and our Group is principally engaged in the ownership, operation and management of a for-profit hospital in China. In September 2018, our Group completed the Reorganization. For more details, please refer to the section headed “History, Reorganization and Corporate Structure” in this prospectus. Following the Reorganization, our Company became the holding company of the companies now comprising our Group. The companies under our Group were under common control of our Controlling Shareholders, immediately before and after the Reorganization. Accordingly, our Group is regarded as a continuation of the business carried out by Henan Honliv Hospital. Our consolidated financial statements have been prepared and presented as a continuation of the consolidated financial statements of Henan Honliv Hospital and its subsidiary, with the assets and liabilities of Henan Honliv Hospital and its subsidiary recognized and measured at the carrying amounts of the business under the consolidated financial statements of our hospital and its subsidiary for the Track Record Period presented.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by our Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

With respect to the Managed Hospital, our Directors conclude that our Group has no control nor joint control over the Managed Hospital in accordance with HKFRS 10 and HKFRS 11 for the following reasons. According to the articles of association of the Managed Hospital, its executive committee is the ultimate decision-making body of the Managed Hospital. The executive committee consists of six members of which three are nominated by our Group and another three are nominated by the organizer of the Managed Hospital. The organizer of the Managed Hospital, who is an Independent Third Party, holds the position of chairman in the executive committee. All general resolutions of the executive committee should be approved by a majority of votes from its members and the chairman holds the casting vote to resolve a deadlock. Although our Group has significant influence over the Managed Hospital considering that three out of six executive committee members are nominated by us, our Directors conclude that equity accounting in accordance with HKAS 28 is not applicable to our involvement in the Managed Hospital because (i) our Group has neither made equity investment in nor provided financial fundings of any kind to the Managed Hospital; and (ii) the Managed Hospital is a not-for-profit private hospital and its operational result and the total assets are not attributable to its organizer or its executive committee in accordance with the relevant PRC laws and regulations.

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## FINANCIAL INFORMATION

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### FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations have been, and are expected to continue to be, affected by the following factors:

#### Healthcare Reform and Medical Insurance Programs in China

The success of our business largely depends on the progress of the healthcare reform in China. In particular, the rising demand for, and governmental policies relating to: (i) private capital investments in hospitals; and (ii) private healthcare services, have driven our growth. In 2009, the PRC government initiated its new healthcare reform plan aimed to provide every citizen with accessible and affordable basic healthcare services. Since then, the PRC government has issued new policies addressing the affordability, accessibility and quality of healthcare services, medical insurance coverage, and has called for additional government spending on healthcare. The acceleration of healthcare reform presents us with growth opportunities, while also subjecting us to significant uncertainties and challenges if healthcare reform policies change dramatically in the future.

A key component of China's healthcare reform is the establishment of universal healthcare coverage of essential healthcare services for all of its citizens. At present, China's public medical insurance system has three basic components: (1) UEBMIP; (2) URBMIP and (3) NRCMIP. To further improve insurance coverage and achieve a universal health coverage for urban and rural residents, the PRC government started the process to integrate NRCMIP with URBMIP in 2016 and completed such integration in 2019. Henan Province completed the integration in 2017. Since the integration of NRCMIP and URBMIP, the PRC government has been continuously increasing funding for and expanding coverage under the new insurance regime.

If a medical institution is a Medical Insurance Designated Medical Institution (醫保定點醫療機構), patients could easily arrange payment through public medical insurance programs or claim reimbursement from public medical insurance programs after paying the medical institution out of pocket. Part of our patients arrange payment through public medical insurance, and some other patients, especially our patients from other provinces, would claim or attempt to claim reimbursement from public medical insurance programs for all or a portion of their medical expenditures. Whether a medical institution is a Medical Insurance Designated Medical Institution could affect its acceptance among potential patients.

In terms of healthcare service pricing, if a medical institution is a Medical Insurance Designated Medical Institution, it may only charge fees for provision of healthcare services in accordance with the pricing guidelines set by the relevant local healthcare administrative authorities and medical insurance providers. Such pricing guidelines stipulate the range of healthcare service fees that can be charged for patients covered by public medical insurance programs. On the other hand, being a member of the Medical Insurance Designated Medical Institutions could bring more patient traffic.

As of the Latest Practicable Date, our hospital was a Medical Insurance Designated Medical Institution. Whether it can remain to be a Medical Insurance Designated Medical Institution could affect our results of operations.

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### Expansion of Our Operation

The scale of our operation has a significant impact on our revenue because larger scale will enhance our capacity and help us attract more patients. According to the Frost & Sullivan Report, among all the for-profit private general hospitals in China, our hospital ranked the third (on par with three other hospitals) in terms of number of beds in operation as of December 31, 2019, the fifth in terms of number of inpatient visits in 2019, and the ninth in terms of number of outpatient visits in 2019. In addition, our hospital is the largest for-profit private general hospital in Central China in terms of number of outpatient visits and inpatient visits in 2019, and in terms of number of beds in operation as of December 31, 2019, according to the Frost & Sullivan Report.

Our revenue increased by 3.7% from RMB478.9 million in 2017 to RMB496.6 million in 2018, and further increased by 7.0% to RMB531.1 million in 2019.

Our future growth depends upon our ability to further expand our business. We have plans to expand our business including upgrading our hospital, strategic acquiring or entering into management agreements with small and medium-scale hospitals and clinics in other counties neighboring Changyuan County, and exploring greenfield and brownfield investments of large-scale hospitals. Our ability to expand our business will be affected by a number of factors, including: (i) changes to the PRC healthcare policies and regulations; (ii) the reputation of our existing healthcare facilities and doctors; (iii) our financial resources; and (iv) the ability to improve our financial and operational performance.

Our expansion may require us to make upfront investments, which could impact our liquidity. Our ability to manage our expanded operation in a cost-efficient manner determines whether and how quickly we can recover our investment, which may materially affect our revenue and profitability.

### Number of Patient Visits and Average Spending per Patient Visit

Our revenue primarily depends on the number of patient visits and average spending per patient visit, which in turn depends on the ability of our hospital to provide quality healthcare services.

The number of outpatient visits and inpatient visits at our hospital increased from 947,269 and 55,175 in 2017 to 960,458 and 55,724 in 2018, and further to 1,025,771 and 56,687 in 2019, respectively. The increase in patient visits at our hospital has driven and is expected to continue to drive the increase of the revenue generated by our hospital. In addition, any increase in patient visits at our Managed Hospital is expected to increase its revenue and subsequently lead to an increase in the management fees we collect.

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The average spending per patient visit also affects our revenue. A patient's spending during his or her visit is determined mainly by healthcare service fees and the prices of pharmaceuticals sold to such patient. As a private for-profit hospital, we are able to exercise more discretion to set the prices of our services than public hospitals, and we generally take into account the market price for similar healthcare services in the region and price our medical services close to and based on the market price in Changyuan County. However, as our hospital is a Medical Insurance Designated Medical Institution, we must follow the pricing guidelines set by the relevant local healthcare administrative authorities and medical insurance providers for healthcare services stipulated therein.

### **Ability to Control Our Cost and Expenses**

During the Track Record Period, pharmaceuticals, medical consumables and employee benefits represented the three largest components of our cost of sales. Cost of pharmaceuticals accounted for 35.6%, 34.8%, and 36.5% of our total cost of sales in 2017, 2018 and 2019, respectively, while cost of medical consumables represented 20.6%, 19.1% and 16.8% of our cost of sales in the same periods. The use of pharmaceuticals and medical consumables forms a key aspect of many of our medical treatment procedures.

Our employee benefits expenses represented 27.5%, 31.4%, and 34.2% of our cost of sales in 2017, 2018 and 2019, respectively. We have experienced pressure to increase salaries and benefits to recruit and retain quality medical professionals during the Track Record Period, and expect such pressure to continue to exist in the near future.

As a result, we expect that costs of sales relating to our pharmaceuticals, medical consumables and employees to continue to be our most significant costs and expenses going forward, particularly in light of the expansion plans of our hospital. Our ability to effectively control such costs and expenses may materially affect our profitability.

### **CRITICAL ACCOUNTING POLICIES**

Our financial statements have been prepared in accordance with HKFRSs. In particular, we have adopted HKFRS 9 "Financial Instruments", HKFRS 15 "Revenue from contracts with customers" and HKFRS 16 "Leases" consistently throughout the Track Record Period in lieu of HKAS 39 "Financial instruments: Recognition and measurement" ("**HKAS 39**"), HKAS 18 "Revenue" ("**HKAS 18**") and HKAS 17, "Leases" ("**HKAS 17**"), respectively, so as to make our consolidated financial statements comparable on a period-to-period basis and allow the investors to better understand our financial performance and position. Accordingly, we have prepared and maintained only one set of consolidated financial statements adopting HKFRS 9, HKFRS 15 and HKFRS 16 for the Track Record Period. Neither we had prepared, nor the reporting accountant had audited or reviewed, our consolidated financial statements for the Track Record Period prepared based on HKAS 39, HKAS 18 and HKAS 17.

Nonetheless, in order to provide additional information to the investors, we have carried out internal assessments with our best efforts based on the principles set out in HKAS 39, HKAS 18 and HKAS 17.

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### HKFRS 9 and HKFRS 15

Based on our internal assessments, the adoption of HKFRS 9 and HKFRS 15 has no significant impact on our Group's financial position and performance.

### HKFRS 16

Under HKAS 17, operating lease payments are charged to the consolidated income statement on a straight-line basis over the period of the lease, and operating lease commitments are disclosed separately in a note to the consolidated financial statement and are recognized outside of the consolidated statement of financial position. Under HKFRS 16, all leases (except for those with lease term of less than 12 months or of low value) must be recognized in the form of assets (being the right-of-use assets classified under properties, plant and equipment in our financial statements) and financial liabilities (being the lease liabilities in our financial statements) on our consolidated statements of financial position at the commencement of respective leases.

Based on our internal assessments, the impact on profit after tax and total equity would have been not significant if HKAS 17 had been adopted. In respect of the impact to consolidated statement of financial position, the right-of-use assets and total assets would have been decreased by RMB2,895,000, RMB719,000, and RMB4,257,000 as at 31 December 2017, 2018 and 2019, respectively, and lease liabilities and total liabilities would have been decreased by RMB2,665,000, RMB417,000, and RMB4,798,000 as at 31 December 2017, 2018 and 2019, respectively if HKAS 17 had been adopted.

Our significant accounting policies are set forth in Notes 2 and 4 to the Accountant's Report contained in Appendix I to this prospectus. HKFRSs require that we adopt accounting policies and make estimates that our Directors believe are most appropriate under the circumstances for the purposes of giving a true and fair view of our results and financial position. Critical accounting policies are those that require management to exercise judgment and make estimates which yield materially different results if management were to apply different assumptions or make different estimates. We believe that the most complex and sensitive judgments, because of their significance to our financial information, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas may differ from our estimates. We have identified below the accounting policies that we believe are the most critical to our financial information and that involve the most significant estimates and judgments.

### Revenue Recognition

Our revenue is derived from providing treatments and general healthcare services to customers, sales of pharmaceuticals and the hospital management services.

Our revenue is recognized when, or as, the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if our performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as we perform; or
- does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

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If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

The progress towards complete satisfaction of performance obligation, depending on the nature of the good and service to be transferred, is measured based on one of the following methods that best depicts our performance in satisfying the performance obligation:

- direct measurements of the value of individual services transferred by us to the customer; or
- our efforts or inputs to the satisfaction of the performance obligation.

The following is a description of the accounting policy for our principal revenue streams.

### *Treatments and general healthcare service*

Revenue from provision of treatments and general hospital services is recognized at the point when the related services have been rendered to customers. Transactions are settled by payment from social security card, or prepaid cards paid by bank card or cash from customers. Transactions were settled also by Hongxintong before March 31, 2019. For more details, please refer to the paragraph headed “— Related Party Transactions — Balances with related parties” in this section.

### *Pharmaceutical sales*

Revenue from pharmaceutical sales are recognized when control of the inventory has transferred, being when the inventory are delivered to the customers, the customers has full discretion to use the inventory, and there is no unfulfilled obligation that could affect the customers' acceptance of the inventory.

### *Revenue from hospital management services*

The hospital management services is in relation to the consulting services rendered to Jutan Hospital, a not-for-profit private general hospital established under the laws of the PRC in February 2015, with a period of 10 years from 2016 to 2026. The service fee is the fixed percentage related with the revenue of Jutan Hospital and paid quarterly. Revenue from providing hospital management services is recognized in the accounting period in which the services are rendered over the period as the related services are performed.

### **Property, plant and equipment**

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

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

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

Buildings and structures.....	3-30 years
Machinery and equipment.....	2-10 years
Office equipment, furniture fixtures .....	2-8 years
Vehicles .....	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Construction in progress includes the costs of construction and acquisition and capitalized borrowing costs. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to plant, property and equipment and amortized in accordance with policy as stated above.

### **Financial assets**

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which our Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and our Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement of debt instruments depends on our Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated statement of comprehensive income and presented in other gains/(losses) – net together with foreign exchange gains and losses. For further details, please refer to Note 2.10 to the Accountant's Report contained in Appendix I to this prospectus.



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### **Trade and other receivables**

Our trade receivables are amounts due from customers and social insurance programs for treatments and general healthcare services rendered and pharmaceutical sales in our ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. Our Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

### **Inventories**

Our inventories are stated at the lower of cost and net realisable value. Cost of pharmaceuticals is determined using the weighted average method and cost of medical consumables and others is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### **Current and deferred income tax**

Our income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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

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

Our deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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Our current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### DESCRIPTION OF KEY COMPONENTS OF COMPREHENSIVE INCOME

The following table sets forth our summary consolidated statements of comprehensive income for the years indicated.

	Year ended December 31,					
	2017		2018		2019	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Revenue.....	478,924	100.0%	496,551	100.0%	531,108	100.0%
Cost of sales.....	(319,294)	(66.7%)	(336,585)	(67.8%)	(360,952)	(68.0%)
<b>Gross profit</b> .....	<b>159,630</b>	<b>33.3%</b>	<b>159,966</b>	<b>32.2%</b>	<b>170,156</b>	<b>32.0%</b>
Other expense.....	(196)	(0.0%)	(196)	(0.0%)	(196)	(0.0%)
Other income.....	-	0.0%	-	0.0%	440	0.1%
Other gains - net.....	140	0.0%	606	0.1%	207	0.0%
Administrative expenses.....	(45,712)	(9.5%)	(48,727)	(9.8%)	(74,126)	(14.0%)
<b>Operating profit</b> .....	<b>113,862</b>	<b>23.8%</b>	<b>111,649</b>	<b>22.5%</b>	<b>96,481</b>	<b>18.2%</b>
Finance income.....	23	0.0%	38	0.0%	706	0.1%
Finance costs.....	(17,942)	(3.7%)	(13,215)	(2.7%)	(28,708)	(5.4%)
Finance costs - net.....	(17,919)	(3.7%)	(13,177)	(2.7%)	(28,002)	(5.3%)
<b>Profit before income tax</b> .....	<b>95,943</b>	<b>20.1%</b>	<b>98,472</b>	<b>19.8%</b>	<b>68,479</b>	<b>12.9%</b>
Income tax expense.....	(24,224)	(5.1%)	(25,008)	(5.0%)	(18,621)	(3.5%)
<b>Profit for the year</b> .....	<b>71,719</b>	<b>15.0%</b>	<b>73,464</b>	<b>14.8%</b>	<b>49,858</b>	<b>9.4%</b>
<b>Non-HKFRS measure</b>						
Add:						
Expenses in relation to the Listing.....	-	-	-	-	11,152	2.1%
<b>Adjusted net profit<sup>(1)</sup></b> .....	<b>71,719</b>	<b>15.0%</b>	<b>73,464</b>	<b>14.8%</b>	<b>61,010</b>	<b>11.5%</b>

Note:

- (1) Adjusted net profit eliminates the effect of non-recurring expenses in relation to the Listing. Adjusted net profit is not a measure of performance under HKFRS. As a non-HKFRS measure, adjusted net profit is presented because our management believes such information will be helpful for investors in assessing the effect of expenses in relation to the Listing on our net profit. The use of adjusted net profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant year. Please refer to the paragraph headed “— Non-HKFRS Measures” in this section for details.

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### Non-HKFRS Measures

To supplement our consolidated statements of comprehensive income which are presented in accordance with HKFRS, we also use non-HKFRS measure adjusted net profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our operating performance. We also believe that such non-HKFRS measures provide useful information to investors in understanding and evaluating our results of operations in the same manner as it helps our management and in comparing financial results across accounting periods and to those of our peer companies.

Non-HKFRS measure adjusted net profit eliminates the effect of non-recurring expenses in relation to the Listing. The term of non-HKFRS measure adjusted net profit is not defined under HKFRS. The use of non-HKFRS measure adjusted net profit has material limitations as an analytical tool, as non-HKFRS measure adjusted net profit does not include all items that impact our net profit for the year. We compensate for these limitations by reconciling this financial measure to the nearest HKFRS performance measure, which should be considered when evaluating our performance. The following table reconciles our non-HKFRS measure adjusted net profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS:

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Profit for the year</b> .....	71,719	73,464	49,858
Add:			
Expenses in relation to the Listing.....	–	–	11,152
<b>Non-HKFRS measure adjusted net profit<sup>(1)</sup></b> .....	71,719	73,464	61,010

In light of the foregoing limitations for other financial measures, when assessing our operating and financial performance, you should not consider non-HKFRS measure adjusted net profit in isolation or as a substitute for our profit for the year, operating profit or any other operating performance measure that is calculated in accordance with HKFRS. In addition, because such measure may not be calculated in the same manner by all companies, it may not be comparable to other similar titled measures used by other companies.

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### Revenue

We generate our revenue from (i) the provision of treatments and general healthcare services, including the sales of medical consumables and the provision of ancillary hospital services; (ii) the sales of pharmaceuticals to our patients, including both inpatients and outpatients; and (iii) the provision of hospital management services to Jutan Hospital. In 2017, 2018 and 2019, our revenue was RMB478.9 million, RMB496.6 million and RMB531.1 million, respectively. The following table sets forth the breakdown of our revenue for the years indicated.

	Year ended December 31,					
	2017		2018		2019	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Treatments and general healthcare service.....	319,088	66.6%	332,744	67.0%	354,924	66.8%
Pharmaceutical sales.....	158,176	33.0%	161,461	32.5%	173,404	32.7%
Hospital management services.....	1,660	0.4%	2,346	0.5%	2,780	0.5%
<b>Total</b> .....	<b>478,924</b>	<b>100.0%</b>	<b>496,551</b>	<b>100.0%</b>	<b>531,108</b>	<b>100.0%</b>

Revenue generated from the operation of our hospital, namely Henan Honliv Hospital, accounts for a large majority of our revenue during the Track Record Period. Revenue from our hospital can also be further categorized by source into revenue from the provision of healthcare services to inpatients and outpatients. The following table sets forth a breakdown of revenue of our hospital by source for the years indicated.

	Year ended December 31,					
	2017		2018		2019	
	RMB'000	% of Revenue	RMB'000	% of Revenue	RMB'000	% of Revenue
Inpatient healthcare services.....	286,175	59.8%	292,563	58.9%	296,072	55.8%
Outpatient healthcare services.....	191,089	39.9%	201,642	40.6%	232,256	43.7%
<b>Total</b> .....	<b>477,264</b>	<b>99.7%</b>	<b>494,205</b>	<b>99.5%</b>	<b>528,328</b>	<b>99.5%</b>

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The following table sets forth the breakdown of the gross profit and gross profit margin of our treatments and general healthcare service and pharmaceutical sales for the periods indicated<sup>(1)</sup>:

	Year ended December 31,					
	2017		2018		2019	
	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)
Treatments and general healthcare service <sup>(2)</sup>	113,566	35.6%	113,386	34.1%	125,552	35.4%
Pharmaceutical sales <sup>(3)</sup>	44,404	28.1%	44,234	27.4%	41,824	24.1%

*Notes:*

- (1) The relevant numbers were unaudited and are presented herein for illustrative purposes only. The medical professionals providing treatment and healthcare services and those prescribing and dispensing medications to patients often overlap, but for different patients, the level of such overlapping might also be different. As such, we are unable to accurately allocate our cost of sales (particularly the employee benefit expenses incurred in relation to such medical professionals) between the treatment and general healthcare services and the pharmaceutical sales.
- (2) The gross profit of our treatments and general healthcare services was calculated by allocating all of our remaining costs of sales (after deducting the procurement costs of pharmaceuticals from our pharmaceutical sales) to its costs, which include, among others, costs incurred in relation to our hospital management services.
- (3) The gross profit of our pharmaceutical sales was calculated by deducting the procurement costs of pharmaceuticals from our pharmaceutical sales for the respective years, without taking into account allocations of, among others, the employee benefit expenses incurred in relation to the employees providing the pharmaceutical sales business, to its costs.

The gross profit margin of our treatments and general healthcare services generally remained stable during the Track Record Period. The gross profit margin of our pharmaceutical sales business generally decreased during the Track Record Period, primarily because our hospital followed the pricing guideline of the relevant government authorities to lower the prices of certain pharmaceuticals during the period. As a Medical Insurance Designated Medical Institution, we are subject to price control with respect to pharmaceuticals listed in certain catalogs promulgated by government authorities. Please refer to the paragraph headed “Business — Pricing and Pricing Control” in this prospectus for details.

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The following table sets forth the revenue of our hospital contributed by patients covered by social insurance programs and not covered by social insurance programs, respectively, for the periods indicated:

	Year ended December 31,					
	2017		2018		2019	
	Amount (RMB'000)	% of revenue of our hospital	Amount (RMB'000)	% of revenue of our hospital	Amount (RMB'000)	% of revenue of our hospital
Revenue from patients covered by social insurance programs <sup>(1)</sup> .....	184,189	38.7%	220,072	44.5%	277,621	52.5%
Revenue attributable to social insurance programs <sup>(1)</sup> .....	107,915	22.6%	134,714	27.3%	148,824	28.2%
Revenue from co-payments from patients <sup>(1)</sup> .....	76,274	16.0%	85,358	17.3%	128,797	24.4%
Revenue from patients not covered by social insurance programs <sup>(1)</sup> .....	293,075	61.4%	274,133	55.5%	250,708	47.5%
<b>Total revenue of our hospital .....</b>	<b>477,264</b>	<b>100.0%</b>	<b>494,205</b>	<b>100.0%</b>	<b>528,328</b>	<b>100.0%</b>

*Note:*

(1) The numbers were unaudited.

Our hospital's revenue from patients covered by social insurance programs increased while the revenue from patients not covered by social insurance programs decreased throughout the Track Record Period, primarily because the coverage of social insurance programs had been continuously expanding during the same periods as a result of the integration of NRCMIP and URMIP in Henan province in 2017.

For the same treatment and general healthcare services provided, and for the same medications prescribed, our hospital charges the patients the same price, without considering whether the relevant patients are covered by social insurance programs or not. We believe that there would not be significant differences in the gross profit generated from these two groups of patients.

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The following table sets forth a breakdown of the number of patient visits and the average patient spending per visit by segment for the years indicated.

	Year ended December 31,		
	2017	2018	2019
Outpatient visits <sup>(1)</sup> .....	947,269	960,458	1,025,771
Average spending per outpatient visit (RMB) .....	201.7	209.9	226.3
Inpatient visits .....	55,175	55,724	56,687
Average spending per inpatient visit (RMB) .....	5,186.7	5,250.2	5,240.8
Number of beds in operation as of the end of the relevant period.....	1,500	1,500	1,500

*Note:*

(1) Outpatient visits included patient visits for our medical examination services.

Our hospital had experienced revenue growth during the Track Record Period, which was primarily due to increases in the number of patient visits and in the average spending per visit for inpatients and outpatients. Inpatient healthcare services refer to the treatment of patients who are hospitalized overnight or for an indeterminate period of time, usually several days or weeks, subject to the patients' conditions and recovery. Outpatient healthcare services refer to the treatment of patients who are hospitalized for less than 24 hours, and the medical examination of individuals for signs of diseases and health advisory services.

### Cost of Sales

Our cost of sales consists of employee benefits expenses of doctors and other medical professionals, cost of pharmaceuticals, cost of medical consumables, depreciation and amortization, utilities, maintenance fee and office expenses and other costs. Other costs primarily include expenses in relation to medical waste disposal, and costs in relation to the complimentary gifts we give to our patients, such as new-born babies at our hospital. In 2017, 2018 and 2019, our cost of sales was RMB319.3 million, RMB336.6 million and RMB361.0 million, respectively, accounting for 66.7%, 67.8%, and 68.0% of our revenue for the same periods.

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The following table sets forth the components of our cost of sales in absolute amounts and as percentages of our total cost of sales for the years indicated.

	Year ended December 31,					
	2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%
Employee benefits expenses.....	87,686	27.5%	105,745	31.4%	123,350	34.2%
Cost of pharmaceuticals.....	113,772	35.6%	117,227	34.8%	131,580	36.5%
Cost of medical consumables.....	65,727	20.6%	64,399	19.1%	60,598	16.8%
Utilities, maintenance fee and office expenses.....	26,586	8.3%	28,119	8.4%	25,034	6.9%
Depreciation and amortization .....	14,691	4.6%	12,757	3.8%	13,002	3.6%
Other expenses .....	10,832	3.4%	8,338	2.5%	7,388	2.0%
<b>Total.....</b>	<b>319,294</b>	<b>100.0%</b>	<b>336,858</b>	<b>100.0%</b>	<b>360,952</b>	<b>100.0%</b>

### Gross Profit and Gross Profit Margin

Our gross profit was RMB159.6 million, RMB160.0 million and RMB170.2 million in 2017, 2018 and 2019, respectively. Our gross profit margin was 33.3%, 32.2%, and 32.0% in 2017, 2018 and 2019, respectively.

### Other Expense

Our other expense consists of depreciation of our investment properties. Our other expense remained stable during the Track Record Period.



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## FINANCIAL INFORMATION

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### Other Gains – Net

Our other losses or gains primarily consist of losses or gains on disposal of property, plant and equipment, as well as losses incurred in relation to medical dispute settlements. We recorded net other gains of RMB0.1 million, RMB0.6 million and RMB0.2 million in 2017, 2018 and 2019, respectively. The following table sets forth a breakdown of our other net losses or gains by component for the years indicated:

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
			(Unaudited)
(Losses)/Gains on disposal of property, plant and equipment. ....	(17)	428	(35)
Others <sup>(1)</sup> .....	157	178	242
<b>Total</b> .....	<b>140</b>	<b>606</b>	<b>207</b>

*Note:*

- (1) Primarily consist of losses incurred in relation to medical dispute settlements, and gains generated from providing training or counseling services to medical professionals from other hospitals.

### Administrative expenses

Our administrative expenses primarily consist of employee benefits expenses for administrative personnel, depreciation and amortization, utilities, maintenance and office expenses, expense in relation to the listing and other expenses. In 2017, 2018 and 2019, our administrative expenses were RMB45.7 million, RMB48.7 million and RMB74.1 million, respectively, accounting for 9.5%, 9.8% and 14.0% of our total revenue for the same periods.

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The following table sets forth a breakdown of our administrative expenses by component in absolute amounts and as percentages of our administrative expenses for the years indicated.

	Year ended December 31,					
	2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%
Employee benefits expenses.....	13,259	29.0%	13,736	28.2%	21,910	29.6%
Depreciation and amortization .....	11,311	24.7%	11,134	22.8%	11,276	15.2%
Utilities, maintenance fee and office expenses.....	14,455	31.6%	17,141	35.2%	19,654	26.5%
Expenses in relation to the Listing .....	–	–	–	–	11,152	15.0%
Professional consulting fee .....	1,831	4.0%	1,116	2.3%	–	–
Other expenses <sup>(1)</sup> .....	4,856	10.6%	5,600	11.5%	10,134	13.7%
<b>Total</b> .....	<b>45,712</b>	<b>100.0%</b>	<b>48,727</b>	<b>100.0%</b>	<b>74,126</b>	<b>100.0%</b>

*Note:*

- (1) Primarily consist of cleaning expenses, and expenses of the medical consumables used for internal and administrative purpose.

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### Finance income and costs

Our finance income primarily represents our interest income on bank deposits. Our finance costs primarily consist of our interest expenses on bank borrowings and finance lease. The following table sets forth a breakdown of our finance income and expenses during the years indicated.

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Finance Cost:</b>			
Interest expense on other borrowings.....	5,746	589	10,659
Interest expense on lease liabilities.....	244	135	295
Interest expense on bank borrowings .....	14,053	12,491	12,293
Less: amounts capitalised on qualifying asset.....	(2,101)	–	–
Additional cost on delayed tax payment <sup>(1)</sup> .....	–	–	5,461
Total finance cost.....	17,942	13,215	28,708
<b>Finance Income:</b>			
Interest income.....	(23)	(38)	(706)
<b>Net finance costs</b> .....	<b>17,919</b>	<b>13,177</b>	<b>28,002</b>

Our interest expense on other borrowings increased significantly in 2019 primarily because we obtained a borrowing of RMB83.4 million with a term of 36 months and bearing an interest rate of 14.72% from a financial institution under a finance lease arrangement in January 2019. Please refer to Note 20(d) to the Accountant's Report contained in Appendix I to this prospectus for more information.

*Note:*

- (1) Represents the late payment fees imposed by the relevant tax authority. For details, please refer to the paragraph headed "Business — Legal Proceedings and Compliance — Non-compliance incident" in this prospectus.

### Income tax expense

Our income tax expense represents PRC corporate income tax. We are subject to PRC corporate income tax rate of 25%. In 2017, 2018 and 2019, our income tax expense was RMB24.2 million, RMB25.0 million and RMB18.6 million, respectively. Our effective tax rate for 2017, 2018 and 2019 was 25.2%, 25.4% and 27.2%, respectively.

During the Track Record Period, we have paid all relevant taxes and had no ongoing disputes or any unresolved tax issues with relevant tax authorities. During the Track Record Period, we delayed our income tax filings for the years 2017 to 2018. For details, please refer to the paragraph headed "Business — Legal Proceedings and Compliance — Non-compliance incident" in this prospectus.

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### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Year ended December 31, 2019 compared to year ended December 31, 2018

##### *Revenue*

Our revenue increased by 7.0% from RMB496.6 million in 2018 to RMB531.1 million in 2019, primarily due to an increase in revenue generated from treatments and general hospital services and pharmaceutical sales.

Our revenue from treatments and general healthcare services and pharmaceutical sales in aggregate increased by 6.9% from RMB494.2 million in 2018 to RMB528.3 million in 2019, primarily due to (i) an increase in the number of both outpatient and inpatient visits; and (ii) an increase in the average spending per outpatient visit, both of which were resulting from the improved coverage scope of medical insurance programs, our improved service quality and broader service scope. Such increase was partially offset by a slight decrease in the average spending per inpatient visit, because the price limits for some of the pharmaceuticals we offered to inpatients were lowered in 2019.

Our revenue from hospital management services increased from RMB2.3 million in 2018 to RMB2.8 million in 2019 as a result of increased revenue of Jutan Hospital, primarily due to the increased revenue of our Managed Hospital which was upgraded from Class-I hospital to Class-II hospital in January 2019 under our management.

Our revenue from inpatient healthcare services increased by 1.2% from RMB292.6 million in 2018 to RMB296.1 million in 2019, due to the increase in the number of inpatient visits, partially offset by the decrease in the average spending per inpatient visit, each as explained above.

Our revenue from outpatient healthcare services increased by 15.2% from RMB201.6 million in 2018 to RMB232.3 million in 2019, mainly due to the increase in the number of outpatient visits and the increase in the average spending per outpatient visit, each as explained above.

##### *Cost of sales*

Our cost of sales increased by 7.2% from RMB336.6 million in 2018 to RMB361.0 million in 2019, primarily due to (i) an increase in employee benefits expenses in relation to our medical staff from RMB105.7 million to RMB123.4 million as a result of the increased compensation levels, and (ii) an increase in cost of pharmaceuticals from RMB117.2 million to RMB131.6 million which was generally in line with the increase in our pharmaceutical sales, partially offset by a slight decrease in cost of medical consumables from RMB64.4 million to RMB60.6 million as a result of our enhanced cost control efforts.

##### *Gross profit*

Our gross profit increased by 6.4% from RMB160.0 million in 2018 to RMB170.2 million in 2019. Our gross profit margin decreased slightly from 32.2% in 2018 to 32.0% in 2019, primarily because the increase of our cost of sales slightly outpaced our revenue.

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### *Other expense*

Our other expense remained stable at RMB0.2 million in 2018 and 2019.

### *Other gains – net*

Our net other gains decreased from RMB0.6 million in 2018 to RMB0.2 million in 2019, primarily because we disposed of our old central air conditioning system in 2018.

### *Administrative expenses*

Our administrative expenses increased by 52.1% from RMB48.7 million in 2018 to RMB74.1 million in 2019, primarily due to (i) an increase in employee benefits expenses in relation to our administrative staff from RMB13.7 million to RMB21.9 million, (ii) an increase in utilities, maintenance fee and office expenses from RMB17.1 million to RMB19.7 million, and (iii) an increase in expenses in relation to the Listing from nil to RMB11.2 million.

The significant increase in employee benefits expenses in relation to our administrative staff was primarily due to (i) an increase in our staff headcount by 9.6% to support our business expansion and Listing-related work, (ii) an increase in total compensation of our staff by approximately RMB7.7 million as a result of the increased headcount and a pay raise for our staff and technicians, and (iii) an increase in social insurance and housing provident funds we paid for our staff by approximately RMB0.4 million.

### *Net finance costs*

Our net finance costs increased by 112.5% from RMB13.2 million in 2018 to RMB28.0 million in 2019, primarily due to (i) an increase in our interest expenses on other borrowings in 2019 as compared to 2018, which was primarily incurred from a borrowing of RMB83.4 million from a financial institution under a finance lease arrangement in January 2019, and (ii) a one-time additional cost on the delay of tax payment in the amount of RMB5.5 million. For details, please refer to the paragraph headed “Business — Legal Proceedings and Compliance — Non-compliance incident” in this prospectus.

### *Income tax expense*

Our income tax expense decreased by 25.5% from RMB25.0 million in 2018 to RMB18.6 million in 2019, primarily due to a decrease in our profit before taxation. Our effective income tax rate in 2018 and 2019 were 25.4% and 27.2%, respectively, the increase was primarily due to non-deductible late payment fees we paid to the relevant tax authority in 2019.

### *Profit for the period and net profit margin*

As a result of the foregoing, our profit for the year decreased by 32.8% from RMB73.5 million in 2018 to RMB49.4 million in 2019. Our net profit margin was 14.8% and 9.4% in 2018 and 2019, respectively.

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### *Non-HKFRS measure adjusted net profit for the period and adjusted net profit margin*

Our non-HKFRS measure adjusted net profit for the year decreased by 16.9% from RMB73.5 million in 2018 to RMB61.0 million in 2019. Our non-HKFRS measure adjusted net profit margin was 14.8% and 11.5% in 2018 and 2019, respectively.

### **Year ended December 31, 2018 compared to year ended December 31, 2017**

#### *Revenue*

Our revenue increased by 3.7% from RMB478.9 million in 2017 to RMB496.6 million in 2018, primarily due to an increase in revenue generated from treatments and general hospital services and pharmaceutical sales.

Our revenue from treatments and general healthcare services and pharmaceutical sales in aggregate increased by 3.5% from RMB477.3 million in 2017 to RMB494.2 million in 2018, primarily due to (i) an increase in the number of both outpatient and inpatient visits; and (ii) an increase in the average spending per outpatient and inpatient visit, which were in turn driven by the improved medical insurance coverage, our improved service quality and broader service scope.

Our revenue from hospital management services increased from RMB1.7 million in 2017 to RMB2.3 million in 2018 as a result of increased revenue of Jutan Hospital, primarily due to an increase in the number of both outpatient and inpatient visits at Jutan Hospital under our management.

Our revenue from inpatient healthcare services increased by 2.2% from RMB286.2 million in 2017 to RMB292.6 million in 2018, due to (i) an increase in the number of inpatient visits from 55,175 to 55,724; and (ii) an increase in the average spending per inpatient visit from RMB5,186.7 to RMB5,250.2, each as explained above.

Our revenue from outpatient healthcare services increased by 5.5% from RMB191.1 million in 2017 to RMB201.6 million in 2018, mainly due to (i) an increase in the number of outpatient visits from 947,269 to 960,458; and (ii) an increase in the average spending per outpatient visit from RMB201.7 to RMB209.9, each as explained above.

#### *Cost of sales*

Our cost of sales increased by 5.4% from RMB319.3 million in 2017 to RMB336.6 million in 2018, primarily due to (i) an increase in employee benefits expenses in relation to our medical staff from RMB87.7 million in 2017 to RMB105.7 million in 2018; and (ii) an increase in cost of pharmaceuticals from RMB113.8 million in 2017 to RMB117.2 million in 2018. The increase in employee benefits was mainly due to an increase in headcount of our medical professionals and increased compensation levels. The increase in cost of pharmaceuticals was primarily due to an increase in our procurement of pharmaceuticals, which was generally in line with our business growth. The increases in employee benefits expenses and cost of pharmaceuticals were partially offset by a slight decrease in (i) depreciation and amortization from RMB14.7 million in 2017 to RMB12.8 million in 2018; and (ii) cost of medical consumables from RMB65.7 million in 2017 to RMB64.4 million in 2018 as we sourced medical consumables for lower prices from suppliers.

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### ***Gross profit***

As a result of the foregoing, our gross profit remained relatively stable at RMB159.6 million in 2017 and RMB160.0 million in 2018. Our gross profit margin decreased slightly from 33.3% in 2017 to 32.2% in 2018, primarily because the increase of our cost of sales slightly outpaced the increase of our revenue.

### ***Other expense***

Our other expense remained stable at RMB0.2 million in 2017 and 2018.

### ***Other gains – net***

Our net other gains increased from RMB0.1 million in 2017 to RMB0.6 million in 2018, primarily resulting from the gains generated from the disposal of our old central air conditioning system in 2018.

### ***Administrative expenses***

Our administrative expenses increased by 6.6% from RMB45.7 million in 2017 to RMB48.7 million in 2018, primarily due to (i) an increase in utilities, maintenance fee and office expenses from RMB14.5 million in 2017 to RMB17.1 million in 2018 as we installed new heating systems in the dormitory buildings in our hospital in 2018; and (ii) an increase in employee benefits expenses from RMB13.2 million to RMB13.7 million, primarily due to an increase in our staff headcount and increased compensation levels.

### ***Net finance costs***

Our net finance costs decreased by 26.5% from RMB17.9 million in 2017 to RMB13.2 million in 2018, primarily due to a decrease in our interest expense on other borrowings and bank borrowings as a result of our lower borrowing level in 2018 as compared to 2017.

### ***Income tax expense***

Our income tax expense increased by 3.2% from RMB24.2 million in 2017 to RMB25.0 million in 2018, primarily due to the increase of our profit before income tax. Our effective income tax rate for 2017 and 2018 was 25.2% and 25.4%, respectively.

### ***Profit for the period and net profit margin***

As a result of the foregoing, our profit for the year increased by 2.4% from RMB71.7 million in 2017 to RMB73.5 million in 2018. Our net profit margin was 15.0% and 14.8% in 2017 and 2018, respectively.

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### LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, our primary use of cash was for the funding of our working capital and capital expenditure to support our business operations and expansion plans. We funded our working capital and capital expenditure through a combination of (i) cash generated from operating activities; and (ii) loans and borrowings. We had cash and cash equivalents of RMB10.1 million, RMB9.9 million and RMB104.6 million as at December 31, 2017, 2018 and 2019, respectively. We generally deposit our excess cash in interest bearing bank accounts and current accounts. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of internally generated cash, proceeds from the Global Offering and external borrowings.

#### Cash Flows

The following table sets forth a summary of our cash flow information for the years indicated:

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cash flows from operating activities before movements in working capital .....	140,060	135,328	121,015
Changes in working capital .....	56,616	1,633	56,217
Income tax paid .....	–	–	(91,187)
Net cash generated from operating activities .....	196,676	136,961	86,045
Net cash generated from/(used in) investing activities .....	(2,368)	1,883	(65,015)
Net cash (used in)/generated from financing activities .....	(188,239)	(139,012)	73,642
Net (decrease)/increase in cash and cash equivalents .....	6,069	(168)	94,672
Cash and cash equivalents at beginning of year...	4,029	10,098	9,930
Cash and cash equivalents at end of year .....	10,098	9,930	104,602



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### *Net cash generated from operating activities*

In 2019, we had net cash generated from operating activities of RMB86.0 million, which was primarily attributable to our profit before tax of RMB68.5 million, as adjusted by (i) depreciation of property, plant and equipment of RMB19.5 million; (ii) finance costs of RMB28.0 million relating to our bank borrowings and other borrowings, as well as a one-time late payment fee on the delay of tax payment; and (iii) changes in working capital, which consisted primarily of a decrease in inventories of RMB5.2 million, an increase in trade receivables and other receivables of RMB28.3 million, a decrease in trade payables and note payables of RMB13.4 million, an increase in accruals and other payables of RMB38.0 million, a decrease in restricted bank deposits of RMB2.0 million and balance with related parties that positively affected our working capital of RMB10.5 million.

In 2018, we had net cash generated from operating activities of RMB137.0 million, which was primarily attributable to our profit before tax of RMB98.5 million, as adjusted by (i) depreciation of property, plant and equipment of RMB19.2 million; (ii) finance costs of RMB13.2 million relating to our bank borrowings and other borrowings; and (iii) changes in working capital, which consisted primarily of an increase in inventories of RMB5.5 million, an increase in trade receivables and other receivables of RMB29.3 million, an increase in trade payables and note payables of RMB38.9 million, an increase in accruals and other payables of RMB11.3 million, and a decrease in restricted bank deposits of RMB13.0 million.

In 2017, we had net cash generated from operating activities of RMB196.7 million, which was primarily attributable to our profit before tax of 95.9 million, as adjusted by (i) depreciation of property, plant and equipment of RMB21.6 million; (ii) finance costs of RMB17.9 million relating to our bank borrowings and other borrowings; and (iii) changes in working capital, which consisted primarily of a decrease in inventories of RMB5.0 million, an increase in trade receivables and other receivables of RMB6.0 million, an increase in trade payables and note payables of RMB11.0 million, and balance with related parties that positively affected our working capital of RMB41.6 million.

### *Net cash generated from/used in investing activities*

In 2019, we used RMB65.0 million in investing activities, which was primarily attributable to purchases of property, plant and equipment of RMB65.4 million.

In 2018, we generated RMB1.9 million from investing activities, which was primarily attributable to (i) repayment from a related party of RMB235.6 million, partially offset by (i) a loan to a related party of RMB227.2 million; and (ii) purchases of property, plant and equipment of RMB6.9 million.

In 2017, we used RMB2.4 million in investing activities, which was primarily attributable to (i) a loan to a related party of RMB228.3 million; and (ii) purchases of property, plant and equipment of RMB12.5 million, partially offset by repayment from a related party of RMB238.5 million.

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### *Net cash generated from/used in financing activities*

In 2019, we generated RMB73.6 million from financing activities, which was primarily attributable to (i) capital contribution from owners of RMB85.0 million, including RMB70.0 million from our Controlling Shareholders and RMB15.0 million from the Pre-IPO Investor; (ii) borrowings from banks of RMB291.4 million, and (iii) borrowings from a related party of RMB91.1 million, partially offset by (1) repayment of borrowings from banks and financial institutions of RMB223.7 million; (2) repayment to a related party of RMB129.7 million; and (3) interest paid of RMB26.8 million.

In 2018, we used RMB139.0 million in financing activities, which was primarily attributable to (i) repayment of bank borrowings of RMB229.8 million; (ii) repayment to a related party of RMB65.9 million; (iii) dividends paid to shareholders of RMB45.7 million; and (iv) interest paid of RMB13.6 million, partially offset by borrowings from banks of RMB198.0 million.

In 2017, we used RMB188.2 million in financing activities, which was primarily attributable to (i) repayment of bank borrowings of RMB236.6 million; (ii) dividends paid to shareholders of RMB115.7 million; (iii) repayment to a related party of RMB20.0 million; and (iv) interest paid of RMB20.5 million, partially offset by (1) borrowings from banks of RMB188.0 million; and (2) borrowings from a related party of RMB20.0 million.

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### DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

#### Net Current Liabilities

The following table sets forth the breakdown of our current assets and current liabilities as at the dates indicated:

	As at December 31,			As at April 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)
<b>Current assets</b>				
Inventories .....	12,491	17,972	23,124	18,446
Trade receivables .....	16,268	42,881	16,988	23,200
Other receivables and prepayments.....	2,050	4,700	6,257	7,603
Amounts due from related parties.....	17,235	11,198	–	–
Restricted deposit.....	–	13,000	15,000	20,037
Cash and cash equivalents .....	10,098	9,930	104,602	88,220
<b>Total current assets .....</b>	<b>58,142</b>	<b>99,681</b>	<b>165,971</b>	<b>157,506</b>
<b>Current liabilities</b>				
Borrowings.....	229,710	203,971	237,827	222,063
Trade and notes payables .....	89,560	128,446	115,006	95,925
Current income tax liabilities.....	50,872	75,881	3,315	2,257
Accruals and other payables .....	26,558	37,368	79,031	82,482
Amounts due to related parties .....	13,604	56,759	7,850	6,075
Lease liabilities .....	2,248	417	2,098	2,276
<b>Total current liabilities .....</b>	<b>412,552</b>	<b>502,842</b>	<b>445,127</b>	<b>411,078</b>
<b>Net current liabilities .....</b>	<b>(354,410)</b>	<b>(403,161)</b>	<b>(279,156)</b>	<b>(253,572)</b>

Our net current liabilities increased from RMB354.4 million as at December 31, 2017 to RMB403.2 million as at December 31, 2018 primarily due to an increase in notes payable and current income tax liabilities, among others. Our net current liabilities decreased from RMB403.2 million as at December 31, 2018 to RMB279.2 million as at December 31, 2019, primarily because we received cash injection of RMB85.0 million from our shareholders and recorded profit for the year of RMB49.9 million in 2019. Such decrease in net current liabilities was also contributed by a decrease in trade and notes payable, and an increase in amounts due from related parties and in cash and cash equivalents. Our net current liabilities slightly decreased from RMB279.2 million as at December 31, 2019 to RMB253.6 million as at April 30, 2020.

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We recorded net current liabilities during the Track Record Period, mainly because we used short-term borrowings to finance our business operation and expansion and distributed dividends to our shareholders historically. For more details, please refer to Note 2.1.4 to the Accountant’s Report contained in Appendix I to this prospectus, and the paragraph headed “Risk Factors — Risks Relating to Our Business and Industry — We recorded net current liabilities during the Track Record Period, which exposes us to liquidity risk, and such positions may continue or recur after the Listing” in this prospectus. We plan to improve our net current liabilities position through maintaining sufficient cash inflow from operating activities and replacing our short-terms borrowings with long-term bank borrowings in the future.

### Inventories

Our inventories consist of pharmaceutical products, medical consumables and others. We actively monitor the sales performance and inventory level, and make our sales and purchase plans accordingly every month, to minimize the risk of inventory shortage or accumulation. We have also established an inventory management system that monitors each stage of the warehousing process. We did not experience any material shortage or accumulation of inventory during the Track Record Period. We record our inventories at cost or net realizable value, whichever is lower. The following table sets forth our inventory balances as at the dates indicated.

	As at December 31,		
	2017	2018	2019
	RMB’000	RMB’000	RMB’000
Pharmaceuticals.....	9,748	15,413	20,752
Medical consumables and others .....	2,743	2,559	2,372
<b>Total</b> .....	<b>12,491</b>	<b>17,972</b>	<b>23,124</b>

Our inventory increased steadily during the Track Record Period in line with our business growth, and we did not encounter any material inventory shortages during the period.

The following table sets forth our inventory turnover days for the years indicated.

	Year ended December 31,		
	2017	2018	2019
Inventory turnover days <sup>(1)</sup> .....	17.1	16.5	20.7

*Note:*

- (1) The inventory turnover days are equal to average inventory (inventory at the beginning of the year plus inventory at the end of the year divided by two) divided by cost of sales for the year and multiplied by 365 for the relevant year.

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Our inventory turnover days remained stable in 2017 and 2018. Our inventory turnover days increased to 20.7 days in 2019, primarily because we increased our inventories at the end of 2019 to minimize the risk of inventory shortages during the Chinese New Year holiday seasons, which resulted in an average inventory level higher than that for the year 2018.

As at the Latest Practicable Date, 100.0% of our inventories as of December 31, 2019 had been subsequently utilized/sold.

### Trade Receivables

The following table sets forth our trade receivables net of allowance for impairment as at the dates indicated.

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Trade receivables .....	16,302	42,935	17,067
Less: allowance for impairment of trade receivables .....	(34)	(54)	(79)
Trade receivables – net .....	16,268	42,881	16,988

Our trade receivables primarily represent the trade-nature receivables of our hospital for services rendered or goods delivered. Patients at our hospital pay for treatments and healthcare services by cash, bank cards or through public medical insurance programs. Our trade receivables during the Track Record Period mainly reflected payments due from public medical insurance programs. We have a credit period of 30 days to 180 days for treatments and general healthcare services payables by public medical insurance programs.

Our trade receivables as at December 31, 2017, 2018 and 2019 were RMB16.3 million, RMB42.9 million and RMB17.0 million, respectively. Our trade receivables increased from the end of 2017 to the end of 2018, primarily due to the increased patient visits and a delayed settlement of certain receivables under URRBMIP for the year 2018. Such delay was temporary and primarily caused by a local policy change on the settlement method as a result of an organizational adjustment of the relevant government authorities in 2018. To facilitate the reforms on healthcare system of Changyuan City, in November 2017, the local government initiated its plan of establishing three healthcare communities in Changyuan City, one of which consists of our hospital and six township healthcare centers, all Independent Third Parties. Our hospital was designated by the local government as leading hospital of the healthcare community. On April 4, 2018, the local government of Chanyuan City published a notice on the implementation plan of the reforms with respect to the payment method of public medical insurance programs. According to the notice, public medical insurers are required to manage their payments based on the total claims of a healthcare community to replace the traditional method of managing payments by single medical institution. As our hospital is the leading hospital in the healthcare community mentioned above, since 2018, URRBMIP has started to make the total payments attributable to the healthcare community to our hospital first and delegated our hospital to make further payments to the other six township health centers within the community. In 2018 and 2019, the payments we received from URRBMIP on behalf of the six township health centers amounted to RMB5.4 million and

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RMB28.0 million, respectively. For details of the outstanding payables to the six township health centers as at the end of 2018 and 2019, please refer to the paragraph headed “— Accruals and other payables” below in this section. We typically settle trade receivables in relation to URRBMIP every December. To facilitate the change on the settlement method mentioned above, certain payments from URRBMIP were slightly delayed to January 2019. As a result, our trade receivables as at December 31, 2018 were significantly higher than those as at December 31, 2017 and 2019. Our trade receivables decreased from the end of 2018 to the end of 2019, primarily as a result of payments settled through public medical insurance programs. As of the Latest Practicable Date, we had settled receivables of RMB13.1 million, representing approximately 77.1% of our trade receivables outstanding as of December 31, 2019.

The following table sets forth the aging analysis of our trade receivables as at the dates indicated.

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
1 to 3 months .....	15,363	38,474	14,179
3 to 6 months .....	211	3,130	1,445
6 months to 1 year .....	470	85	1,176
1 to 2 years .....	258	1,229	254
2 to 3 years .....	—	17	13
<b>Total</b> .....	<b>16,302</b>	<b>42,935</b>	<b>17,067</b>

Our provision for receivables impairment was RMB20,000 and RMB25,000 in 2018 and 2019, respectively, while our reversal for receivables impairment was RMB17,000 in 2017. During the Track Record Period, we had no trade receivables past due but not impaired.

The following table sets forth our trade receivables turnover days for the years indicated.

	Year ended December 31,		
	2017	2018	2019
Trade receivables turnover days <sup>(1)</sup> .....	10.3	21.7	20.6

*Note:*

- (1) The trade receivables turnover days are equal to average trade receivables (trade receivables at the beginning of the year plus trade receivables at the end of the year divided by two) divided by total revenue for the year and multiplied by 365 for the relevant period.

## FINANCIAL INFORMATION

The seemingly extraordinarily high turnover days in 2018 and in 2019 were primarily because of a delayed settlement of the receivables under URRBMIP for fiscal year 2018. We typically settle trade receivables in relation to URRBMIP every December. Before the December settlement, the balance of such trade receivables would continue to increase. For fiscal year 2018, the receivables in relation to URRBMIP were not settled in December as we normally do; the settlement was slightly delayed to January 2019 as a result of a local policy change on the settlement method as disclosed above. As such, when calculating the trade receivables turnover days for 2018 and 2019, the December 31, 2018 trade receivables amount (which was significantly higher than the normal December 31 amount in other years) was used as the period-end balance for 2018 and the period-begin balance for 2019, resulting in a seemingly extraordinarily high turnover days for both 2018 and 2019. In fact, eliminating the impact of such delayed settlement of receivables in relation to URRBMIP for 2018, there had not been significant increases in our trade receivables turnover days during the Track Record Period.

### Other receivables and prepayments

Our other receivables and prepayments consist of prepayments for utilities expense, prepayment for listing related expenses and prepayments for purchase of property, plant and equipment. The following table sets forth a breakdown of our other receivables and prepayments as at the dates indicated:

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Current</b>			
Other receivables.....	733	695	1,095
Prepayments of utilities expense .....	1,317	4,005	1,163
Prepayments of listing related expenses .....	–	–	3,999
<b>Non-current</b>			
Prepayments for purchase of property, plant and equipment .....	19,769	20,846	11,560
Prepayments for construction .....	–	–	50,000
<b>Total</b> .....	<b>21,819</b>	<b>25,546</b>	<b>67,817</b>

Our other receivables and prepayments were RMB21.8 million, RMB25.5 million and RMB67.8 million as at December 31, 2017, 2018 and 2019, respectively. Our other receivables and prepayments as at December 31, 2018 increased compared to as at December 31, 2017, primarily due to increases in prepayments for utilities expense in connection with our purchase of new equipment and installation of natural gas heating system. Our other receivables and prepayments as at December 31, 2019 increased significantly compared to as at December 31, 2018, primarily due to an increase in prepayments we made in relation to the construction of our first-phase building.

## FINANCIAL INFORMATION

### Trade payables

Our trade payables primarily relate to the purchase of pharmaceuticals, medical equipment and medical consumables from our suppliers, which are non-interest bearing. We typically have a credit term of two months for pharmaceuticals and four months for medical consumables. We typically pay a substantial portion of the purchase amount within one to three months after installation and inspection of medical equipment, and settle the rest of the purchase amount upon or after expiration of warranty period pursuant to relevant contracts. The warranty period for our medical equipment typically varies from 12 months to 24 months. The following table sets forth the aging analysis of our trade payables as at the dates indicated:

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Up to 3 months .....	38,428	46,072	66,952
3 to 6 months .....	28,058	25,460	14,646
6 months to 1 year .....	18,951	23,312	6,509
1 to 2 years .....	773	4,273	8,429
2 to 3 years .....	250	109	407
Over 3 years.....	3,100	3,220	3,063
<b>Total</b> .....	<b>89,560</b>	<b>102,446</b>	<b>100,006</b>

Our trade payables were RMB89.6 million, RMB102.4 million and RMB100.0 million as at December 31, 2017, 2018 and 2019, respectively. The increase in trade payables from 2017 to 2018 was primarily due to our increased procurement activities, which was in line with our business growth. Our trade payables remained stable as at December 31, 2018 and 2019. As of the Latest Practicable Date, we had settled approximately 77.7% of our trade payables outstanding as of December 31, 2019.

The following table sets forth our trade payables turnover days for the years indicated.

	Year ended December 31,		
	2017	2018	2019
Trade payables turnover days <sup>(1)</sup> .....	96.1	104.1	102.3

*Note:*

(1) The trade payables turnover days are equal to average trade payables (trade payables at the beginning of the year plus trade payables at the end of the year divided by two) divided by cost of sales for the year and multiplied by 365 for the relevant period.

Our trade payables turnover days increased from 2017 to 2018, primarily because with our business growth, we increased our procurement activities and therefore had a stronger bargaining power in negotiating credit terms with our suppliers.



## FINANCIAL INFORMATION

### Accruals and other payables

Our accruals and other payables primarily consist of payables related to accrued employee benefits, deposits from patients, duty and other taxes payable, other payables to suppliers of plant and equipment, interest payable, and listing expense payable. The following table sets forth certain information of our accruals and customers, other payables as at the dates indicated.

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Accrued employee benefits .....	18,700	29,032	33,690
Deposit from patients <sup>(1)</sup> .....	2,422	1,982	27,333
Duty and other tax payable .....	1,207	1,212	2,390
Other payables to suppliers of plant and equipment .....	3,702	3,595	3,933
Interest payable .....	353	–	1,907
Listing expense payable .....	–	–	4,287
Others <sup>(2)</sup> .....	174	1,547	5,491
<b>Total</b> .....	<b>26,558</b>	<b>37,368</b>	<b>79,031</b>

*Notes:*

- (1) Includes deposits in the prepaid smart card issued by our hospital and other deposits made by our patients.
- (2) Includes payables to other medical institutions and accrued expenses. The increase from RMB1.5 million as at December 31, 2018 to RMB5.5 million as at December 31, 2019 was primarily due to the delayed settlement of certain receivables under URRBMIP for the year 2018. As we recorded the amounts attributable to other medical institutions under this item only after we received payments from URRBMIP and certain payments from URRBMIP for the year 2018 were slightly delayed to January 2019, the corresponding payables to other medical institutions should not be recorded in our accounts as at the end of 2018. Please refer to the paragraph headed “— Trade receivables” above for details. Such payables to other medical institutions as at December 31, 2018 and 2019 amounted to RMB1.5 million and RMB4.3 million, respectively. As of the Latest Practicable Date, we had settled 100% of the payables to other medical institutions outstanding as of December 31, 2019.

Our accruals and other payables increased from RMB26.6 million as at December 31, 2017, to RMB37.4 million as at December 31, 2018, primarily due to an increase in our accrued and unpaid employee benefits. Our accruals and other payables increased from RMB37.4 million as at December 31, 2018 to RMB79.0 million as at December 31, 2019, primarily due to an increase in deposit from patients, which was in turn in relation to our settlement with Henan Honliv Group in relation to the historical use of Hongxintong cards, as explained in detail in the paragraphs headed “— Related Party Transactions — Balances with related parties” below. During the Track Record Period, we did not default on any other payables and accruals that would have a material adverse effect on our financial position.

## FINANCIAL INFORMATION

### Amounts due to related parties

As of December 31, 2017, 2018 and 2019 and April 30, 2020, our amounts due to related parties amounted to approximately RMB13.6 million, RMB56.8 million, RMB7.9 million and RMB6.1 million, respectively. These balances were non-interest bearing, unsecured and repayable on demand. Our amounts due to related parties comprise trade in nature and non-trade in nature amounts. We will fully settle all of our non-trade amounts due to related parties prior to the Listing. For details, please refer to the paragraph headed “— Related Party Transactions — Balances with Related Parties” below.

### Lease liabilities

As of December 31, 2017, 2018 and 2019 and April 30, 2020, our lease liabilities in respect of our leased properties amounted to approximately RMB2.7 million, RMB0.4 million, RMB4.8 million, and RMB4.3 million, respectively.

## RELATED PARTY TRANSACTIONS

### Balances with related parties

During the Track Record Period, our balances with related parties were denominated in RMB. The carrying values of our balances with related parties due as at December 31, 2017, 2018 and 2019 approximate their fair values. As at December 31, 2017, 2018 and 2019, all balances due from and due to related parties are non-interest bearing, unsecured and repayable on demand.

The following table sets forth our amounts due from related parties as at the dates indicated.

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Trade in nature</b>			
– Henan Honliv Group <sup>(1)</sup> .....	7,670	11,165	–
– Guxiang No. 9 .....	–	–	–
– Honliv Yishenghuo.....	–	–	–
	7,670	11,165	–
<b>Non-trade in nature</b>			
– Henan Honliv Group .....	8,332	–	–
– Henan Honliv School .....	1,200	–	–
– Sunny Rock .....	23	23	–
– Rubrical Investment .....	10	10	–
<b>Total</b> .....	17,235	11,198	–

*Note:*

- (1) Trade-in-nature amounts due from Henan Honliv Group as at December 31, 2017 and 2018 primarily represented our transactional balance in relation to Hongxintong, as explained in details below.

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Hongxintong (宏信通) is a prepaid smart card system operated and managed by Henan Honliv Group. During the Track Record Period, two types of Hongxintong cards were issued by Henan Honliv Group, one type (the “**Hospital Cards**”) were issued at our hospital (then owned by Henan Honliv Group), and one type (the “**Group Cards**”) were issued at certain other businesses operated by Henan Honliv Group and/or its other affiliates (e.g., Honliv Yishenghuo, a supermarket, and Guxiang No. 9, a restaurant. Such other businesses are collectively referred to as the “**Other Group Stores**”). The Hospital Cards bear no expiration date and the amounts deposited therein remain valid as long as the Hospital Cards are valid. There are also no restrictions on the maximum and minimum amounts of deposits that a patient could and should pay, respectively. Our patients use the Hospital Cards for the convenience in settlement. Our Group and our related parties do not provide any other incentive for topping up the Hospital Cards. According to the Frost & Sullivan Report, it is common practice for the hospitals in China to issue such prepaid smart cards to patients to facilitate the settlement procedure. As advised by our PRC Legal Adviser, there are no applicable PRC laws or regulations prohibiting our Group from operating the Hospital Cards. The table below sets forth certain information of the Hospital Cards as at the dates indicated:

	As at December 31,		
	2017	2018	2019
Number of Hospital Cards .....	358,982	424,991	491,351
Outstanding Deposits (RMB'000).....	16,383	20,204	24,926

In 2017, 2018 and 2019, the maximum amount of outstanding deposits in the Hospital Cards was RMB16.4 million, RMB20.2 million, and RMB25.0 million, respectively. During the Track Record Period, our patients normally utilized their outstanding deposits in the Hospital Cards within one year. As of the Latest Practicable Date, approximately 54.2% of the outstanding deposits as of December 31, 2019 had been subsequently utilized.

Historically, both the Hospital Cards and the Group Cards were managed and operated by Henan Honliv Group and could be used by customers for purchases either at our hospital, or at the Other Group Stores, and the customers could make deposits into both types of Hongxintong cards either at the cashiers at our hospital, or at the cashiers at the Other Group Stores.

If any amount deposited at a cashier of our hospital (the “**Hospital Deposits**”) was subsequently used for payments at Other Group Stores, we would record such payment amount as an amount due to Henan Honliv Group (a “**Hongxintong Payable Transaction**”), since the Hospital Deposits were received by us but were spent on the products or services of Other Group Stores; on the contrary, if any amount deposited at any cashier of the Other Group Stores (the “**Group Store Deposits**”) was subsequently used for payments at our hospital, we would record such payment amount as an amount due from Henan Honliv Group (a “**Hongxintong Receivable Transaction**”), since the Group Store Deposits were received by Henan Honliv Group but were spent on the services of our hospital.

As at December 31, 2017 and 2018, since the aggregated transaction amount of Hongxintong Receivable Transactions was higher than that of Hongxintong Payable Transactions, the net amount of the foregoing transactions was recorded as “trade-in-nature amounts due from Henan Honliv Group” in the table above. Since March 2019, the Hospital Cards have been managed and operated by our hospital and could only be used at our hospital. All amounts due from related parties, including Henan Honliv Group, have been fully settled by December 31, 2019.

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As part of our efforts to minimize the related party transactions with Henan Honliv Group, since March 31, 2019, we stopped accepting the Group Cards for the settlement of payments at our hospital, and holders of the Hospital Cards were no longer allowed to use the Hospital Cards for the settlement of payments at Other Group Stores. The management and operation of the Hospital Cards was thus transferred from Henan Honliv Group to our hospital.

On March 31, 2019, we settled the outstanding amount in relation to the Hospital Cards and the Group Cards with Henan Honliv Group. Upon such settlement, Henan Honliv Group paid us RMB32.6 million, representing (i) the outstanding amount of “receivable of Henan Honliv Group” immediately prior to the settlement date (amounted to approximately RMB10.8 million), and (ii) the portion of the remaining deposits in the Hospital Cards that were deposited at cashiers of the Other Group Stores (amounted to approximately RMB21.8 million), and the “receivable of Henan Honliv Group” in our accounts has been reduced to nil since then. We recorded all the remaining deposits in the Hospital Cards immediately prior to the settlement date (amounted to approximately RMB21.8 million) to the “deposit from patients” under “accruals and other payables.” Please refer to the paragraphs headed “— Accruals and other payables” in this section for more information.

The following table sets forth the aging analysis of our amounts due from related parties which are trade in nature as at the dates indicated.

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Up to 3 months .....	7,670	11,165	–
More than 3 months .....	–	–	–
<b>Total</b> .....	<b>7,670</b>	<b>11,165</b>	<b>–</b>

The following table sets forth our amounts due to related parties as at the dates indicated.

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Trade in nature</b>			
– Hongda Constructions .....	631	630	–
– Honliv Yishenghuo .....	35	691	621
<b>Non-trade in nature</b>			
– Henan Honliv Group .....	–	38,636	–
– Mr. Qin Yan .....	12,938	16,802	7,227
– Sunny Rock .....	–	–	1
– Rubrical Investment .....	–	–	1
<b>Total</b> .....	<b>13,604</b>	<b>56,759</b>	<b>7,850</b>

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Non-trade in nature amounts due from/to related parties primarily reflect short-term advances granted to and/or received from related parties to fund working capital. The non-trade amounts due from related parties had been fully repaid to us as of December 31, 2019 and we will not grant new advances to related parties prior to the Listing. We will fully settle all of our non-trade amounts due to related parties prior to the Listing.

The following table sets forth the aging analysis of our amounts due to related companies which are trade in nature as at the dates indicated.

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Up to 3 months .....	35	360	10
3 to 6 months .....	–	298	–
6 months to 1 year .....	631	32	351
1 to 2 years .....	–	631	260
<b>Total</b> .....	<b>666</b>	<b>1,321</b>	<b>621</b>

### Transactions with related parties

The following table sets forth our transactions with related parties for the years indicated.

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Medical examination services provided to related parties</b> .....	893	1,166	2,210
<b>Premise rental services to</b>			
– Honliv Yishenghuo .....	–	–	330
– Guxiang No.9 .....	–	–	110
	<b>893</b>	<b>1,166</b>	<b>2,650</b>
<b>Purchase of construction services from</b>			
– Hongda Constructions .....	816	–	–
<b>Purchase of rental services from</b>			
– Henan Honliv Group .....	–	–	580
<b>Purchase of goods from</b>			
– Honliv Yishenghuo .....	488	1,073	471
	<b>1,304</b>	<b>1,073</b>	<b>1,051</b>

## FINANCIAL INFORMATION

The following tables set forth the balances of our loans and borrowings to/from related parties as at the dates indicated:

### *Loans to/from related parties*

	Year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Non-bearing interests			
– Repayment of loans from a related party .....	238,537	235,577	282,295
– Loans to a related party .....	(228,304)	(227,245)	(282,295)
– Repayments to a related party .....	(20,018)	(65,883)	(129,739)
– Borrowings from a related party .....	20,018	104,519	91,103
<b>Total</b> .....	<b>10,233</b>	<b>46,968</b>	<b>(38,636)</b>

Loans to and borrowings from related parties consist of our loans to and borrowings from Henan Honliv Group, which were made primarily to satisfy our (and Henan Honliv Group's) short term working capital or liquidity needs. We will fully settle all our loans to and borrowings from related parties prior to the Listing.

Our loans and borrowings to/from related parties during the Track Record Period were non-interest bearing. Assuming such borrowings were made from the Independent Third Parties bearing an interest rate of 4.35% (the benchmark interest rate for one-year loan published by the PBOC) and calculated based on the weighted average amount of outstanding borrowings from our related parties for the year 2017, 2018 and 2019, we could have recorded interest expenses of approximately RMB45,460, RMB663,440, and RMB143,770 respectively for the year 2017, 2018 and 2019.

### *Secured and guaranteed borrowings by related party's assets*

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Secured and guaranteed borrowings by related party's assets <sup>(1)</sup> .....	206,758	151,971	136,000

*Note:*

- (1) Represent our bank borrowings and other borrowings secured by Henan Honliv Group or by personal properties of Mr. Qin Zili. Please refer to the paragraphs headed “— Indebtedness” in this section, and Note 20 to the Accountant's Report contained in Appendix I to this prospectus, for more information.

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## FINANCIAL INFORMATION

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We will fully release all of the securities and guarantees provided by related parties prior to the Listing.

### *Key management compensation*

Key management includes directors (executive and non-executive), members of the Executive Committee, the Company Secretary and the Head of the Internal Audit. The following table sets for the compensation paid or payable to key management for employee services for the years indicated:

	For the year ended December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Wages and salaries .....	810	973	2,877
Contribution to pension plans .....	22	30	78
Welfare and other expenses.....	11	12	61
<b>Total</b> .....	<b>843</b>	<b>1,015</b>	<b>3,016</b>

Our Directors believe that the above related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties and would not distort our Company's results of operations during the Track Record Period or make the historical results not reflective of our future performance.

### **CAPITAL EXPENDITURES**

Our capital expenditures principally consisted of expenditures on property, plant and equipment, which were mainly used for the construction of our hospital and purchases of medical equipment. Our capital expenditure in 2017, 2018 and 2019 was RMB12.6 million, RMB6.9 million and RMB65.7 million, respectively. Our significant capital expenditure incurred in 2019 primarily represents the prepayment construction expenditure for the building of our hospital currently in use and our first-phase building in construction.

We expect to continue to incur capital expenditures of approximately RMB70.0 million by the second half of 2020, primarily including ramp-up expenses in connection with the first-phase building. We plan to fund such capital expenditure through our proceeds from the Global Offering. For details, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Historically, we fund our capital expenditure mainly through cash generated from our operations and loans and borrowings.

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### CONTRACTUAL OBLIGATIONS

The following table sets forth our capital commitments which had been contracted but not provided for as at the dates indicated:

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Contracted but not provided for			
- Property, plant and equipment .....	58,019	58,410	51,356
	58,019	58,410	51,356

*Note:*

(1) Primarily include the equipment we contracted to purchase for our first-phase building.

### CONTINGENT LIABILITIES

Our Directors are of the view that we do not have any significant contingent liabilities as of the Latest Practicable Date.

### INDEBTEDNESS

Our indebtedness during the Track Record Period principally consisted of bank borrowings and other borrowings, lease liabilities and amounts due to related parties, which were all repayable within five years as at December 31, 2017, 2018 and 2019. As of December 31, 2017, 2018 and 2019 and April 30, 2020, our lease liabilities were RMB2.7 million, RMB0.4 million, RMB4.8 million, and RMB4.3 million, respectively, and our amounts due to related parties were RMB13.6 million, RMB56.8 million, RMB7.9 million and RMB6.1 million, respectively. Our secured borrowings were secured by buildings, machinery and equipment, land use rights and properties of our Group, one of our related parties and an Independent Third Party. The following table sets forth details of our borrowings as at the dates indicated.

	As at December 31,			As at April 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)
<b>Non-current</b>				
Bank borrowings				
- Guaranteed borrowings.....	-	-	-	38,000
Other borrowings .....	6,048	-	33,869	17,258
	6,048	-	33,869	55,258



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	As at December 31,			As at April 30,
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)
<b>Current</b>				
Current portion of long-term bank borrowings				
- Secured borrowings .....	30,000	-	-	-
Short-term bank borrowings				
- Secured borrowings .....	76,000	86,000	78,000	48,000
- Guaranteed borrowings .....	112,000	112,000	130,000	142,000
Other borrowings .....	11,710	5,971	29,827	32,063
	<u>229,710</u>	<u>203,971</u>	<u>237,827</u>	<u>222,063</u>
<b>Total .....</b>	<b><u>235,758</u></b>	<b><u>203,971</u></b>	<b><u>271,696</u></b>	<b><u>277,321</u></b>

Secured borrowings for the years ended December 31, 2017, 2018 and 2019 bear interest at 5.39%, 5.42% and 5.53% annually, respectively. Guaranteed borrowings for the years ended December 31, 2017, 2018 and 2019 bear interest at 7.24%, 6.18% and 6.37% annually, respectively.

The following table sets forth details of maturity of bank borrowings as at the dates indicated:

	As at December 31,		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Maturity of borrowings</b>			
No later than 1 year .....	218,000	198,000	208,000
Later than 1 year and no later than 2 years .....	-	-	-
<b>Total .....</b>	<b><u>218,000</u></b>	<b><u>198,000</u></b>	<b><u>208,000</u></b>

Our bank and other borrowings during the Track Record Period were primarily used to (i) supplement our working capital; and (ii) fund the construction of our first-phase building. For more information of the securities, pledges and guarantees relating to our bank borrowings during the Track Record Period, please refer to Note 20 to the Accountant's Report contained in Appendix I to this prospectus.

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## FINANCIAL INFORMATION

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As at the Latest Practicable Date, we had a committed unutilized banking facility amounting to RMB210.0 million. We did not have any other outstanding bank loans, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities. Our Directors confirm that the agreements under our borrowings do not contain any covenant that will materially affect our ability to make additional borrowings or issue debt or equity securities in the future. We intend to continue to finance portions of our capital expenditures with bank and other borrowings, as we deem appropriate. Except for such borrowings, we currently do not have plans for other material external debt financing. We do not anticipate any material changes to the availability of bank financing to finance our operations in the future, although we cannot assure you that we will be able to access bank financing on favorable terms or at all.

Our Directors confirm that we had no material defaults in payment of trade and non-trade payables and bank borrowings and had not breached any finance covenants during the Track Record Period and up to the Latest Practicable Date.

### WORKING CAPITAL SUFFICIENCY

During the Track Record Period, we met our working capital needs mainly from our cash and cash equivalents on hand, cash generated from operations and bank and other borrowings. We manage our cash flow and working capital by closely monitoring our operations and hospital expansion plans. We also diligently review future cash flow requirements and adjust our operation and expansion plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations and expansion plans.

We recorded net current liabilities of RMB354.4 million, RMB403.2 million and RMB279.2 million as at December 31, 2017, 2018 and 2019, respectively. For details, please refer to the paragraphs headed “— Discussion of Selected Items from the Consolidated Statement of Financial Position — Net Current Liabilities” in this section and “Risk Factors — Risks Relating to Our Business and Industry — We recorded net current liabilities during the Track Record Period, which exposes us to liquidity risk, and such positions may continue or recur after the Listing” in this prospectus. We intend to continue to finance our working capital with cash generated from our operations, external borrowings and net proceeds from the Global Offering. As of the Latest Practicable Date, we had committed unutilized banking facilities amounting to RMB210.0 million. We will continue to closely monitor the level of our working capital, particularly in view of our strategy to expand our operational capacity.

After due and careful enquiry and taking into account the financial resources available to us, including cash flow from operating activities, available banking and other facilities and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus. Please refer to Note 2.1.4 to the Accountant’s Report contained in Appendix I to this prospectus for details.

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## FINANCIAL INFORMATION

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### KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios during the Track Record Period:

	As at and for the year ended December 31,		
	2017	2018	2019
<b>Gearing ratio</b> <sup>(1)</sup> .....	136.3%	186.4%	70.3%
<b>Current ratio</b> <sup>(2)</sup> .....	0.1	0.2	0.4
<b>Quick ratio</b> <sup>(3)</sup> .....	0.1	0.2	0.3
<b>Return on equity</b> <sup>(4)</sup> .....	36.9%	53.6%	28.6%
<b>Return on assets</b> <sup>(5)</sup> .....	11.6%	12.2%	7.5%

*Notes:*

- (1) Calculated as total interest-bearing bank and other borrowings, net of cash and cash equivalents, divided by equity attributable to owners of the Company and multiplied by 100%.
- (2) Calculated as current assets divided by current liabilities as of the end of the period.
- (3) Calculated as current assets, less inventories, divided by current liabilities as of the end of the period.
- (4) Calculated as net profit for the period divided by total equity on an annualized basis, multiplied by 100%.
- (5) Calculated as net profit for the period divided by total assets on an annualized basis, multiplied by 100%.

### Gearing Ratio

Our gearing ratio increased from 136.3% in 2017 to 186.4% in 2018 primarily attributable to a decrease in our Group's total equity resulted from the dividends payment and completion of the Reorganization respectively. Our gearing ratio decreased to 70.3% in 2019, primarily due to an increase in our Group's total equity resulted from an increase of capital reserves.

### Current Ratio and Quick Ratio

Our current ratio and quick ratio remained stable as 0.1 and 0.2 in 2017 and 2018, respectively. Our current ratio and quick ratio was 0.4 and 0.3, respectively in 2019, primarily due to a decrease in amounts due from related parties.

### Return on Equity

Return on equity represents net profit as a percentage of the arithmetic mean of opening and closing balances of total equity for relevant period. Our return on equity was 36.9% and 53.6% in 2017 and 2018, respectively. The increase was due to a decrease in total equity as a result of a decrease in capital reserves due to completion of the Reorganization. Our return on equity was decreased to 28.6% in 2019 as a result of a decrease in net profit for the year.

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## FINANCIAL INFORMATION

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### **Return on Assets**

Return on assets represents net profit as a percentage of the arithmetic mean of opening and closing balances of total assets for relevant period. Our return on assets was 11.6% and 12.2% in 2017 and 2018, respectively. Our return on assets was decreased to 7.5% in 2019 as a result of a decrease in net profit for the year.

### **OFF-BALANCE SHEET ARRANGEMENTS**

As of the Latest Practicable Date, our Group had not entered into any off-balance sheet transactions.

### **QUANTITATIVE AND QUALITATIVE ANALYSIS ABOUT FINANCIAL RISKS**

We are exposed to various types of financial risks in the ordinary course of our business, including market risk (consisting of interest rates and foreign exchange rates), credit risk and liquidity risk. We did not use derivative financial instruments to hedge our risk exposures on changes in foreign currency exchange rates and interest rates during the Track Record Period.

#### **Foreign Exchange Risk**

Our subsidiaries operate in the PRC and the transactions and balances are denominated in RMB which is our presentation and functional currency. The foreign exchange risk to our financial performance is low.

#### **Cash Flow and Fair Value Interest Rate Risk**

Our interest rate risk arises from short-term and long-term bank borrowings. Bank borrowings obtained at variable rates expose us to cash flow interest rate risk which is partially offset by cash held at variable rates. Bank borrowings obtained at fixed rates expose us to fair value interest rate risk. We have not entered into interest rate swaps to hedge against our exposure to changes in fair values of our borrowings. We will, however, continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arise.

As at December 31, 2017, 2018 and 2019, our interest-bearing borrowings at variable rates was RMB77.8 million, RMB124.0 million and RMB169.7 million, respectively. For the years ended December 31, 2017, 2018 and 2019, if interest rates on borrowings had been one percent higher/lower with all other variables held constant, the post-tax profit for the relevant period would have decreased/increased by RMB0.6 million, RMB0.9 million and RMB1.3 million, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

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### **Credit risk**

Credit risk mainly arises from cash and cash equivalents, restricted deposits, and other financial assets at amortised cost, as well as credit exposures to customers and government's social insurance schemes. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets. The credit risk of cash and cash equivalents and restricted deposits is limited because the counterparties are state-owned or reputable commercial banks which are high-credit-quality financial institutions located in the PRC.

Our Group, being a provider of healthcare services to patients, has a highly diversified customer base, without any single customer contributing material revenue. However, our Group has concentrated debtors' portfolio, as majority patients will claim their medical bills from governments' social insurance schemes and new rural cooperative medical insurance which is run by another government body. The reimbursement from these organizations mainly take three to six months. Our Group has policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective organizations' policies and within reimbursement limits, provided fulfilling all ethics and moral responsibilities as healthcare provider. Our Group also has controls to closely monitor the patients' billings and claim status to minimum the credit risk.

For other receivables and amounts due from related parties, our management makes periodic assessments as well as individual assessment on the recoverability based on historical settlement records and past experience. Our Directors believe that there is no material credit risk inherent in our Group's outstanding balance of other receivables and amounts due from related parties.

### **Liquidity risk**

As at December 31, 2019, we had net current liabilities of RMB279.2 million. We aim to maintain sufficient cash to meet operating capital requirements. Our primary uses of capital are to satisfy our working capital and capital expenditure. We mainly finance our working capital requirements through cash generated from our operations and proceeds from bank borrowings. As at December 31, 2017, 2018 and 2019, our borrowings with maturity of less than one year were RMB229.7 million, RMB204.0 million and RMB237.8 million, respectively. Our policy is to regularly monitor current and expected liquidity requirements to ensure we maintain sufficient cash and adequate amount of committed credit facilities to meet our liquidity requirements in the short and long term.

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The table below analyses our financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 31 December 2017</b>				
Borrowings .....	236,217	6,202	–	242,419
Trade and notes payables .....	89,560	–	–	89,560
Accruals, other payables and provision (excluding accrued employee benefits and duty and other tax payable) .....	6,651	–	–	6,651
Amounts due to related parties.....	13,604	–	–	13,604
Lease liabilities .....	2,383	422	–	2,805
	<u>348,415</u>	<u>6,624</u>	<u>–</u>	<u>355,039</u>
<b>At 31 December 2018</b>				
Borrowings .....	208,481	–	–	208,481
Trade and notes payables .....	128,446	–	–	128,446
Accruals, other payables and provision (excluding accrued employee benefits and duty and other tax payable) .....	7,124	–	–	7,124
Amounts due to related parties.....	56,759	–	–	56,759
Lease liabilities .....	422	–	–	422
	<u>401,232</u>	<u>–</u>	<u>–</u>	<u>401,232</u>
<b>At 31 December 2019</b>				
Borrowings .....	260,234	37,608	8,804	306,646
Trade and notes payables .....	115,006	–	–	115,006
Accruals, other payables and provision (excluding accrued employee benefits and duty and other tax payable) .....	42,951	–	–	42,951
Amounts due to related parties.....	7,850	–	–	7,850
Lease liabilities .....	2,663	2,504	451	5,618
	<u>428,704</u>	<u>40,112</u>	<u>9,255</u>	<u>478,071</u>

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## FINANCIAL INFORMATION

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### PROPERTY VALUATION

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has valued the property interests of our Group, comprising our operations, as at March 31, 2020. Texts of its letters, summary of valuation and valuation certificates issued are contained in Appendix III to this prospectus.

The following table sets forth the reconciliation of the carrying values of these property interests as reflected in our consolidated balance sheet as of December 31, 2019 included in Appendix I to this prospectus with our Independent Valuer's valuation of the same property interests as of March 31, 2020 as set out in Appendix III to this prospectus.

	<u>RMB'000</u>
Net book value as of December 31, 2019 .....	442,963
Amortization and depreciation for the three months ended	
March 31, 2020.....	(2,221)
Additions .....	2,975
Unaudited net book value as of March 31, 2020.....	443,717
Valuation surplus.....	144,283
Valuation as of March 31, 2020 .....	588,000

### DIVIDENDS AND DIVIDEND POLICY

During the Track Record Period we declared dividends of RMB176.6 million and completed the distribution by May 2020. We have no plan to pay or declare additional dividends prior to the Listing.

After completion of the Global Offering, our Shareholders will be entitled to receive dividends that we declare. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Subject to those factors and our Articles of Association, we expect that the profit to be distributed in cash each year will be up to 30% of the distributable profit in our consolidated financial statements for that year.

Future dividend payments will also depend upon the availability of dividends received from our operating subsidiaries in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. 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 from our operating subsidiaries may also be restricted if they 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.

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### **DISTRIBUTABLE RESERVES**

As of December 31, 2019, our Group had retained earnings attributable to owner of our Company of RMB71.4 million.

### **LISTING EXPENSES**

We have incurred legal, professional and other fees with respect to the Listing. In accordance with the relevant accounting standards, listing related fees that are directly attributable to issuance of new Shares are recorded as prepaid expenses, which will be deducted from equity upon Listing. The remaining listing related fees are charged to statements of profit or loss and other comprehensive income. The estimated total listing expenses (based on the midpoint of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised, including underwriting commissions and any discretionary incentive fee which may be payable by us) for the Global Offering are approximately RMB44.3 million. As of December 31, 2019, the listing expenses incurred by our Company were approximately RMB15.2 million, of which RMB11.2 million was recognized as expenses in relation to the Listing and RMB4.0 million was deferred and expected to be charged against equity upon the Listing under the relevant accounting standards. We expect to incur additional listing expenses of RMB29.1 million, of which approximately RMB14.0 million is expected to be charged to our consolidated statements of profit or loss and approximately RMB15.1 million is expected to be charged against equity upon the Listing.

### **UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF OUR GROUP**

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of our Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering on the net tangible assets of our Group attributable to the owners of our Company as of December 31, 2019 as if the Global Offering had taken place on December 31, 2019.

The unaudited pro forma statement of adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group as at December 31, 2019 or at any future dates following the Global Offering. The unaudited pro forma statement of adjusted net tangible assets of our Group is based on the audited consolidated net tangible assets of our Group attributable to the owners of our Company as at December 31, 2019 as set out in the Accountant's Report contained in Appendix I to this prospectus, and adjusted as described below.



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	Audited consolidated net tangible assets of our Group attributable to the owners of our Company as at December 31, 2019 <sup>(1)</sup>	Estimated net proceeds from the Global Offering <sup>(2)</sup>	Unaudited pro forma adjusted net tangible assets of our Group attributable to the owners of our Company as at December 31, 2019	Unaudited pro forma adjusted net tangible assets per Share <sup>(3), (5)</sup>	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer					
Price of HK\$1.80 per Share .....	237,258	215,246	452,504	0.75	0.82
Based on an Offer					
Price of HK\$2.30 per Share .....	237,258	281,114	518,372	0.86	0.94

*Notes:*

- (1) The audited consolidated net tangible assets of our Group attributable to owners of our Company as at December 31, 2019 is extracted from the Accountant's Report contained in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the owners of our Company as at December 31, 2019 of approximately RMB237,258,000 with an adjustment for intangible assets as at December 31, 2019 of approximately RMB315,000.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.80 per Share and HK\$2.30 per Share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB11,152,000 which have been accounted for in our Group's consolidated statements of comprehensive income prior to December 31, 2019) payable by our Company and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this prospectus.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 600,000,000 Shares were in issue assuming that the Global Offering and the Capitalisation Issue had been completed on December 31, 2019 but takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this prospectus.
- (4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to December 31, 2019.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted to Hong Kong dollars at a rate of RMB0.91484 to HK\$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

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### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors confirm that as of the Latest Practicable Date, there have been no circumstances that would give rise to the disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules had the Shares listed on the Stock Exchange.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that, up to the date of this prospectus and save as disclosed in paragraph headed “Summary — Recent Development — Outbreak of Novel Coronavirus Disease 2019 (COVID-19)” in this prospectus, there has been no material adverse change in our financial or trading position since December 31, 2019 and there is no event since December 31, 2019 which would materially affect the information shown in the Accountant’s Report contained in Appendix I to this prospectus.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OVERVIEW

Our Controlling Shareholders are Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock and Rubrical Investment. As of the Latest Practicable Date, our Company was owned as to approximately 69.06% by Sunny Rock and approximately 29.60% by Rubrical Investment, respectively. Sunny Rock and Rubrical Investment are wholly owned by Mr. Qin Yan and Mr. Qin Hongchao, respectively, and their principal businesses are investment holding. Mr. Qin Yan and Mr. Qin Hongchao are brothers. Pursuant to the Concert Party Agreement, the Concert Parties, being our Controlling Shareholders, were entitled to exercise control over approximately 98.66% voting powers of our Company as of the Latest Practicable Date. Immediately following the completion of the Capitalization Issue and the Global Offering, assuming the Over-allotment Option is not exercised, our Controlling Shareholders will be entitled to exercise control over approximately 74% voting powers of our issued share capital. Thus, the Concert Parties will continue to be our Controlling Shareholders upon the Listing. For more details on Mr. Qin Yan's and Mr. Qin Hongchao's biographical information, please refer to the paragraph headed "Directors and Senior Management — Board of Directors" in this prospectus. As of the Latest Practicable Date, our Controlling Shareholders did not hold shares in any listed companies to the extent subject to reporting or disclosure requirements in that jurisdiction.

Save and except for their interests in our Company and its subsidiaries, neither our Controlling Shareholders nor any of their close associates had interests in any other companies as of the Latest Practicable Date which may, directly or indirectly, compete with or is likely to compete with our business which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

### NON-COMPETITION UNDERTAKINGS

On June 18, 2020, our Controlling Shareholders, Mr. Qin Zili and his controlled Henan Honliv Group has entered into the Deed of Non-competition in favor of our Company (for itself and on behalf of its subsidiaries), pursuant to which each of our Controlling Shareholders, Mr. Qin Zili and Henan Honliv Group has confirmed that it or he is not engaged in, or interested in any business which, directly or indirectly, competes or may compete with our business. In accordance with the non-competition undertakings set out in the Deed of Non-competition, each of our Controlling Shareholders, Mr. Qin Zili and Henan Honliv Group, has undertaken to our Company (for itself and on behalf of its subsidiaries) that during the period commencing from the Listing Date and ending on the occurrence of the earliest of (i) the day on which our Shares cease to be listed on the Stock Exchange or other recognized stock exchange; (ii) the day on which our Controlling Shareholders and/or their close associates (other than any member of our Group) cease to hold or otherwise be interested in, whether directly or indirectly, 10% or more of the voting rights of our Company:

- except for the proposed establishment of new hospitals in Henan Province by an affiliate of Henan Honliv Group and the pre-emptive purchase right in respect of such proposed new hospitals granted to our Group as described in the paragraph headed "Business — Our Strategies — Expand through greenfield and brownfield investments", each of them will not and will procure that none of his/its close associates who are individuals to whom each of them provides financial assistance to set up and operate businesses (the "**Controlled Persons**") or any companies in the equity capital of which each of our Controlling Shareholders, Mr. Qin Zili and Henan Honliv Group, his/its respective close associates taken together are interested (directly or indirectly) so as to exercise or control the exercise of 30% or more of the voting power at general meetings, or companies in which each of our Controlling Shareholders, Mr. Qin Zili and Henan Honliv Group, his/its respective close associates controls the composition of a majority

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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of the board of directors of such companies (the “**Controlled Companies**”) will, except through his/its interests in our Company, whether as principal or agent and whether undertaken directly or indirectly through any person, body corporate, partnership, joint venture or other contractual arrangement and whether for profit, rewards or otherwise, carry on, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, in each case, whether as a shareholder, director, partner, agent, employee or otherwise, any business which is in any respect in direct or indirect competition with or similar to or is likely to be in direct or indirect competition with the business of our Group as described in this prospectus and any other business from time to time conducted by any member of our Group or in which any member of our Group is engaged or has invested in, or entered into any letters of intent or memorandum of understanding to enter into, or which any member of our Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether undertaken directly or through anybody corporate, partnership, joint venture, or other contractual or other arrangement), within the PRC or any of the territories where any member of our Group carries and/or will carry on business from time to time (the “**Restricted Business**”);

- except for the proposed establishment of new hospitals in Henan Province by an affiliate of Henan Honliv Group and the pre-emptive purchase right in respect of such proposed new hospitals granted to our Group as described in the paragraph headed “Business — Our Strategies — Expand through greenfield and brownfield investments”, each of them will not and will procure that none of his/its close associates to, whether or not by himself/itself or through his/its close associates, or in any ways:
  - (a) except with the authorization of our Group, engage in any transaction, business activity or engage in any trade or business activity with any person, organization or company, and such transaction or business activity utilizes any name or trademarks (whether or not registered) of the Group or any related business or transaction or business name used by our Group from time to time, or contains all or substantial part or deceptive imitation of the above (except for projects participated by our Group);
  - (b) declare, display or in ways indicate that in the process of obtaining a transaction or business opportunity that it has at present or in the past any relationship with our Group in order to obtain or retain any business which will at the same time cause damage to our Group;
  - (c) use or disclose to any person, or announce or disclose or allow announcement or allow disclosure of information related to our Group (whether or not secret and confidential, written, verbal or any recorded information) obtained or potentially obtained. “Information” includes but is not limited to the following: (1) business or financial information of our Group, or information involving or related to the business asset or transaction of our Group; (2) strategy information of our Group (including business, pricing and/or sales strategy); (3) names and address of any clients and/or suppliers of our Group; (4) employment relationship between our Controlling Shareholders or Henan Honliv Group and our Group and the terms and conditions of the Deed of Non-competition; and (5) information relating to the business methodology of our Group.

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- if he/it and/or any of his/its respective close associates, and/or any of the Controlled Persons and/or any of the Controlled Companies is offered or becomes aware of any potential business opportunity directly or indirectly to engage or become interested in a Restricted Business, which for the avoidance of doubt, including but not limited to both the business opportunity relating to (1) acquisition of for-profit hospitals/healthcare institutions and (2) management of not-for-profit hospitals/healthcare institutions (the “**New Business Opportunity**”), he/it:
  - (a) shall promptly notify our Company in writing and refer such business opportunity to our Company for consideration and provide such information as may be reasonably required by our Company in order to make an informed assessment of such business opportunity;
  - (b) shall not and shall procure that his/its close associates and/or Controlled Persons and/or Controlled Companies shall not, invest or participate in any such project or business opportunity unless such project or business opportunity shall have been rejected by our Company in writing and the principal terms of which each of our Controlling Shareholders, Mr. Qin Zili, Henan Honliv Group or his/its close associates and/or Controlled Persons and/or Controlled Companies invest(s) or participate(s) are no more favorable than those made available to our Company; and
  - (c) in the case of business opportunity relating to not-for-profit hospitals/healthcare institutions and if permitted under relevant PRC laws and regulations, he/it shall first offer to our Company to acquire both the management rights and organization rights of the potential not-for-profit hospitals/healthcare institutions. However, if there is any restriction under relevant PRC laws and regulations for our Company to become the organizer of a not-for-profit hospital/healthcare institution, he/it or his/its close associates and/or Controlled Person and/or Controlled Company, subject to compliance with the Listing Rules, will then become the organizer of such not-for-profit hospital/healthcare institution and as consideration, he/it or his/its close associates and/or Controlled Person and/or Controlled Company will undertake to enter into a management agreement with our Company such that our Company will manage and operate such not-for-profit hospital/healthcare institution.

Each of our Controlling Shareholders, Mr. Qin Zili and Henan Honliv Group has undertaken that, in the event that any Controlling Shareholder, Mr. Qin Zili or Henan Honliv Group establishes a new business relating to acquisition of for-profit hospitals/healthcare institutions and management of not-for-profit hospitals/healthcare institutions, he/it shall grant our Group the pre-emptive right to acquire all equity interest in the new business in accordance with applicable laws and regulations. For more details, please refer to the paragraph headed “Business — Our Strategies — Expand through greenfield and brownfield investments”.

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Each of our Controlling Shareholders, Mr. Qin Zili and Henan Honliv Group has undertaken that he/it will not and will procure that none of his/its respective close associates and/or the Controlled Persons and/or the Controlled Companies shall:

- at any time induce or attempt to induce any director, manager or employee or consultant of any member of our Group to terminate his or her employment or consultancy (as appropriate) with our Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy (as appropriate);
- at any time employ any person who has been a director, manager, employee of or consultant to any member of our Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the Restricted Business; or
- alone or jointly with any other person, or as manager, adviser, consultant, employee or agent for or shareholder in any person, firm or company, in competition with any member of our Group, canvass, solicit or accept order from or do business with any person with whom any member of our Group has done business or solicit or persuade any person who has dealt with our Group or is in the process of negotiating with our Group in relation to the Restricted Business to cease to deal with our Group or reduce the amount of business which the person would normally do with our Group or seek to improve their terms of trade with any member of our Group.

Each of our Controlling Shareholders, Mr. Qin Zili and Henan Honliv Group has undertaken that, during the term of the Deed of Non-competition, if he/it intends to transfer, sell or lease to a third party, or license or otherwise permit such third party to use, any New Business Opportunity referred to in the Deed of Non-competition, which has been offered to, but has not been taken up by, our Company and has been retained by himself/itself, which competes, or is likely to compete, directly or indirectly, with the Restricted Business, he/it shall notify us by a written notice (the "**Selling Notice**") in advance. The Selling Notice shall contain the terms of the transfer, sales, lease or license and any information which may be reasonably required by our Company. We shall reply to such Controlling Shareholder, Mr. Qin Zili or Henan Honliv Group within 21 business days after receiving the Selling Notice (subject to our request to extend the notice period to 30 business days). Each of our Controlling Shareholders, Mr. Qin Zili and Henan Honliv Group has undertaken that until he/it receives a reply from us, he/it shall not notify any third party of his/its intention to transfer, sell, lease or license the business. If our Company decides not to exercise its pre-emptive right or does not reply within the agreed time period, or if our Company does not accept the terms as set out in the Selling Notice and issues to our Controlling Shareholders, Mr. Qin Zili or Henan Honliv Group a written notice within the agreed time period stating acceptable conditions which, however, are not acceptable to our Controlling Shareholders, Mr. Qin Zili and Henan Honliv Group following negotiation between the parties under the fair and reasonable principle, our Controlling Shareholders, Mr. Qin Zili or Henan Honliv Group are entitled to transfer, sell, lease, license the business to a third party or permit a third party to use such business pursuant to terms not more favorable than those stipulated in the Selling Notice. However, if a third party has a pre-emptive right, in accordance with applicable laws and regulations and/or a prior legally binding document (including but not limited to articles of association and a shareholders' agreement), our pre-emptive right shall be subject to such third party's right. In this case, our Controlling Shareholders, Mr. Qin Zili or Henan Honliv Group shall use their best efforts to procure such third party to waive its pre-emptive right. Our Controlling Shareholders, Mr. Qin Zili or Henan Honliv Group shall use their best efforts to procure his/her close associate(s) (as appropriate) (other than our Group) to grant the pre-emptive right to us as described above.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Each of our Controlling Shareholders, Mr. Qin Zili and Henan Honliv Group will further undertake, jointly and severally, to indemnify and keep indemnified our Group against any damage, loss or liability suffered by our Group arising out of or in connection with any breach of covenants and undertakings and/or any of the obligations of our Controlling Shareholder, Mr. Qin Zili or Henan Honliv Group under the Deed of Non-competition, including any costs and expenses incurred as a result of such breach.

The implementation of the Deed of Non-competition will be governed and monitored as follows:

- our independent non-executive Directors will be responsible for deciding, without attendance by any executive Director (except as invited by our independent non-executive Directors to assist them or provide any relevant information but in no circumstances shall the participation of our executive Director(s) in such meeting(s) be counted towards the quorum should our executive Director(s) be allowed to vote in such meeting(s)), whether or not to take up a New Business Opportunity referred to us under the terms of the Deed of Non-competition;
- in the event that our independent non-executive Directors decide not to proceed with any particular New Business Opportunity and that our Controlling Shareholders, Mr. Qin Zili and Henan Honliv Group or his/its respective close associates and/or Controlled Persons and/or Controlled Companies decides to proceed with such New Business Opportunity, we will announce such decision by way of an announcement setting out therein the basis and reasons for arriving at the decisions for us not taking the project or the business opportunity;
- our independent non-executive Directors will be granted full access of financial information and other information they request from the managers of our Company and Controlling Shareholders in order to make an informed decision. The independent non-executive Directors will make each decision based on any factors they consider appropriate and beneficial to our Group;
- our independent non-executive Directors may employ an independent financial advisor as they consider necessary to advise them on the terms of any New Business Opportunity;
- each of our Controlling Shareholders, Mr. Qin Zili and Henan Honliv Group has undertaken to keep us informed and shall procure his/its respective close associates and/or the Controlled Persons and/or the Controlled Companies to keep us informed, of any New Business Opportunity and to provide all information reasonably required by the independent non-executive Directors to assist them in their consideration of any New Business Opportunity;
- our independent non-executive Directors will also review, on an annual basis, the implementation of the Deed of Non-competition and any decisions in relation to any New Business Opportunity referred to us, and state their basis and reasons for arriving at the decisions in our Company's annual report;
- after the Listing, our Directors will continue to disclose details of any potential competing interests (if any) in our annual reports to our Shareholders as per the relevant requirements under the Listing Rules; and

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- in the event that any of our Directors and/or their respective close associates has material interest in any matter to be deliberated by our Board in relation to the compliance and enforcement of the Deed of Non-competition, he/she may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the articles of association of our Company.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that our Group is capable of conducting our business independently from our Controlling Shareholders and their respective associates (other than our Group) after the Global Offering for the following reasons:

#### Management Independence

We maintain an independent Board to oversee our Group's business. Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Qin Yan, one of our Controlling Shareholders, is our Chairman and executive Director. We consider that our Board will function independently from our Controlling Shareholders because:

- our Board comprises seven Directors and three of them are independent non-executive Directors, which represents more than one-third of the members of the Board. Such composition is in line with the current corporate governance best practices in Hong Kong according to the requirement under the Listing Rules. The three independent non-executive Directors have extensive experience in different areas and have been appointed to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions. As such, we believe our independent non-executive Directors are able to oversee the Board to ensure there is no potential conflict of interests or competition with our Controlling Shareholders;
- each Director is aware of his fiduciary duties as a director of our Company which requires, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. Further, we believe our independent non-executive Directors have the depth and breadth of experience which will enable them to bring sound, independent, and impartial judgment to the decision-making process of our Board. Our independent non-executive Directors have been appointed in accordance with the requirements of the Listing Rules to ensure there is no actual or potential conflict of interest with our Controlling Shareholders;
- in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director(s) is/are obliged to declare and fully disclose such potential conflict of interest and shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum;



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- Mr. Qin Hongchao, despite his role at Henan Honliv Group, is only our non-executive Director and is not responsible for the day-to-day management of our Company. His role as a Controlling Shareholder will not affect his abilities to discharge his duties as our non-executive Director;
- connected transactions between our Group and our Controlling Shareholders or their respective associates are subject to the requirements under Chapter 14A of the Listing Rules, including the requirements of reporting, announcement and independent Shareholders' approval (if applicable) for a connected transaction as appropriate; and
- we have established an internal control mechanism to identify connected transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions.

### **Operational Independence**

As of the Latest Practicable Date, we had our own independent operation capabilities and independent management systems. We are also in possession of all necessary relevant licenses, approvals and certificates, to carry on and operate our business and we have sufficient operational capacity in term of capital and employees to operate and manage independently. We do not rely on any operational or administration resources of our Controlling Shareholders or their respective associates for our business development, staffing, marketing or sales activities. We have independent access to our customers, suppliers and an independent management team to handle our day-to-day operations. During the Track Record Period, our Company conducted certain transactions with certain associates of our Controlling Shareholders to continue after the Listing and will constitute continuing connected transactions of our Company under the Listing Rules. For details of each of the continuing connected transactions, please refer to the section headed "Connected Transactions" in this prospectus. Such transactions are entered into in the ordinary and usual course of business of our Company and our Directors confirm that the terms of such transactions are determined at arm's length negotiations and are no less favourable to our Company than terms offered by Independent Third Parties. Our Directors believe that the continuing connected transactions between our Company and the associates of our Controlling Shareholders do not indicate any undue reliance by our Company on our Controlling Shareholders and are beneficial to our Company and our Shareholders as a whole.

Based on the above, our Directors are satisfied that we are able to operate independently from our Controlling Shareholders (including their respective close associates) after the Listing.

### **Financial Independence**

We are financially independent from our Controlling Shareholders and their close associates. All loans, advances and non-trade balances due to and from our Controlling Shareholders and their respective close associates have been fully settled and that all share pledges and guarantees provided by our Controlling Shareholders and their respective close associates on our Group's borrowing will be fully released upon the Listing. In addition, we have our own internal control and accounting systems, accounting and finance department responsible for making financial decisions

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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based on our own business needs, independent treasury function for cash receipts and payment and independent access to third-party financing. We have sufficient capital and banking facilities to operate our business independently, and have adequate resources to support our daily operations.

With respect to any future financial assistance to be provided to, or received from, our connected persons, including our Controlling Shareholders and Henan Honliv Group, our Company shall comply with the requirements under Chapter 14A of the Listing Rules, including the requirements of reporting, announcement and independent Shareholders' approval as appropriate, and undertake to provide or receive such financial assistance on normal commercial terms or better.

Based on the above, our Directors are satisfied that we are capable of conducting our business independently from our Controlling Shareholders (including their respective close associates) after the Listing.

### CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following corporate governance measures to manage any potential or actual conflict of interests that may arise between our Group and our Controlling Shareholders and to safeguard the interests of our minority Shareholders:

- in the event that connected transactions, if any, between our Group and other business in which any of our Directors or their respective associates has any interest are submitted to the Board for consideration, the relevant interested Director will not be counted in the quorum and will abstain from voting on such matters, and majority votes by non-conflicted Directors are required to decide on such connected transactions;
- our independent non-executive Directors will review options, pre-emptive rights or rights of first refusal granted by our Controlling Shareholders and our Directors in favor of us over their future competing businesses and decide whether to exercise these rights;
- our Controlling Shareholders and our Directors undertake to provide all information necessary for the enforcement of the options, pre-emptive rights or rights of first refusal over future opportunities which may, directly or indirectly, compete with or is likely to compete with our business;
- our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to the exercise or non-exercise of options, pre-emptive rights or rights of first refusal either through the annual report, or by way of announcements to the public;
- we have appointed Central China International Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws, rules, codes, guidelines and the Listing Rules;
- our Directors operate in accordance with the Articles which require the interested Director not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested; and
- pursuant to the Corporate Governance Code, our Directors, including the independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's costs.

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## CONNECTED TRANSACTIONS

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### CONNECTED PERSON RELATIONSHIP

The following entities, among others, will be regarded as our connected persons under the Listing Rules upon Listing.

Connected Person	Connected Relationship
Guxiang No.9 .....	Mr. Qin Hongchao, a Controlling Shareholder and non-executive Director of our Company, is a connected person of our Company under Rule 14A.07(1) of the Listing Rules. Mr. Qin Hongchao is the president of Guxiang No.9 and is responsible for its daily operation and management but he does not exercise or control any voting rights in Guxiang No.9. Nevertheless, our Company voluntarily deemed Guxiang No.9 as a connected person of our Company by virtue of Chapter 14A of the Listing Rules.
Henan Honliv Group.....	Henan Honliv Group is owned as to 80% by Mr. Qin Zili, the father of Mr. Qin Yan and Mr. Qin Hongchao, a Controlling Shareholder and our executive Director. Henan Honliv Group is an associate of Mr. Qin Yan and therefore a connected person of our Company under Rule 14A.12(2)(b) of the Listing Rules.
Henan Preservative .....	Henan Preservative Enterprise Group Co., Ltd.* (河南省防腐企業集團有限公司) is owned as to 73.95% by Mr. Wang Dongliang, an uncle of Mr. Qin Yan and Mr. Qin Hongchao. Henan Preservative is therefore a deemed connected person of Mr. Qin Yan under Rule 14A.21(1)(b) of the Listing Rules.
Hongda Constructions.....	Hongda Constructions is owned as to 50.63% by and is a subsidiary of Henan Honliv Group. Hongda Constructions is therefore a connected person of our Company under Rule 14A.12(2)(b) of the Listing Rules.
Hongda Property Management.....	Henan Hongda Property Management Co., Ltd.* (河南省宏大物業管理有限公司) is owned as to 80% by and is a subsidiary of Henan Preservative. Hongda Property Management is therefore a deemed connected person of Mr. Qin Yan and Mr. Qin Hongchao under Rule 14A.21(1)(b) of the Listing Rules.
Honliv Tonghang .....	Honliv Tonghang is wholly owned by Henan Honliv Group and therefore is a connected person of our Company under Rule 14A.12(2)(b) of the Listing Rules.
Honliv Yishenghuo .....	Mr. Qin Yan is the controlling shareholder of Honliv Yishenghuo. Honliv Yishenghuo is an associate of Mr. Qin Yan and therefore a connected person of our Company under Rule 14A.12(1)(c) of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### OUR ONE-OFF CONNECTED TRANSACTION

We have entered into certain transactions with parties who are our connected persons on a one-off basis, thereby constituting one-off connected transactions of our Group under Chapter 14A of the Listing Rules.

#### *1. Henan Honliv Group Property Lease Agreement*

After arm's length negotiations and in their respective ordinary courses of business, Henan Honliv Hospital entered into a property lease agreement with Henan Honliv Group on December 5, 2018 (the "**Henan Honliv Group Property Lease Agreement**").

Henan Honliv Hospital, as tenant, has leased a building from Henan Honliv Group near the intersection between Boai Road East and Ruyi Road North, Puxi District, Changyuan County, Henan Province, the PRC, with a total leasable area of 31,880 sq.m as staff dormitories, at an annual rent of RMB580,000, and for a fixed term of 2 years from January 1, 2019 to December 31, 2020.

#### *2. Construction Agreement*

After arm's length negotiations and in their respective ordinary courses of business, Henan Honliv Hospital entered into a construction project agreement with Hongda Constructions on March 20, 2011, which is amended and supplemented by a supplemental construction project agreement (together, the "**Construction Agreement**") dated December 18, 2018.

Under the Construction Agreement, Hongda Constructions has provided/will provide certain construction services to Henan Honliv Hospital in connection with the construction of the first-phase building. Service fees is structured with prepayment and sums payable upon reaching certain construction milestones. Henan Honliv Hospital has thus far paid approximately RMB210,000,000, with a further approximately RMB30,000,000 to be paid before the end of service term, which is set at August 30, 2020.

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## CONNECTED TRANSACTIONS

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### OUR CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions with parties who are our connected persons and these transactions will continue following the Listing Date, thereby constituting continuing connected transactions of our Group under Chapter 14A of the Listing Rules.

#### Continuing Connected Transactions Fully Exempt from the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements

##### 1. Medical Examination Services Agreements

<u>Consumers that are connected persons of our Company ("Consumers") (with Henan Honliv Hospital as service provider)</u>	<u>Applicable Listing Rules relating to the exemption</u>	<u>Category of exemption</u>
Guxiang No.9 .....	14A.97	Selling of consumer services
Henan Preservative (for itself and its subsidiaries) .....	14A.97	Selling of consumer services
Henan Honliv Group (for itself and its subsidiaries) .....	14A.97	Selling of consumer services
Honliv Yishenghuo .....	14A.97	Selling of consumer services

**Principal terms:** Henan Honliv Hospital entered into a medical examination services agreement with each of the Consumers on June 18, 2020 (together, the "**Medical Examination Services Agreements**"), pursuant to which it shall provide general health check services to the employees of the aforementioned Consumers.

- *Pricing policy:* Under the Medical Examination Services Agreements, Henan Honliv Hospital will provide general health check services to the employees of the Consumers at a price applicable to all patients of Henan Honliv Hospital and based on an open and transparent market, which is determined with reference to the cost of providing such services (including cost of medical equipment, medical consumables, utilities and staff wages) plus a reasonable profit margin; and
- *Term:* The Medical Examination Services Agreements are valid from the Listing Date to December 31, 2022 and are automatically renewable on a rolling basis at the end of each term, subject to compliance with all applicable laws and regulations of the PRC and the requirements of the Listing Rules. During the term, each party can serve not less than 30 days prior written notice to the other party to terminate its respective medical examination service agreement.

## CONNECTED TRANSACTIONS

**Reasons for the transactions:** Medical examination services are a type of service supplied for private use of the employees of the Consumers. Such arrangement, like any other arrangement with other users of such services, enables Henan Honliv Hospital to (i) expand its client base by provision of general health check services; and (ii) increase utilization rate of its medical equipment and medical services.

**Historical amounts:**

	Years ended		
	2017	2018	2019
	RMB	RMB	RMB
Guxiang No. 9.....	35,270	33,613	24,062
Henan Preservative <sup>(1)</sup> (for itself and its subsidiaries) .....	44,654	25,501	83,038
Henan Honliv Group (for itself and its subsidiaries) <sup>(2)</sup> .....	662,983	892,639	667,651
Honliv Yishenghuo .....	72,856	94,338	69,832
	815,763	1,046,091	844,583

*Notes:*

- (1) Historical amounts represent service fees received from Henan Preservative and Hongda Property Management.
- (2) Historical amounts represent service fees received from Henan Honliv Group, Hongda Constructions, Honliv Tonghang, Henan Honliv Luqiao Co., Ltd.\* (河南省宏力路橋有限公司), and Henan Honliv School Co., Ltd.\* (河南省宏力學校有限公司).

**Implication under the Listing Rules:** As the medical examination services provided to the Consumers are (i) of a type ordinarily supplied for private use; (ii) supplied for the Consumers' own use; (iii) used in the same condition as and when they were bought; and (iv) on terms no less favourable to our Group than those available to independent third parties, the transactions under the Medical Examination Services Agreements are conducted on normal commercial terms in our ordinary and usual course of business. On the basis of the above, the Medical Examination Services Agreements will be considered as the selling of consumer services under Rule 14A.97 of the Listing Rules and will be exempt from reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### 2. *Property Lease Agreements*

Lessees that are connected persons of our Company (the "Lessees") (with Henan Honliv Hospital as lessor)	Applicable Listing Rules relating to the exemption	Category of exemption
Guxiang No.9 .....	14A.76	De minimis transaction
Honliv Yishenghuo .....	14A.76	De minimis transaction

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## CONNECTED TRANSACTIONS

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**Principal terms:** On June 18, 2020, Henan Honliv Hospital entered into property lease agreements with Guxiang No.9 and Honliv Yishenghuo, respectively (together, “**Property Lease Agreements**”). The principal terms are as follow:

- Henan Honliv Hospital will lease the building near the intersection between Boai Road and Wenming Road, Puxi District, Changyuan County, Henan Province, the PRC, with a total leasable area of 913.02 sq.m, to Guxiang No.9 for the operation and provision of food and beverage services, and shall lease its building near the intersection between west of Boai Road and south of Wenming Road, Puxi District, Changyuan County, Henan Province, the PRC, with a total leasable area of 2,283.01 sq.m, to Honliv Yishenghuo for the operation of a supermarket;
- *Rent:* under the Property Lease Agreements, the rent is RMB110,000 for Guxiang No.9 and RMB330,000 for Honliv Yishenghuo per year, respectively, agreed after arm’s length negotiations between the parties with reference to the market prices of the same or similar properties offered by an Independent Third Party in the same locality; and
- *Term:* the Property Lease Agreements are valid from the Listing Date to December 31, 2022 and are automatically renewable on a rolling basis at the end of each term, subject to compliance with all applicable laws and regulations of the PRC and the requirements of the Listing Rules. During the term, each party can serve not less than 30 days prior written notice to the other party to terminate its respective property lease agreement.

**Reasons for the transactions:** the Property Lease Agreements provide venues for patients of Henan Honliv Hospital with ready access to restaurant services and daily necessities, and thereby enhance the convenience and quality of patients’ visits to the hospital.

**Historical amount:** For the three years ended December 31, 2017, 2018 and 2019, the rent charged to Guxiang No.9 by Henan Honliv Hospital for was nil, nil, and RMB110,000; and the rent charged to Honliv Yishenghuo by Henan Honliv Hospital for were nil, nil, and RMB330,000, respectively.

**Annual cap and basis:** For the years ending December 31, 2020, 2021, and 2022, pursuant to the terms under the Property Lease Agreements, the total rental income due from Guxiang No.9 to Henan Honliv Hospital for the leased property shall not exceed RMB110,000, RMB130,000, and RMB130,000, respectively, and the total rental income due from Honliv Yishenghuo to Henan Honliv Hospital for the leased property shall not exceed RMB330,000, RMB350,000, and RMB350,000, respectively. We have agreed to the rent, thus the cap, after arm’s length negotiations with reference to market prices of the same or similar properties in the same locality.

**Implication under the Listing Rules with respect to the Property Lease Agreements:** As the Property Lease Agreements were all entered into within a 12-month period, and between Henan Honliv Hospital and the connected persons of our Company, the agreements shall be aggregated pursuant to Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratios (other than profit ratio) for the Property Lease Agreements in aggregate under the Listing Rules will be less than 0.1%, the transactions will constitute *de minimis* transactions of our Company under Rule 14A.76(1) of the Listing Rules upon Listing and will be exempt from reporting, annual review, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### 3. *Honliv Yishenghuo Purchasing Agreement*

**Parties:** Henan Honliv Hospital (as purchaser) and Honliv Yishenghuo (as seller)

**Principal terms:** Henan Honliv Hospital and Honliv Yishenghuo entered into a purchasing agreement (the “**Honliv Yishenghuo Purchasing Agreement**”) on June 18, 2020. The principal terms are as follows:

- Henan Honliv Hospital may, from time to time, procure consumer goods, including food and beverages, for its own use from Honliv Yishenghuo;
- *Pricing policy:* Under the Honliv Yishenghuo Purchasing Agreement, Henan Honliv Hospital may procure consumer goods from Honliv Yishenghuo, at a price applicable to all consumers of Honliv Yishenghuo and based on an open and transparent market, which is determined with reference to the cost of selling such goods plus a reasonable profit margin; and
- *Term:* the Honliv Yishenghuo Purchasing Agreement is valid from the Listing Date to December 31, 2022 and is automatically renewable on a rolling basis at the end of each term, subject to compliance with all applicable laws and regulations of the PRC and the requirements of the Listing Rules. During the term of the Honliv Yishenghuo Purchasing Agreement, either party can serve not less than 30 days prior written notice to the other party to terminate the Honliv Yishenghuo Purchasing Agreement.

**Reasons for the transaction:** Henan Honliv Hospital has been procuring consumer goods from Honliv Yishenghuo given the convenience associated with the short distance between its premises and that of Honliv Yishenghuo. Furthermore, due to the history and working relationship between the parties, Henan Honliv Hospital can procure consumers goods most appropriate to its needs where required.

**Historical amount:** For the three years ended December 31, 2017, 2018 and 2019, the total amount paid by Henan Honliv Hospital to Honliv Yishenghuo was RMB488,000, RMB1,073,000, and RMB471,000, respectively. For the financial years ended December 31, 2017 and 2019, respectively, our hospital sourced consumer goods from alternative suppliers as they could provide goods more suitable to our needs at such time.

**Implication under the Listing Rules with respect to the Honliv Yishenghuo Purchasing Agreement:** As the consumer goods procured under the Honliv Yishenghuo Purchasing Agreement is (i) of a type ordinarily supplied for private use, (ii) supplied for Henan Honliv Hospital’s own use, (iii) used in the same condition as when they were bought, and (iv) of terms no less favourable than those terms available to independent third parties, the transactions under the Honliv Yishenghuo Purchasing Agreement is conducted on normal commercial terms in our ordinary and usual course of business. On the basis of the above, the Honliv Yishenghuo Purchasing Agreement will be considered as the selling of consumer services under Rule 14A.97 of the Listing Rules and will be exempt from reporting, annual review, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.



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## CONNECTED TRANSACTIONS

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#### 4. *Property Lease and Air Ambulance Service Agreement*

**Parties:** Henan Honliv Hospital (as lessor and user) and Honliv Tonghang (as lessee and service provider)

**Principal terms:** Henan Honliv Hospital and Honliv Tonghang entered into a property lease and helicopter service agreement (the “**Property Lease and Air Ambulance Service Agreement**”) on June 18, 2020 pursuant to which, (i) Henan Honliv Hospital agreed to lease part of the 5th Floor of Medical Technology Annex as a helicopter command center and the helicopter hangar, located at Boai Road West and Wenming Road South, Puxi District, Changyuan County, Henan Province, the PRC, to Honliv Tonghang, and (ii) Honliv Tonghang agreed to provide usage of helicopters to Henan Honliv Hospital for the provision of emergency care and medical support services. The principal terms of the Property Lease and Air Ambulance Service Agreement are as follows:

- Henan Honliv Hospital will lease part of the floor and the hangar with a total leasable area of 978.06 sq.m on a free basis as a form of reimbursement for Honliv Tonghang’s use as a helicopter command center and warehouse;
- Honliv Tonghang will provide usage of helicopters to Henan Honliv Hospital for provision of its emergency care and medical support services. As advised by our PRC Legal Adviser, Honliv Tonghang is not entitled to any fees due to licensing restrictions; and
- *Term:* the Property Lease and Air Ambulance Service Agreement is valid from the Listing Date to December 31, 2022 and is automatically renewable on a rolling basis at the end of each term, subject to compliance with all applicable laws and regulations of the PRC and the requirements of the Listing Rules. During the term of the Property Lease and Air Ambulance Agreement, either party can serve not less than 30 days prior written notice to the other party to terminate the Property Lease and Air Ambulance Agreement.

**Reasons for the transaction:** The leasing of the aforementioned properties of Henan Honliv Hospital is provided as a means to facilitate and support the provision of air ambulance services, which enables Henan Honliv Hospital to quickly reach and transport our patients over long distances or from less accessible areas.

**Implication under the Listing Rules with respect to the aforementioned property lease agreements:** As the Property Lease and Air Ambulance Service Agreement is entered, free of charge, the highest applicable ratio (other than profit ratio) under the Listing Rules will be less than 0.1%, the agreement will constitute a *de minimis* transaction for our Company under Rule 14A.76(1) of the Listing Rules upon Listing and will be exempt from reporting, annual review, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. If the relevant licensing restrictions currently imposed on Honliv Tonghang are removed and Honliv Tonghang charges us a fee for the usage of helicopters, we shall review the arrangements under the Property Lease and Air Ambulance Service Agreement, conduct arm’s length negotiation with Honliv Tonghang and ensure any subsequent agreement is entered into on normal commercial terms. We will closely monitor the fees to be paid and/or received by our Company to ensure that any such fees will not exceed the *de minimis* threshold as stipulated under Rule 14A.76(1) of the Listing Rules.

## SHARE CAPITAL

### Authorized and Issued Share Capital

*As of the date of this prospectus*

The authorized and issued share capital of our Company as of the date of this prospectus:

Number of Shares	Description of Shares	HK\$
<i>Authorized share capital:</i>		
3,900,000,000	Ordinary Shares of HK\$0.0001 each	390,000.00
<i>Issued share capital:</i>		
395,284,960	Ordinary Shares of HK\$0.0001 each	39,528.50

*As of the date following the completion of the Global Offering and the Capitalization Issue*

Number of Shares	Description of Shares	HK\$
<i>Authorised share capital:</i>		
3,900,000,000	Ordinary Shares of HK\$0.0001 each	390,000.00
<i>Issued and to be issued, fully paid or credited as fully paid:</i>		
395,284,960	Ordinary Shares in issue	39,528.50
54,715,040	Ordinary Shares to be issued pursuant to the Capitalization Issue	5,471.50
150,000,000	Ordinary Shares to be issued pursuant to the Global Offering (excluding any Shares which may be issued under the Over-allotment Option)	15,000.00
600,000,000	Ordinary Shares	60,000.00

Assuming the Over-allotment Option is exercised in full, the issued share capital of our Company immediately following completion of the Global Offering and the Capitalization Issue will be as follows:

Number of Shares	Description of Shares	HK\$
<i>Issued and to be issued, fully paid or credited as fully paid:</i>		
395,284,960	Ordinary Shares in issue	39,528.50
54,715,040	Ordinary Shares to be issued pursuant to the Capitalization Issue	5,471.50
172,500,000	Ordinary Shares to be issued pursuant to the Global Offering (inclusive of Shares to be issued upon full exercise of the Over-allotment Option)	17,250.00
622,500,000	Ordinary Shares	62,250.00

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## SHARE CAPITAL

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### Assumptions

The above table assumes that the Global Offering becomes conditional, and that the Capitalization Issue is made but takes no account of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as described below.

For further details of this general mandate, please refer to the paragraph headed “A. Further Information about Our Company — 6. Resolutions of our Shareholders” in Appendix V to this prospectus.

### Ranking

The Offer Shares are ordinary shares in the share capital of our Company and rank *pari passu* with all Shares currently in issue and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus save for entitlements to the Capitalization Issue.

### Capitalization Issue

Under the written resolutions of our Shareholders passed on June 17, 2020 and subject to the conditions set out therein, our Directors were authorized to allot and issue a total of 54,715,040 Shares credited as fully paid at par to the Shareholder(s) whose name(s) appear(s) on the register of members of our Company at close of business on the business day immediately preceding the Listing Date (or as our Directors may direct) by way of capitalization of the sum of HK\$5,471.50 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued under this resolution shall rank *pari passu* in all respects with the existing issued Shares. For more details, please refer to the paragraph headed “A. Further Information about Our Company — 6. Resolutions of our Shareholders” in Appendix V to this prospectus.

### General mandate to issue new Shares

Our Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding the sum of:

1. 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue and before the exercise of the Over-allotment Option; and
2. the aggregate nominal amount of the share capital of our Company repurchased by our Company (if any) pursuant to the repurchase mandate.

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## SHARE CAPITAL

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Our Directors may, in addition to Shares which they are authorised to issue under the mandate, allot, issue or deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights under options which may be granted under the Share Option Scheme, scrip dividend or similar arrangement.

This general mandate to issue Shares will expire:

- at the conclusion of the next annual general meeting of our Company; or
- on the date by which the next annual general meeting of our Company is required by law or the Articles to be held; or
- when revoked, varied or renewed by ordinary resolution of our Shareholders in general meeting,

whichever occurs first. For further details of this general mandate, please refer to the paragraph headed “A. Further Information about Our Company — 6. Resolutions of our Shareholders” in Appendix V to this prospectus.

### **General mandate to repurchase Shares**

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase such aggregate number of Shares not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue and before the exercise of the Over-allotment Option.

The mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognized by the SFC and the Stock Exchange for this purpose. Any repurchases by our Company must be made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “A. Further Information about Our Company — 5. Restrictions on share repurchase” in Appendix V to this prospectus.

This general mandate to repurchase Shares will expire:

- at the conclusion of the next annual general meeting of our Company; or
- the date by which the next annual general meeting of our Company is required by law or by the Articles to be held; or
- when revoked, varied or renewed by ordinary resolution of our Shareholders in general meeting,

whichever occurs first. For further details, please refer to the paragraph headed “A. Further Information about Our Company — 6. Resolutions of our Shareholders” in Appendix V to this prospectus.

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## SHARE CAPITAL

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### **SHARE OPTION SCHEME**

Subject to the Global Offering becoming unconditional, our Company has approved and adopted the Share Option Scheme. For details of the Share Option Scheme, please refer to the paragraph headed “E. Share Option Scheme” in Appendix V to this prospectus.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED**

For details of circumstances under which our Shareholders’ general meetings are required, please refer to the paragraph headed “Summary of the Constitution of our Company — 2. Articles of Association — 2.10. Notice of meetings and business to be conducted thereat” in Appendix IV to this prospectus.

## CORNERSTONE PLACING

### THE CORNERSTONE PLACING

We have entered into a cornerstone investment agreement (the “**Cornerstone Investment Agreement**”) with the cornerstone investor set out below (the “**Cornerstone Investor**”), pursuant to which the Cornerstone Investor has agreed to, subject to certain conditions, subscribe at the Offer Price for a certain number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) that may be purchased for an aggregate amount of RMB56 million (or approximately HK\$61.21 million) (the “**Cornerstone Placing**”).

Set out below is the aggregate number of Offer Shares, and the corresponding percentages of our Company’s total Offer Shares and issued share capital under the Cornerstone Placing:

	Number of Offer Shares (rounded down to nearest whole board lot of 2,000 Shares)	Approximately % of total number of Offer Shares		Approximately % of total Shares in issue immediately following the completion of Global Offering and the Capitalization Issue	
		Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
<b>Cornerstone Investor</b>					

*Based on the Offer Price of HK\$1.80 (being the low end of the Offer Price Range)*

Changyuan City

Investment Group

(as defined below)..... 34,006,000 22.67% 19.71% 5.67% 5.46%

*Based on the Offer Price of HK\$2.05 (being the mid end of the Offer Price Range)*

Changyuan City

Investment Group

(as defined below)..... 29,858,000 19.91% 17.31% 4.98% 4.80%

*Based on the Offer Price of HK\$2.30 (being the high end of the Offer Price Range)*

Changyuan City

Investment Group

(as defined below)..... 26,614,000 17.74% 15.43% 4.44% 4.28%

Our Company is of the view that, leveraging on the Cornerstone Investor’s investment experience, the Cornerstone Placing will help to raise the profile of our Company, ensure a reasonable size of solid commitment at the beginning of the marketing period and signify that such investor has confidence in our business and prospect. Our Company became acquainted with the Cornerstone Investor through their business acquaintances.

The Cornerstone Placing will form part of the International Offering and the Cornerstone Investor will not subscribe for any Offer Shares under the Global Offering (other than pursuant to the Cornerstone Investment Agreement). The Offer Shares to be subscribed by the Cornerstone Investor will rank *pari passu* in all respect with the fully paid Shares in issue and will be counted

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## CORNERSTONE PLACING

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towards the public float of our Company under Rule 8.24 of the Listing Rules. Immediately following the completion of the Global Offering and the Capitalization Issue, the Cornerstone Investor will not have any Board representation in our Company and will not become a substantial shareholder of our Company. Other than a guaranteed allocation of the relevant Offer Shares at the final Offer Price, the Cornerstone Investors do not have any preferential rights in the Cornerstone Investment Agreements compared with other public Shareholders.

To the best knowledge of our Company, (i) the Cornerstone Investor is an Independent Third Party and is not our connected person (as defined in the Listing Rules); (ii) the Cornerstone Investor is not accustomed to take instructions from our Company, our Directors, chief executive, Substantial Shareholders, existing Shareholders or any of our subsidiaries or their respective close associates; (iii) the subscription of the relevant Offer Shares by the Cornerstone Investor is not financed by our Company, our Directors, chief executive, Substantial Shareholders, existing Shareholders or any of our subsidiaries or their respective close associates.

The Shares will be subscribed by a qualified domestic institutional investor as the nominee of the Cornerstone Investor, the Cornerstone Investor will procure such qualified domestic institutional investor to comply with the terms of the qualified institutional investor agreement entered into with the Cornerstone Investor in order to ensure the Cornerstone Investor's compliance with its undertaking under the Cornerstone Investment Agreement.

As confirmed by the Cornerstone Investor, its subscription under the Cornerstone Placing would be financed by its own internal resources. There are no side arrangements between our Company and the Cornerstone Investor or any benefit, direct or indirect, conferred on the Cornerstone Investor by virtue of or in relation to the Cornerstone Placing, other than a guaranteed allocation of the relevant Offer Shares at the final Offer Price.

The Offer Shares to be subscribed by the Cornerstone Investors will not be affected by reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the paragraph headed "Structure of the Global Offering — The Hong Kong Public Offering — Reallocation" in this prospectus.

Details of the actual number of Offer Shares to be allocated to the Cornerstone Investor will be disclosed in the allotment results announcement of our Company to be published on or around July 9, 2020. There will be no delayed delivery or deferred settlement of Offer Shares to the Cornerstone Investor.

### THE CORNERSTONE INVESTOR

#### Changyuan City Investment Group

Changyuan City Investment Group Co., Ltd.\* (長垣市投資集團有限公司) ("**Changyuan City Investment Group**") is a company incorporated in the PRC held by two state-owned enterprises. It mainly engages in municipal infrastructure investment, development and operations, real estate development, and business development of key industries and enterprises in the region. For the

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## CORNERSTONE PLACING

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purpose of this cornerstone investment, Changyuan City Investment Group has engaged an asset manager that is a QDII as approved by the relevant PRC authority to subscribe for and hold such offer shares on a discretionary basis on behalf of Changyuan City Investment Group.

### CLOSING CONDITIONS

The obligation of the Cornerstone Investor to subscribe for the Offer Shares under the Cornerstone Investment Agreement is subject to, among other things, the following closing conditions:

- (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the Hong Kong Underwriting Agreement and the International Underwriting Agreement, and neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated;
- (ii) the Offer Price having been agreed upon between the Company and BOCOM Securities (on behalf of the underwriters of the Global Offering);
- (iii) the Listing Committee having granted the approval for the listing of, and permission to deal in, the Shares (including the Shares under the Cornerstone Placing) as well as other applicable waivers and approvals and such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (iv) no relevant laws or regulations shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or the Cornerstone Investment Agreement, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (v) the representations, warranties, undertakings and confirmations of the Cornerstone Investor under the Cornerstone Investment Agreement are and will be (as of the closing of the Cornerstone Investment Agreement) accurate and true in all respects and not misleading and that there is no material breach of the Cornerstone Investment Agreement on the part of the Cornerstone Investor.

### RESTRICTIONS ON THE CORNERSTONE INVESTOR

The Cornerstone Investor has agreed that it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “**Lock-up Period**”), dispose of any of the Offer Shares it has purchased pursuant to the Cornerstone Investment Agreement, save for certain limited circumstances, such as transfers to any of its wholly-owned subsidiaries who will be bound by the same obligations of the Cornerstone Investor, including the Lock-up Period restriction.



## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalization Issue and assuming that the options granted under the Over-allotment Option have not been exercised, the following persons will have interests or short positions in our Shares or our underlying shares which would fall to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Shareholders	Nature of Interest and Capacity	Number of Shares as at the date of this prospectus	Approximate % of shareholding as at the date of this prospectus	Number of Shares immediately following the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised)	Approximate % of shareholding immediately following the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised)	Number of Shares immediately following the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is fully exercised)	Approximate % of shareholding immediately following the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is fully exercised)
Mr. Qin Yan <sup>(1)</sup>	Interest in a controlled corporation	273,000,000 ordinary Shares (L)	69.06%	310,788,450	51.80%	310,788,450	49.93%
	Interest held jointly with another person	117,000,000 ordinary Shares (L)	29.60%	133,195,050	22.20%	133,195,050	21.40%
Ms. Sun Mingyan <sup>(2)</sup>	Interest of a spouse	390,000,000 ordinary Shares (L)	98.66%	443,983,500	74.00%	443,983,500	71.32%
Sunny Rock <sup>(1)</sup>	Beneficial Owner	273,000,000 ordinary Shares (L)	69.06%	310,788,450	51.80%	310,788,450	49.93%
	Interest held jointly with another person	117,000,000 ordinary Shares (L)	29.60%	133,195,050	22.20%	133,195,050	21.40%
Mr. Qin Hongchao <sup>(3)</sup>	Interest in a controlled corporation	117,000,000 ordinary Shares (L)	29.60%	133,195,050	22.20%	133,195,050	21.40%
	Interest held jointly with another person	273,000,000 ordinary Shares (L)	69.06%	310,788,450	51.80%	310,788,450	49.93%
Ms. Cao Jinming <sup>(4)</sup>	Interest of a spouse	390,000,000 ordinary Shares (L)	98.66%	443,983,500	74.00%	443,983,500	71.32%
Rubrical Investment <sup>(3)</sup>	Beneficial Owner	117,000,000 ordinary Shares (L)	29.60%	133,195,050	22.20%	133,195,050	21.40%
	Interest held jointly with another person	273,000,000 ordinary Shares (L)	69.06%	310,788,450	51.80%	310,788,450	49.93%

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## SUBSTANTIAL SHAREHOLDERS

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*Notes:*

- (1) Such shares are held by Sunny Rock. Sunny Rock is owned as to 100% by Mr. Qin Yan. Thus, Mr. Qin Yan is deemed to be interested in such shares held by Sunny Rock by virtue of Part XV of the SFO. Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock, and Rubrical Investment are concert parties under the Concert Party Agreement. By virtue of the SFO, prior to the Capitalization Issue and the Global Offering, Mr. Qin Yan and Sunny Rock are interested in 117,000,000 ordinary Shares held by Mr. Qin Hongchao and Rubrical Investment.
- (2) Ms. Sun Mingyan (孫銘言) is the spouse of Mr. Qin Yan, and is deemed to be interested in the same number of Shares in which Mr. Qin Yan is interested by virtue of the SFO.
- (3) Such shares are held by Rubrical Investment. Rubrical Investment is owned as to 100% by Mr. Qin Hongchao. Thus, Mr. Qin Hongchao is deemed to be interested in such shares held by Rubrical Investment by virtue of Part XV of the SFO. Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock, and Rubrical Investment are concert parties under the Concert Party Agreement. By virtue of the SFO, prior to the Capitalization Issue and the Global Offering, Mr. Qin Hongchao and Rubrical Investment are interested in 273,000,000 ordinary Shares held by Mr. Qin Yan and Sunny Rock.
- (4) Ms. Cao Jinming (曹津銘) is the spouse of Mr. Qin Hongchao, and is deemed to be interested in the same number of Shares in which Mr. Qin Hongchao is interested by virtue of the SFO.

Except as disclosed above, we are not aware of any person who will, immediately following the Capitalization Issue and the Global Offering, without taking into account any Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option, have an interest or short position in Shares or underlying shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

## DIRECTORS AND SENIOR MANAGEMENT

The table below sets forth information regarding our current Directors and senior management members:

### DIRECTORS

Name of Director	Age	Date of appointment as Director	Date of joining our Group	Current position in our Company, roles and responsibilities	Relationship with other Directors and senior management
Mr. Qin Yan (秦岩) .....	32	January 6, 2016	June 26, 2007	Executive Director, president, and chairman; responsible for overall strategic planning and business development of the Group	Younger brother of Mr. Qin Hongchao; cousin of Ms. Wang Xiaoyang
Dr. Teng Qingxiao (滕清曉) .....	54	June 7, 2016	June 19, 2007	Executive Director, Chief Operating Officer, and senior vice president; responsible for hospital operation and overall management of the Group	N/A
Mr. Wang Zhongtao (王忠濤) .....	41	March 14, 2018	March 14, 2018	Executive Director and financial controller; responsible for overall accounting management and financing of the Group	N/A
Mr. Qin Hongchao (秦紅超) .....	33	January 6, 2016	January 6, 2016	Non-executive Director; responsible for providing overall guidance on the business and strategic development of our Group	Elder brother of Mr. Qin Yan; cousin of Ms. Wang Xiaoyang
Mr. Zhao Chun (趙淳)..	67	June 7, 2016	June 7, 2016	Independent non-executive Director; responsible for supervising and providing independent advice to our Board	N/A
Mr. Sun Jigang (孫冀剛) .....	52	July 5, 2017	July 5, 2017	Independent non-executive Director; responsible for supervising and providing independent advice to our Board	N/A
Mr. Jiang Tianfan (江天帆).....	39	December 17, 2019 (with effect from Listing Date)	Listing Date	Independent non-executive Director; responsible for supervising and providing independent advice to our Board	N/A

## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

Name	Age	Date of appointment as a member of the senior management	Date of joining our Group	Current position in our Company, roles and responsibilities	Relationship with other Directors and senior management
Mr. Qin Yan (秦岩) .....	32	December 10, 2019	June 26, 2007	President; responsible for overall strategic planning and business development of the Group	Younger brother of Mr. Qin Hongchao; cousin of Ms. Wang Xiaoyang
Dr. Teng Qingxiao (滕清曉) .....	54	December 10, 2019	June 19, 2007	Chief Operating Officer and senior vice president; responsible for hospital healthcare management and human resources of the Group	N/A
Mr. Wang Zhongtao (王忠濤) .....	41	December 10, 2019	March 14, 2018	Financial controller; responsible for overall accounting management and financing of the Group	N/A
Dr. Hua Xiuzhi (滑修之) .....	51	December 10, 2019	September 12, 2003	Vice president; responsible for hospital management of the Group	N/A
Dr. Qian Feng (錢峰) .....	50	December 10, 2019	October 29, 2006	Vice president; responsible for healthcare service quality control of the Group	N/A
Mr. Qi Jie (齊潔) .....	38	December 10, 2019	December 1, 2018	Director of corporate finance; responsible for corporate financing activities of the Group	N/A
Ms. Wang Xiaoyang (王曉陽) .....	33	December 10, 2019	February 21, 2011	Assistant of the Chairman and joint company secretary; responsible for managing investor relations of the Group	Cousin of Mr. Qin Yan and Mr. Qin Hongchao

### BOARD OF DIRECTORS

Our Board currently consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. Our Board is responsible for and has general powers for the management and conduct of our business.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Executive Directors

**Mr. Qin Yan (秦岩)**, aged 32, is an executive Director, the chairman of the Board, and the president of our Company, mainly responsible for overall strategic planning and business development of our Group. Mr. Qin Yan has over 12 years of experience in corporate management. In June 2007, Mr. Qin Yan joined Henan Honliv Hospital as an associate office manager and participated in the management of Henan Honliv Hospital and stayed in this position. Since April 2014, Mr. Qin Yan has served as a supervisor of Henan Honliv Hospital, mainly responsible for supervising the business conduct of the directors and senior management.

Mr. Qin Yan obtained a master's degree in philosophy from the University of Cambridge in the United Kingdom in October 2014.

Mr. Qin Yan has served as the legal representative of Honliv Yishenghuo since September 2014.

**Dr. Teng Qingxiao (滕清曉)**, aged 54, is an executive Director, the Chief Operating Officer, and a senior vice president of our Company, mainly responsible for hospital healthcare management and human resources of our Group and currently serve as the president of Henan Honliv Hospital. Dr. Teng joined our Group in June 2007. On the administration front, he served as the deputy director and director of the department of otolaryngology in Henan Honliv Hospital from June 2007 to November 2010. Dr. Teng then served as the deputy president of Henan Honliv Hospital from December 2010 to May 2013, mainly responsible for assisting the president in the management of the hospital. In May 2013, Dr. Teng became the president of Henan Honliv Hospital and since then has been presiding over all aspects of hospital management, in particular finance, promotion and marketing. In addition, Dr. Teng had been an associate professor of Xinxiang Medical University (新鄉醫學院) from November 2005 to June 2007 specializing in the field of clinical medicine. Prior to joining our Group, Dr. Teng had practiced as a doctor in the department of otolaryngology at the Third Affiliated Hospital of Xinxiang Medical University (新鄉醫學院第三附屬醫院) from December 1996 to November 2005.

Dr. Teng graduated from Xinxiang Medical University (新鄉醫學院) in the PRC with a bachelor's degree of medicine specializing in clinical medicine in July 2002. He later obtained a master's degree of medicine specializing in pathology and pathophysiology from Xinxiang Medical University in June 2008. In November 2013, Dr. Teng completed the postgraduate course in medical and health management convened by the School of Continuing Education, Tsinghua University (清華大學繼續教育學院) in the PRC. Dr. Teng has been licensed by the Health Bureau of Henan Province (河南省衛生廳) to practice as a doctor since May 1999. He obtained the qualifications to practice as an associate-chief doctor and a chief doctor in May 2005 and February 2012, respectively, from the People's Government of Henan Province.

**Mr. Wang Zhongtao (王忠濤)**, aged 41, is an executive Director and financial controller of our Company, mainly responsible for overall accounting management and financing of our Group. Mr. Wang joined our Group as a Director in March 2018 and also assumed the role of the financial controller of Henan Honliv Hospital in June 2019. Mr. Wang has over 20 years of experience in finance management and accounting. Prior to joining our Group, Mr. Wang served as an accountant at Henan Honliv Group from July 1997 to June 2010, and then as the deputy finance manager from July 2009 to August 2017, mainly responsible for management and control of all aspects of accounting, finance and audit matters. From August 2017 to May 2019, Mr. Wang served as the finance manager of Henan Honliv Group, mainly responsible for supervision of Henan Honliv Group's operational results, as well as improving internal systems.

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## DIRECTORS AND SENIOR MANAGEMENT

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In July 1999, Mr. Wang graduated from Henan Xinxiang of Business School (河南新鄉商業學校) in the PRC, specializing in finance and accounting. In July 2017, Mr. Wang obtained a diploma from the Xinxiang College (新鄉學院), specialized in architectural engineering technology. He has been licensed by the Ministry of Finance to practice as an accountant (intermediate) since May 2007, and a non-practicing member of the Chinese Institution of Certified Public Accountants since February 2013.

### Non-executive Director

**Mr. Qin Hongchao (秦紅超)**, aged 34, joined our Company in January 2016 as a non-executive Director. Since February 2006, Mr. Qin Hongchao served as the deputy manager of the corporate management department at Henan Honliv Group, mainly responsible for strategic planning and management. Since October 2012, Mr. Qin Hongchao has been the vice chairman of Henan Honliv Group, mainly responsible for assisting the chairman with overall corporate governance.

Mr. Qin Hongchao obtained a diploma in hospitality management from American Hotel & Lodging Educational Institution in the United States in March 2009, and completed the practicum in hospitality management program at Prospect College of Business and Language<sup>(1)</sup> in Canada in July 2009.

Mr. Qin Hongchao served as a director of the following company which was incorporated in Hong Kong prior to its dissolution:

<u>Name of company</u>	<u>Principal business activity prior to dissolution</u>	<u>Date of dissolution</u>	<u>Means of dissolution</u>	<u>Reasons for dissolution</u>
Phil Investment Hong Kong Limited.....	Investment Management	April 18, 2019	Deregistration	Voluntary cessation of business

As confirmed by Mr. Qin Hongchao, as far as he is aware, the dissolution of the abovementioned company has not resulted in any liability or obligation being imposed against him.

### Independent non-executive Directors

**Mr. Zhao Chun (趙淳)**, aged 67, was appointed as an independent non-executive Director of our Company on June 7, 2016. From March 2016 to March 2019, Mr. Zhao served as the vice president of the Expert Certification Committee on the Competitiveness of Chinese Private Hospitals\* (中國醫院競爭力(民營)星級認證專家委員會) under Ailibi Hospital Management Research Centre. In addition, since September 2000, Mr. Zhao has held management positions in the Management of Private Hospitals Branch of Chinese Hospital Association (中國醫院協會 - 民營醫院管理分會), such as deputy secretary-general and secretary-general, and is currently the executive vice president. From February 2006 to August 2011, Mr. Zhao was the deputy secretary-general of Chinese Hospital Association (中國醫院協會).

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*Note:*

(1) This institution is not a designated learning institution recognized by the Canadian Government

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Zhao obtained a diploma in philosophy from Nankai University (南開大學) in the PRC in June 1987.

Mr. Zhao served as a director of the following company which was incorporated in the PRC and subsequently had its business licence revoked during his tenure:

Name of company	Principal business activity prior to dissolution	Date of revocation of business licence	Date of deregistration of business licence	Reasons for dissolution
Beijing Weisixie Hospital Management and Consulting Co., Ltd.* (北京衛思譜醫院管理諮詢有限公司) .....	Hospital Management	April 20, 2018	N/A <sup>(1)</sup>	Revocation of license due to suspension of business operations for more than six months

As confirmed by Mr. Zhao, as far as he is aware, the licence revocation of the abovementioned company has not resulted in any liability or obligation being imposed against him.

**Mr. Sun Jigang (孫冀剛)**, aged 52, was appointed as an independent non-executive Director of our Company on July 5, 2017. Mr. Sun has more than 11 years of experience in financial management. Between December 2008 and December 2010, he served as the chief financial officer of Gongda Chemical Industry Equipment Co., Ltd.\* (石家莊工大化工設備有限公司); between January 2011 and August 2011, he was the chief financial officer of Beijing Puhua International Hospital Co., Ltd.\* (北京天壇普華醫院有限公司). In both positions, he was responsible for matters concerning corporate finance, financial planning and budgeting, and financial reporting, in particular the preparation, review and analysis of financial statements. From September 2011 to May 2016, Mr. Sun served as the chief financial officer and the chief investment officer of Concord Medical Services Holdings Limited (“**CMS Holdings**”) (a company listed on the New York Stock Exchange with stock code: CCM), mainly responsible for its finance, compliance and disclosure of financial information. Mr. Sun is currently the founding partner of Oceanpine Capital, a private equity fund focused on investments in the healthcare sector.

Mr. Sun graduated from China Foreign Affairs University (外交學院) in the PRC with a bachelor’s degree in English in July 1990. He also obtained a master’s degree in University of Chicago Graduate School of Business (currently known as the University of Chicago Booth School of Business) in the U.S. in March 1998.

*Note:*

- (1) Mr. Zhao confirmed that, as of the Latest Practicable Date, Beijing Weisixie Hospital Management and Consulting Co., Ltd. has not completed its deregistration procedure.

## DIRECTORS AND SENIOR MANAGEMENT

**Mr. Jiang Tianfan** (江天帆), aged 39, was appointed as an independent non-executive Director of our Company on December 17, 2019 with effect from the Listing Date. Mr. Jiang has been serving as the chairman of board of directors of True Glory Global Limited since December 2013. From August 2015 to June 2017, Mr. Jiang served as the executive director of UMP Healthcare Holdings Limited (香港聯合醫務集團有限公司, a company listed on the Stock Exchange with the stock code of 722). From August 2009 to November 2016, Mr. Jiang worked as an executive director in China Resources Medical Holdings Company Limited (華潤醫療控股有限公司, previously known as Phoenix Healthcare Group Co. Ltd. (鳳凰醫療集團有限公司), a company listed on the Stock Exchange with the stock code of 1515), and as the chief financial officer from November 2011 to November 2016.

Mr. Jiang obtained a bachelor's degree in law from Shanghai International Studies University (上海外國語大學) in July 2003. He further obtained a master's degree in business administration from Washington University in St. Louis in May 2009.

Mr. Jiang served as a director or supervisor of the following companies that were incorporated in the PRC and subsequently had its business licence deregistered, during after his tenure:

Name of company	Principal business activity prior to dissolution	Date of revocation of business license	Date of deregistration of business licence	Reasons for dissolution
Fenghuang Depu Hospital Management (Langfang) Co., Ltd.* 鳳凰德普醫院管理(廊坊)有限公司 .....	Hospital Management	N/A	September 13, 2017	Voluntary dissolution
Beijing Yifanfengsheng Food and Beverage Management Co., Ltd.* 北京一帆風盈餐飲管理有限公司 .....	Food and Beverage Management	N/A	June 19, 2017	Voluntary dissolution

As confirmed by Mr. Jiang, as far as he is aware, the deregistrations of the business licence of the abovementioned companies have not resulted in any liability or obligation being imposed against him.

Save as disclosed in this Prospectus, each of our Directors has confirmed that there are no other matters relating to his appointment as a Director that need to be brought to the attention of our Shareholders and there is no other information in relation to his appointment which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Save as disclosed above and in the section headed "Relationship with Controlling Shareholders" in this prospectus, each of our Directors confirms that he did not have any interest in a business, apart from the business of our Company, which competes or is likely to compete, directly or indirectly, with our business, and requires disclosure under Rule 8.10 of the Listing Rules.



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## DIRECTORS AND SENIOR MANAGEMENT

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### SENIOR MANAGEMENT

**Mr. Qin Yan (秦岩)** – please refer to the paragraph headed “— Board of Directors — Executive Directors” in this section for his biographical details.

**Dr. Teng Qingxiao (滕清曉)** – please refer to the paragraph headed “— Board of Directors — Executive Directors” in this section for his biographical details.

**Mr. Wang Zhongtao (王忠濤)** – please refer to the paragraph headed “— Board of Directors — Executive Directors” in this section for his biographical details.

**Dr. Hua Xiuzhi (滑修之)**, aged 51, is currently a vice president of our Company, mainly responsible for hospital management of our Group and currently serves as the deputy general manager of Henan Honliv Hospital. Dr. Hua joined the Group in September 2003. He served as the manager of the equipment department at Henan Honliv Hospital from April 2004 to January 2006, and as the assistant to the president of Henan Honliv Hospital from January 2006 to March 2006. From March 2006 to December 2010, he served as a vice president of Henan Honliv Hospital, mainly responsible for the healthcare operation of the hospital. Since December 2010, Dr. Hua has served as the deputy general manager of Henan Honliv Hospital, mainly responsible for expansion of the healthcare business of our Group. Prior to joining our Group, Dr. Hua practiced as a doctor of clinical medicine at People’s Hospital of Changyuan County (長垣縣人民醫院) from September 1991 to September 2003.

Dr. Hua graduated from Henan Medical University (河南醫科大學) in the PRC (currently known as Zhengzhou University School of Medicine (鄭州大學醫學院)), in July 1991, with a bachelor’s degree in medicine, specializing in preventive medicine. Dr. Hua obtained the qualification certificate as a doctor from the Health Bureau of Henan Province (河南省衛生廳) in May 1999, and has been licensed by the same bureau to practice as a doctor since April 2001.

Since September 2017, Dr. Hua has served as the legal representative of Yexian Honliv Hospital Co., Ltd.\* (葉縣宏力醫院有限公司) (“**Yexian Honliv**”). Yexian Honliv is an indirectly majority-controlled company of Mr. Qin Zili and therefore a connected person of our Company under Rule 14.12(2)(b) of the Listing Rules. As of the Latest Practicable Date, Yexian Honliv did not commence any substantive business activities.

**Dr. Qian Feng (錢峰)**, aged 50, was appointed as vice president of our Company on December 10, 2019, mainly responsible for healthcare service quality control of the Group. Dr. Qian serves as a vice president and the associate chief physician of Henan Honliv Hospital since December 2010. Dr. Qian served as a gastroenterologist of the gastroenterology department in Henan Honliv Hospital from October 2006 to July 2009, and the director of the same department and the endoscopy center from July 2009 to December 2010. Prior to joining our Group, Dr. Qian served as gastroenterologist in the Fifth People’s Hospital of Shangqiu City (商丘市第五人民醫院) from October 1992 to October 2006. In addition, Dr. Qian is the alliance director and an expert of the National Early Gastrointestinal-Cancer Prevention & Treatment Center Alliance (“GECA”) (國家消化道早癌防治中心). He is currently a member of Hospital Management Branch of Chinese Non-government Medical Institutions Association (“CNMIA”) (中國非公立醫療機構協會醫院管理分會委員).

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## DIRECTORS AND SENIOR MANAGEMENT

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Dr. Qian graduated from Henan Medical University (河南醫科大學) in the PRC with a bachelor's degree in medicine specializing in clinical medicine in July 1992. He also obtained the certificate of completion of graduate coursework in psychology from Xinxiang Medical University (新鄉醫學院) in the PRC in July 2014.

**Mr. Qi Jie (齊潔)**, aged 38, was appointed as the director of corporate finance of our Company on December 10, 2019, mainly responsible for corporate financing activities of the Group. Mr. Qi has more than eight years of experience in finance management practice. Mr. Qi served as a finance manager in Hopson Development Holdings Limited (合生創展集團), a company listed on the Stock Exchange (stock code: 00754), from June 2013 to July 2015. Prior to joining our Company, Mr. Qi served as the director of treasury in Fuwah International Group (富華國際集團公司) from August 2015 to August 2018, mainly responsible for the overall arrangement of the company's external financing and internal fund management.

Mr. Qi obtained a bachelor's degree in Economics and Management from the People's Liberation Army Academy of Artillery in the PRC (中國人民解放軍炮兵學院) in June 2005. He also obtained the certificate of completion of graduate coursework in political economics from Peking University (北京大學) in July 2012.

**Ms. Wang Xiaoyang (王曉陽)**, aged 33, was appointed as the assistant of the Chairman on December 10, 2019 and a joint company secretary of our Company on June 7, 2016, mainly responsible managing for investor relations of our Group. Ms. Wang joined our Group in February 2011 and has served as the assistant manager of human resources department of Henan Honliv Hospital, mainly responsible for recruitment, staffing, training and development.

Ms. Wang obtained a bachelor's degree of science in mathematics with business management from the University of Birmingham in July 2009, and a master's degree of science in analysis, design and management of information systems from London School of Economics and Political Science in November 2010.

Save as disclosed above, each of our Directors and members of senior management has confirmed that he or she has not held any other directorships in listed companies during the three years immediately prior to as at the Latest Practicable Date that there is no other information in respect of our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other matter that needs to be brought to the attention to our Shareholders as at the Latest Practicable Date.

### JOINT COMPANY SECRETARIES

**Ms. Wang Xiaoyang (王曉陽)** – please refer to the paragraph headed “— Board of Directors — Senior Management” in this section for her biographical details.

**Ms. Lau Jeanie (劉准羽)**, aged 42, was appointed as a joint company secretary of our Company on December 10, 2019. Ms. Lau is a senior manager of corporate services of Tricor Services Limited. She has over 15 years of experience in corporate secretarial practice and is currently a company secretary of OneForce Holdings Limited (stock code: 1933). She has been providing corporate services to companies overseas and in Hong Kong.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Lau is an associate member of both The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) and The Hong Kong Institute of Chartered Secretaries.

### **CORPORATE GOVERNANCE**

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders.

#### **Code Provision A.2.1 of the Corporate Governance Code**

Mr. Qin Yan is the chairman of our Board and the president of our Company. With more than 12 years of experience in corporate management and having served in our company since its establishment, Mr. Qin is in charge of overall strategic planning and business development of the Group. Our Board considers that vesting the roles of chairman and president in the same person is beneficial to the management of our Group. The balance of power and authority is ensured by the operation of our Board and our senior management, which comprises experienced individuals. Our Board currently comprises three executive Directors (including Mr. Qin), one non-executive Director and three independent non-executive Directors, and therefore has a strong independence element in its composition.

Save as disclosed above, our Company intends to comply with all code provisions set out in the Corporate Governance Code after the Listing.

#### **Board Diversity**

Our Board has adopted a board diversity policy. Our Company is committed to achieving diversity and recognises and embraces the benefits of having a diverse Board to bring in innovation, fresh and broad business perspectives and enhance the decision-making process of our Board. Our Board is of the view that having diversity in our Board will help our Company better understand and meet customer needs and maintain our Company's competitive advantages in the industry.

In considering the optimal composition of our Board, our Board shall exercise its discretion to review diversity from a wide array of perspectives, including but not limited to, professional qualifications, industry experience, educational background, technical and professional skills, industry knowledge and reputation, gender, age, ethnicity, length of service and time to be devoted as a director, and where possible, maintain balance from such perspectives. Appointments to our Board should be made based on merits and the contributions that the individual is expected to bring to our Board, with due regard to the benefits of diversity in our Board.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, hospital management, accounting and financial management and corporate governance. They obtained degrees and prior work experience in various areas including medical service, business administration as well as and accounting and financial management. Our Board has a wide range of ages comprising members ranging from their 30s to 60s. We have taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but not limited to our Board and the management levels. While we recognise that the gender diversity of our Board can be improved given its current composition of all male Directors, we will

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## DIRECTORS AND SENIOR MANAGEMENT

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continue to apply the principle of appointments based on merits with reference to our board diversity policy. Taking into account our existing business model and specific needs as well as the different background of our Directors, the composition of our Board satisfies our board diversity policy.

Our Nomination Committee is delegated by our Board to be responsible for compliance with our diversity policy and relevant codes governing board diversity under the Corporate Governance Code. Subsequent to the Listing, our Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness, and we will disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis. In recognising the importance of gender diversity of our Board, our Nomination Committee will use its best efforts, within three years from the Listing, to identify and recommend at least one suitable female candidate as our Director for our Board's consideration by the end of 2022, subject to our Directors (i) being satisfied with the competence and experience of the relevant candidate after a reasonable review of the necessary selection criteria in conjunction with the future development plan of our Group; (ii) satisfying their fiduciary duties to act in the best interest of our Company and our Shareholders and a whole when making the relevant appointment. Selection of candidates will be based on a range of diversity perspectives, including gender, age, culture, educational and background, ethnicity, regional and industry experience, skills and length of service. Such measurable objectives will be discussed and reviewed annually by our Nomination Committee for future Director's candidate selection. Our Company will continue to make efforts to retain, train and recommend suitable female candidates to our Board to improve gender diversity of our Board. The ultimate decision on Directors' appointment will be based on merit and contribution that selected candidates will bring to our Board.

### **Audit Committee**

We established an audit committee (with effect from the Listing Date) in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The primary duties of the audit committee include reviewing and supervising our financial reporting procedures, including proposing on appointing or changing the external auditors; supervising our Company's internal audit system and risk management system and their implementation; communication between the internal auditors and external auditors; auditing the financial information and its disclosure; reviewing our Company's internal control system and auditing the significant connected transactions; nominating the heads of the internal audit department; other matters that our Board of Directors has authorized it to deal with.

The audit committee currently comprises of three Directors: Mr. Zhao Chun, Mr. Sun Jigang and Mr. Jiang Tianfan. Mr. Sun Jigang currently serves as the chairman of the audit committee and is our independent non-executive Director with the appropriate financial management expertise.

### **Remuneration Committee**

We established a remuneration committee (with effect from the Listing Date) in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The primary duties of the remuneration committee include formulating the criteria for and conducting assessment on our Directors and senior management as well as determining and reviewing the remuneration policies and plans for our Directors and senior management, including formulating remuneration plans and proposals in accordance with the terms of reference of our Directors and senior management and

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## DIRECTORS AND SENIOR MANAGEMENT

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the importance of their positions as well as the remuneration benchmarks for the relevant positions in the other comparable companies; the remuneration plans and proposals include, but are not limited to criteria, procedures and main assessment system for performance assessment, main proposals and regulations on award and punishment; reviewing the performance of our Directors and senior management and conducting annual assessment on their performance and results; supervising the implementation of the remuneration policies of our Company; other matters that the Board of Directors has authorized it to deal with.

The remuneration committee currently comprises of three Directors: Mr. Zhao Chun, Mr. Sun Jigang and Mr. Jiang Tianfan. Mr. Jiang Tianfan currently serves as the chairman of the remuneration committee.

### **Nomination Committee**

We established a nomination committee (with effect from the Listing Date) in compliance with paragraph A.5 of the Corporate Governance Code. The primary responsibilities of the nomination committee include preparing the procedures and criteria for determining the candidates for the directors and senior management of our Company and conducting preliminary review on their qualification and credentials, including proposing to our Board on its size and composition in accordance with our Company's operating results, assets and shareholding structure; reviewing the procedures and criteria for determining the candidates for the directors and general managers of our Company and make proposals to our Board of Directors; looking widely for the qualified candidates for the directors and general managers; reviewing and making proposals on the candidates for the directors and managers; reviewing and making proposals on the candidates for the other senior management such as the vice general managers and chief accountant, on which the Board of Directors need to resolve; other matters that our Board of Directors has authorized it to deal with.

The nomination committee currently comprises of three Directors: Mr. Zhao Chun, Mr. Sun Jigang and Mr. Jiang Tianfan. Mr. Zhao Chun currently serves as the chairman of the nomination committee.

### **COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT**

Our executive Directors receive, in their capacity as our employees, compensation in the form of salaries, bonus, other allowances and benefits-in-kind, including our contribution to the pension scheme for our executive Directors, in their capacity as employees, according to the laws of the relevant jurisdiction.

The aggregate remuneration (including salaries, allowances, discretionary bonus, retirement benefits scheme contributions and other benefits) paid to our Directors by us and our subsidiaries was approximately RMB687,000, RMB842,000 and RMB1,731,000, respectively, for the years ended December 31, 2017 2018 and 2019.

The aggregate remuneration (including salaries, allowances, discretionary bonus, retirement benefits scheme contributions and other benefits) paid to our Group's five highest paid individuals was approximately RMB1,212,000, RMB1,972,000 and RMB4,068,000, respectively, for the years ended December 31, 2017 2018 and 2019.

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## DIRECTORS AND SENIOR MANAGEMENT

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No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office during the Track Record Period. None of our Directors waived or agreed to waive any emoluments during the Track Record Period.

Under the arrangements presently in force, the aggregate remuneration of our Directors for the year ending December 31, 2020, excluding discretionary bonus, is approximately RMB2,100,000.

### WAIVER FROM RULE 8.12 OF THE LISTING RULES

We have applied to the Stock Exchange for a waiver under Rule 8.12 of the Listing Rules regarding the requirement of management presence in Hong Kong. For more details, please refer to the section headed “Waivers From Strict Compliance With The Listing Rules” in this prospectus.

### COMPLIANCE ADVISER

We have appointed Central China International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, we must consult with and, if necessary, seek advice from our compliance adviser on a timely basis in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including Share issues and Share repurchases;
- (iii) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be extended by mutual agreement.

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## FUTURE PLANS AND USE OF PROCEEDS

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Our goal is to become a leading private hospital group in China. We intend to achieve this through implementing our business strategies, details of which are set out in “Business — Our Strategies” of this prospectus.

### USE OF PROCEEDS

We estimate that we will receive net proceeds of the Global Offering, after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering in the amount of:

- approximately HK\$223.1 million if the Over-allotment Option is not exercised, or HK\$263.6 million if the Over-allotment Option is exercised in full (assuming an Offer Price of HK\$1.80 per Offer Share, being the low-end of the proposed Offer Price range);
- approximately HK\$259.1 million if the Over-allotment Option is not exercised, or HK\$305.2 million if the Over-allotment Option is exercised in full (assuming an Offer Price of HK\$2.05 per Offer Share, being the mid-point of the proposed Offer Price range); or
- approximately HK\$295.1 million if the Over-allotment Option is not exercised, or HK\$346.8 million if the Over-allotment Option is exercised in full (assuming an Offer Price of HK\$2.30 per Offer Share, being the high-end of the proposed Offer Price range).

We intend to use these net proceeds for the following purposes, assuming an Offer Price of HK\$2.05 per Offer Share, being the mid-point of the proposed Offer Price range and assuming no exercise of the Over-allotment Option:

- approximately 29.5% or HK\$76.5 million (equivalent of RMB70.0 million) will be used to finance the ramp up of our first-phase building which is expected to commence operation by the end of 2020. In particular, we intend to use approximately HK\$38.3 million to purchase machine and equipment, HK\$32.8 million to pay construction fees, and approximately HK\$5.5 million to purchase office facility, furniture and automobile;
- approximately 26.1% or HK\$67.7 million (equivalent of RMB62.0 million) will be used to expand our business by acquiring hospitals. We intend to target small and medium-scale private hospitals and clinics in other counties surrounding Changyuan County. In evaluating a new acquisition target, we would take into account factors such as patients’ potential spending on healthcare services, availability of healthcare professionals, local regulatory environment and competitive landscape. As of the Latest Practicable Date, we had no specific acquisition plans nor had identified any specific targets;
- approximately 15.0% or HK\$38.9 million (equivalent of RMB35.6 million) will be used to repay our general borrowings, particularly the outstanding loans from two banks with an aggregate principal amount of RMB63.0 million as of the Latest Practicable Date. Such loans carry an interest rate of 5.00% and 4.76% per annum, respectively and have a maturity date in March 2021 and April 2021, respectively;

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## FUTURE PLANS AND USE OF PROCEEDS

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- approximately 10.0% or HK\$25.9 million (equivalent of RMB23.7 million) will be used for working capital and other general corporate purposes;
- approximately 8.0% or HK\$20.7 million (equivalent of RMB19.0 million) will be used to purchase medical equipment and improve and upgrade our information technology systems. In particular, we intend to use approximately HK\$15.5 million to purchase medical equipment and HK\$5.2 million to upgrade our information technology systems;
- approximately 6.3% or HK\$16.4 million (equivalent of RMB15.0 million) will be used to develop our pharmaceutical supply chain business. In particular, we intend to use approximately HK\$9.8 million to acquire land use rights and HK\$6.5 million to pay mobilization fees; and
- approximately 5.0% or HK\$13.2 million (equivalent of RMB11.9 million) will be used for employee recruitment and training.

If the Offer Price is determined at the highest point of the stated range, the proceeds to us would be increased by approximately HK\$36.0 million, assuming the Over-allotment Option is not exercised. If the Offer Price is determined at the lowest point of the stated range, the proceeds to us would be decreased by approximately HK\$36.0 million, assuming the Over-allotment Option is not exercised. In the event that the Offer Price is fixed below or above the mid-point of the indicative price range, the net proceeds allocated to the above purposes will be adjusted on a pro rata basis. Any additional proceeds received from the exercise of the Over-allotment Option will be allocated to the above purposes on a pro rata basis.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorized financial institutions and/or licensed banks in Hong Kong or the PRC.



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## UNDERWRITING

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### HONG KONG UNDERWRITERS

BOCOM International Securities Limited  
CMB International Capital Limited  
Sheng Yuan Securities Limited  
Huatai Financial Holdings (Hong Kong) Limited  
Goldbridge Securities Limited  
Haitong International Securities Company Limited  
ABCI Securities Company Limited  
AMTD Global Markets Limited  
Zhongtai International Securities Limited  
Tianda Securities Limited  
HTF Securities Limited  
Sinomax Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on June 23, 2020. As described in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and subject to the terms and conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming and remaining unconditional and not having been terminated in accordance with its terms.

##### *Grounds for Termination*

If any of the events set out below shall occur at any time prior to 8:00 a.m. on the Listing Date, BOCOM Securities (for itself and on behalf of the Hong Kong Underwriters) may by giving a written notice to our Company signed by BOCOM Securities (for itself and on behalf of the Hong Kong Underwriters) terminate the Hong Kong Underwriting Agreement (including the respective obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares) without liability to any of the other parties with immediate effect:

- (i) any new law or any change or development involving a prospective change or any event or circumstance likely to result in any existing law or any change in the interpretation or application thereof by any court or other competent authority of the Cayman Islands,

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## UNDERWRITING

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Hong Kong, the PRC, the United States, the United Kingdom, the European Union, Japan, or any other jurisdiction relevant to any member of our Group or the Global Offering (collectively, the “**Relevant Jurisdictions**”);

- (ii) any change or development involving a prospective change (whether or not permanent) in, or any event, circumstances or series of events resulting or likely to result in any change or development in local, national or international financial, political, military, industrial, legal, fiscal, economic, regulatory, credit, market or currency matters or conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions;
- (iii) the imposition or declaration of (a) any moratorium, suspension or limitation (including without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on trading in shares or securities generally on the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange, the Singapore Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market or the London Stock Exchange; (b) any moratorium, suspension or limitation (including without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in any securities of our Company listed or quoted on a stock exchange or an over-the-counter market or (c) any moratorium on banking activities in or affecting any of the Relevant Jurisdictions or any disruption in commercial banking or foreign exchange trading or securities settlement or clearing services in any Relevant Jurisdiction;
- (iv) a change or development involving a prospective change or amendment in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the Hong Kong dollar or RMB against any foreign currencies, a change in the system under which the value of the Hong Kong dollar is linked to that of the U.S. dollar or the RMB is linked to any foreign currency or currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions;
- (v) any changes or development in the condition of the financial markets in the Relevant Jurisdictions or generally in the international equity securities or other financial markets;
- (vi) any imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions;
- (vii) a contravention by any member of our Group of the Listing Rules or applicable laws or regulations;
- (viii) any new event or series of events in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency or war, calamity, crisis, economic sanctions, strikes, labor disputes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, acts of God, epidemic, pandemic, outbreak or escalation of infectious disease (including

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## UNDERWRITING

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without limitation COVID-19, SARS, H5N1, H1N1, swine or avian influenza or such related/mutated forms), accident or interruption or delay in transportation) in or affecting any of the Relevant Jurisdictions, or without limiting the foregoing, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared), act of terrorism (whether or not responsibility has been claimed), or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions;

- (ix) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the additional Shares which may be purchased by, or by investors procured by, the International Underwriters from our Company pursuant to the Over-Allotment Option) pursuant to the terms of the Global Offering;
- (x) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws;
- (xi) that (a) any certificate given by our Company or any of its officers to any of the Joint Global Coordinators under or in connection with the Hong Kong Underwriting Agreement or the Global Offering is false or misleading in any respect or (b) any Director or any member of senior management as named in this prospectus is being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from taking part in the management of a company;
- (xii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity and the relevant member of our Group fails to make such repayment or payment within the valid period of repayment or payment;
- (xiii) any change or development or event involving a prospective materialization of any of the risks set out in the section headed “Risk Factors” in this prospectus;
- (xiv) except with the approval of the Sole Sponsor the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC;
- (xv) a governmental authority or a political body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director;
- (xvi) any litigation, legal action, legal proceeding, disputes or claims being threatened or instigated against any member of our Group; or
- (xvii) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the

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## UNDERWRITING

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winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group;

which, individually or in the aggregate, in the sole opinion of BOCOM Securities (for itself and on behalf of the other Hong Kong Underwriters),

- (a) has or will or may have a material adverse effect on the assets, liabilities, business, general affairs, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or
  - (b) has or will or may have an adverse effect on the success of the Global Offering; or
  - (c) has or will or may have an adverse effect on the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
  - (d) make, will or may make it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering, to market the Global Offering or the delivery of Shares on the terms and in the manner contemplated by this prospectus and/or the Hong Kong Underwriting Agreement; or
  - (e) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or
- (a) there has come to the notice of any of the Joint Global Coordinators or any of the Hong Kong Underwriters:
- (i) that any statement of material fact contained in any of this prospectus or the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendment thereto) (the “**Global Offering Documents**”) and was, when it was issued, or has become, untrue or incorrect or misleading, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the Global Offering Documents is not fair and honest and based on reasonable assumptions;
  - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from any of the Global Offering Documents;
  - (iii) any material breach of any of the obligations imposed upon any party to the Underwriting Agreements (other than upon any of the Hong Kong Underwriters or the International Underwriters);

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## UNDERWRITING

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- (iv) any material breach of any of the obligations imposed upon any party (other than upon any of the Hong Kong Underwriters or the International Underwriters, if applicable) to the any of the operative documents (as defined in the Hong Kong Underwriting Agreement);
- (v) any event, act or omission which gives or is likely to give rise to any liability of any of our Company and our Controlling Shareholders pursuant to the indemnities given by our Company and our Controlling Shareholders under the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable;
- (vi) any breach of, or any event or circumstance rendering untrue or incorrect or misleading in any respect, any of the representations, warranties, agreements and undertakings of our Company and our Controlling Shareholders under the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable;
- (vii) any material adverse change, or any development or any prospective adverse change or development, in the condition (financial or otherwise) or in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole;
- (viii) that approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-Allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
- (ix) that our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering;
- (x) a Director or a director of any member of the Group being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company;
- (xi) the Chairman or president of our Company vacating his or her office;
- (xii) any administrative, governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organization or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign or a political body or organization in any of the Relevant Jurisdictions commencing any investigation or other action, or announcing an intention to investigate or take other action, against any members of our Group or our Directors; or
- (xiii) that any expert (other than the Sole Sponsor) has withdrawn or is subject to withdraw its consent to being named in any of the Global Offering Documents or to the issue of any of the Global Offering Documents.

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## UNDERWRITING

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### Lock-up

#### *Undertakings to the Stock Exchange pursuant to the Listing Rules*

##### *Undertakings by our Company*

Pursuant to Rule 10.08 of the Listing Rules, our Company will not, any time within six months from the Listing Date, issue any Shares or other securities convertible into equity securities (whether or not of a class already listed) of our Company or enter into any agreement or arrangement to issue such shares or securities (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering or for the circumstances prescribed by Rule 10.08 of the Listing Rules.

##### *Undertakings by our Controlling Shareholders*

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange, that he or it will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he or it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (except pursuant to the Global Offering, the Over-allotment Option, the Stock Borrowing Agreement and unless in compliance with the requirements of the Listing Rules); or
- (b) during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares to such an extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be our Controlling Shareholders (as defined in the Listing Rules).

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that, during the First Six-month Period and the Second Six-month Period, he or it will:

- (a) if he or it pledges or charges any of our securities beneficially owned by him or it in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and

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## UNDERWRITING

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- (b) if he or it receives indications, either verbal or written, from the pledgee or chargee that any of his or its pledged or charged securities will be disposed of, immediately inform us of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

### *Undertakings Pursuant to the Hong Kong Underwriting Agreement*

#### *Undertakings by our Company*

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken with the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Hong Kong Underwriters that, we will not, without the prior written consent of BOCOM Securities (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules, at any time during the First Six-month Period:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable or any interest in any of the foregoing), or deposit any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities of our Company or interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other member of our Group, as applicable or any interest in any of the foregoing); or
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in (i) to (iii) above,

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## UNDERWRITING

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in each case, whether any of the foregoing transactions described in sub-paragraphs (i) to (iii) above is to be settled by delivery of our Shares or such other securities, or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-month Period) provided that the foregoing restrictions shall not apply to the issue of Shares by our Company pursuant to the Global Offering or grant of options or issuance of Shares upon exercise of such options pursuant to the Share Option Scheme or any issue of debt securities by our Company or any other member of our Group or any encumbrance created over the shares or other securities of any member of our Group as security for such debt securities, provided that such debt securities are not convertible into equity securities of our Company or any member of our Group.

In the event that, during the Second Six-month Period, we enter into any of the transactions specified in sub-paragraphs (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect such transaction, we will take all reasonable steps to ensure that we will not create a disorderly or false market in the securities of our Company.

### *Undertaking by our Controlling Shareholders*

Each of our Controlling Shareholders has undertaken to us, the Sole Sponsor and the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Hong Kong Underwriters that, except pursuant to (A) the Global Offering, (B) the Over-allotment Option or (C) if applicable, the Stock Borrowing Agreement, none of our Controlling Shareholders will, without the prior written consent of BOCOM Securities (for itself and on behalf of the Hong Kong Underwriters), at any time during the First Six-month Period:

- (i) offer, accept subscription for, sell, pledge, hypothecate, mortgage, assign, charge, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any share sale, lend or otherwise transfer or dispose of, create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over either directly or indirectly, conditionally or unconditionally, any of the share capital of our Company or any securities of our Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or interest therein) or deposit any Shares or other securities of our Company, as applicable, with a depository in connection with the issue of any depository receipts;
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such share capital, debt capital or other securities of our Company or any interest therein;
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) to (iii) above,



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## UNDERWRITING

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whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so.

During the Second Six-month Period, each of our Controlling Shareholders will not enter into any of the transactions in sub-paragraphs (i), (ii) or (iii) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company.

Until the expiry of the Second Six-month Period, in the event that each of our Controlling Shareholders enters into any such transactions or agrees or contracts to or publicly announces an intention to enter into any such transactions, he will take all reasonable steps to ensure that he will not create a disorderly or false market in the securities of our Company.

At any time during the First Six-month Period and Second Six-month Period (i) our Controlling Shareholders will, if they pledge or charge or intends to pledge or charge any Shares or other securities of our Company in respect of which they are the beneficial owner, immediately inform our Company, the Sole Sponsor and the Stock Exchange of any such pledges or charges and the number of Shares or other securities of our Company so pledged or charged, and (ii) our Controlling Shareholders will, if they receive any indication, either verbal or written, from any such pledgee or chargee of Shares or other securities of our Company that such Shares or other securities of our Company will be disposed of, immediately inform our Company, the Sole Sponsor and the Stock Exchange of any such indication.

### **International Offering**

#### ***International Underwriting Agreement***

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with our Controlling Shareholders and the Joint Global Coordinators (for themselves and on behalf of the International Underwriters). Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set forth therein, severally agree to purchase the International Offer Shares being offered pursuant to the International Offering, or procure purchasers for such International Offer Shares.

It is expected that our Company will grant to the International Underwriters the Over-allotment Option, exercisable by BOCOM Securities (for itself and on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require our Company to issue and allot up to an aggregate of 22,500,000 additional Shares, representing 15% of the initial Offer Shares, at the Offer Price, among other things, to cover over-allocations in the International Offering, if any.

Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

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## UNDERWRITING

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### **Indemnity**

We have agreed to indemnify the Hong Kong Underwriters for certain losses which it may suffer, including losses arising from its performance of its obligations under the Hong Kong Underwriting Agreement and any breach of the Hong Kong Underwriting Agreement by us. It is expected that we will also indemnify the International Underwriters for certain losses which they may suffer.

### **Commission and Expenses**

The Hong Kong Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, our Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the relevant International Underwriters. In addition we may, at our sole and absolute discretion, pay an additional incentive fee of up to 1.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares as we deem fit.

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$2.05, being the mid-point of the Offer Price range of HK\$1.80 to HK\$2.30 per Share, the fees and commissions in connection with the Hong Kong Public Offering and the International Offering, together with the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering, are estimated to amount to approximately HK\$33.2 million in aggregate. Such commissions, the Stock Exchange trading fee and the SFC transaction levy and the fees and expenses of professional advisers and service providers engaged in relation to the Global Offering are payable and borne by us. We will reimburse the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Sole Sponsor for expenses they incurred in relation to the Global Offering.

### **Underwriters' Interests in our Company**

Save for their respective obligations under the Underwriting Agreements and save as otherwise disclosed in this prospectus, none of the Underwriters is interested legally or beneficially in any shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group in the Global Offering.

### **SOLE SPONSOR'S INDEPENDENCE**

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

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## UNDERWRITING

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### ACTIVITIES BY SYNDICATE MEMBERS

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and the International Offering, together referred to as “Syndicate Members”, may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- (i) under the agreement among the Syndicate Members, all of them (except for BOCOM Securities and its affiliates as the stabilizing manager) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (ii) all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All of these activities may occur both during and after the end of the stabilizing period described under the paragraph headed “Structure of the Global Offering — Stabilization” in this prospectus. These activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

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## UNDERWRITING

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Certain of the Syndicate Members or their respective affiliates have provided from time to time and expect to provide in the future, investment banking and other services to our Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commission.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 15,000,000 Offer Shares (subject to reallocation) in Hong Kong as described below in “— The Hong Kong Public Offering”; and
- (ii) the International Offering of initially 135,000,000 Offer Shares (subject to reallocation and the Over-Allotment Option as mentioned below) outside the United States in offshore transactions in reliance on Regulation S as described below in the paragraph headed “— The International Offering” in this section.

In connection with the Global Offering, we intend to grant the Over-Allotment Option to the International Underwriters, exercisable by BOCOM Securities on behalf of itself and the International Underwriters. The Over-Allotment Option gives BOCOM Securities the right exercisable at any time from the Listing Date up to the 30th day after the last day for lodging applications under the Hong Kong Public Offering to require us to allot and issue up to an aggregate of 22,500,000 additional Shares, representing 15% of the initial size of the Global Offering at the Offer Price to, among other things, cover over-allocations, if any, in the International Offering. In the event that the Over-Allotment Option is exercised, a press announcement will be made.

Investors may either:

- (i) apply in the Hong Kong Offer Shares under the Hong Kong Public Offering; or
- (ii) apply for or indicate an interest in the International Offer Shares under the International Offering,

but may not do both.

The 150,000,000 Offer Shares in the Global Offering will represent 25% of our enlarged share capital immediately after the completion of the Capitalization Issue, the Global Offering, without taking into account the exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the Offer Shares will represent approximately 27.71% of our enlarged share capital immediately following the completion of the Capitalization Issue, the Global Offering and the exercise of the Over-Allotment Option.

References to applications, application forms, application monies or procedure for applications relate solely to the Hong Kong Public Offering.

### THE HONG KONG PUBLIC OFFERING

We are initially offering 15,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public

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## STRUCTURE OF THE GLOBAL OFFERING

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Offering, subject to any reallocation of Offer Shares between the International Offering and Hong Kong Public Offering will represent 2.5% of our enlarged issued share capital immediately after completion of the Capitalization Issue and the Global Offering, assuming the Over-Allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Completion of the Hong Kong Public Offering is subject to the conditions as set forth below in the paragraph headed “— Conditions of the Global Offering” in this section.

### **Allocation**

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. We may, if necessary, allocate the Hong Kong Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied in the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of the Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools:

- Pool A: The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied in the Hong Kong Offer Shares with an aggregate subscription price of HK\$5,000,000 (excluding the brokerage fee, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and
- Pool B: The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied in the Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5,000,000 (excluding the brokerage fee, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. In the purpose of this section only, the “subscription price” in the Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 7,500,000 Hong Kong Offer Shares are liable to be rejected.

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## STRUCTURE OF THE GLOBAL OFFERING

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### **Reallocation**

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. In accordance with the clawback requirements specified in paragraph 4.2 of Practice Note 18 to the Listing Rules, if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Hong Kong Offer Shares will be increased to 45,000,000 Offer Shares (in the case of (i)), 60,000,000 Offer Shares (in the case of (ii)) and 75,000,000 Offer Shares (in the case of (iii)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-Allotment Option).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as BOCOM Securities deem appropriate. In addition, BOCOM Securities may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done under the circumstance that the International Offer Shares are undersubscribed or other than pursuant to the clawback mechanism above, the total number of Offer Shares available under the Hong Kong Public Offering following such reallocation shall be not more than 30,000,000 Offer Shares (representing approximately 20% of the total number of Offer Shares initially available under the Global Offering), and the final Offer Price shall be fixed at the low-end of the indicative offer price range (i.e., HK\$1.80 per Offer Share) stated in this prospectus.

If the Hong Kong Public Offering is not fully subscribed, BOCOM Securities may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as BOCOM Securities deems appropriate.

The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of BOCOM Securities.

### **Applications**

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offer Shares under the International Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$2.30 per Hong Kong Offer Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share amounting to a total of HK\$4,646.35 for one board lot of 2,000 Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed “— Pricing and Allocation” in this section, is less than the maximum price of HK\$2.30 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For further details, see in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

### THE INTERNATIONAL OFFERING

#### Number of Offer Shares Initially Offered

We will be initially offering for subscription under the International Offering 135,000,000 Offer Shares, representing 90% of the Offer Shares under the Global Offering and 22.5% of our enlarged issued share capital immediately after completion of the Capitalization Issue and the Global Offering, assuming the Over-Allotment Option is not exercised.

#### Allocation

The International Offering will involve private placements of the Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of the International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by BOCOM Securities and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of us and our shareholders as a whole.

BOCOM Securities (on behalf of itself and the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to BOCOM Securities so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any applications of Hong Kong Offer Shares under the Hong Kong Public Offering.



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## STRUCTURE OF THE GLOBAL OFFERING

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### **Reallocation**

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in the paragraph headed “— The Hong Kong Public Offering — Reallocation” in this section and/or the exercise of the Over-Allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering and/or any reallocation of Offer Shares from the International Offering to the Hong Kong Public Offering at the discretion of BOCOM Securities.

### **OVER-ALLOTMENT OPTION**

In connection with the Global Offering, our Company is expected to grant the Over-Allotment Option to the International Underwriters, exercisable by BOCOM Securities on behalf of itself and the International Underwriters.

Pursuant to the Over-Allotment Option, the International Underwriters have the right, exercisable by BOCOM Securities on behalf of itself and the International Underwriters at any time during the 30 day period from the last date for lodging applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 22,500,000 additional Shares, representing 15% of the initial size of the Global Offering at the Offer Price to, among other things, cover over-allocations, if any, in the International Offering.

If the Over-Allotment Option is exercised in full, the additional International Offer Shares to be issued pursuant thereto will represent approximately 3.61% of our issued share capital immediately following the completion of the Capitalization Issue, the Global Offering and the exercise of the Over-Allotment Option. In the event that the Over-Allotment Option is exercised, an announcement will be made.

### **STABILIZATION**

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager, its affiliates or any persons acting for it, to conduct any such stabilizing action. Such stabilizing action, if taken, will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it and may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering. Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating in the purpose of preventing or

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## STRUCTURE OF THE GLOBAL OFFERING

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minimizing any reduction in the market price of our Shares; (ii) selling or agreeing to sell our Shares so as to establish a short position in them in the purpose of preventing or minimizing any reduction in the market price of our Shares; (iii) purchasing or subscribing, for or agreeing to purchase or subscribe for, our Shares pursuant to the Over-Allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of our Shares in the sole purpose of preventing or minimizing any reduction in the market price of our Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases; and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty as to the extent to which and the time period for which the Stabilizing Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it and selling in the open market, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date and is expected to expire on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand in the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Offer Shares.

As a result of effecting transactions to stabilize or maintain the market price of the Offer Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the Offer Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Offer Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the Offer Shares for longer than the stabilizing period, which begins on the day on which trading of the Offer Shares commences on the Hong Kong Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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As a result, demand for the Offer Shares, and their market price, may fall after the end of the stabilizing period. It is anticipated that no stabilization activity will be carried out during the stabilization period. The Bank will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

### **Over-allocation**

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it may cover such over-allocations by (among other methods) exercising the Over-Allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market at prices that do not exceed the Offer Price, or through the stock borrowing arrangements as detailed below or a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of the Offer Shares which can be over-allocated will not exceed the number of the Offer Shares which may be issued or sold pursuant to the exercise in full of the Over-allotment Option, being 22,500,000 Offer Shares, representing 15% of the Offer Shares initially available under the Global Offering.

### **STOCK BORROWING ARRANGEMENTS**

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager or its authorized agents may enter into an agreement with Sunny Rock to borrow, whether on its own or through its affiliates, up to 22,500,000 Shares, representing 15% of the number of Offer Shares initially available under the Global Offering, from Sunny Rock to cover over-allocations (being the maximum number of additional Shares which may be allotted and issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercising the Over-allotment Option.

If such stock borrowing arrangement with Sunny Rock is entered into, it will only be effected by the Stabilizing Manager or its authorized agents or its agent for settlement of over-allocations in the International Offering and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to Sunny Rock or its nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, or (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option have been issued and sold. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Sunny Rock by the Stabilizing Manager or its authorized agents in relation to such stock borrowing arrangement.

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## STRUCTURE OF THE GLOBAL OFFERING

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### PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between us and BOCOM Securities, on behalf of itself and the Underwriters, on the Price Determination Date, when market demand in the Offer Shares will be determined. The Price Determination Date is expected to be on or around Thursday, July 2, 2020 (Hong Kong time), and in any event, not later than Friday, July 3, 2020 (Hong Kong time). Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Offer Price range stated in this prospectus.

**If, for any reason, the Offer Price is not agreed between BOCOM Securities (for itself and on behalf of the Underwriters) and us by Friday, July 3, 2020, the Global Offering will not proceed and will lapse.**

The Offer Price will not be more than HK\$2.30 and is expected to be not less than HK\$1.80, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. If you apply in the Offer Shares under the Hong Kong Public Offering, you must pay the maximum offer price of HK\$2.30 per Offer Share, plus 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee. This means that for every board lot of 2,000 Shares, you should pay HK\$4,646.35 at the time of your application.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$2.30, we will refund the respective difference, including the brokerage fee, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

BOCOM Securities, on behalf of itself and the Hong Kong Underwriters, may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice of the reduction and posted on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on our website ([www.honlivhp.com](http://www.honlivhp.com)) (the contents of the website do not form part of this prospectus).

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## STRUCTURE OF THE GLOBAL OFFERING

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Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon by us and BOCOM Securities (on behalf of itself and the Underwriters), will be fixed within such revised offer price range. **Applicants should have regard to the possibility that any announcement or supplemental prospectus (as appropriate) in connection with any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.** Such announcement or supplemental prospectus (as appropriate) will also include confirmation or revision, as appropriate, of the working capital statement, the use of proceeds and the Global Offering statistics as currently set out in this prospectus and any other financial information which may change as a result of such reduction. If the number of Offer Shares and/or the indicative Offer Price range is so reduced, applicant(s) who have already submitted an application may or may not (depending on the information contained in the announcement or supplemental prospectus (as appropriate)) be notified that they are required to confirm their applications. All applicant(s) who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement or supplemental prospectus (as appropriate) and all unconfirmed applications will not be valid. In the absence of any such announcement or supplemental prospectus (as appropriate) published in relation to the reduction in the Offer Price, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by our Company and BOCOM Securities (for itself and on behalf of the Underwriters) will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The final Offer Price, an indication of the level of interest in the International Offering, the basis of allotment of Offer Shares available under the Hong Kong Public Offering and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the paragraph headed “How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus.

### UNDERWRITING AGREEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and BOCOM Securities, on behalf of itself and the Underwriters, agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date. These underwriting arrangements, and the Hong Kong Underwriting Agreement and the International Underwriting Agreement, are summarized in the section headed “Underwriting” in this prospectus.

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## STRUCTURE OF THE GLOBAL OFFERING

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### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional on:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be made available pursuant to the exercise of the Over-Allotment Option) and the Capitalization Issue;
- (ii) the Offer Price being duly determined;
- (iii) the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and
- (iv) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times). If, for any reason, the Offer Price is not agreed between our Company and BOCOM Securities (on behalf of itself and the Underwriters) on or before Friday, July 3, 2020, the Global Offering will not proceed and will lapse. The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on our website ([www.honlivhp.com](http://www.honlivhp.com)) on the next business day following such lapse. In such situation, all application monies will be returned, without interest, on the terms set forth in the paragraph headed “How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus. In addition, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Hong Kong Banking Ordinance.

Share certificates for the Offer Shares are expected to be issued on or before Thursday, July 9, 2020 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Offer Shares, which is expected to be on Friday, July 10, 2020, 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. Investors who trade the Offer Shares prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

### DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, July 10, 2020, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, July 10, 2020.

The Shares will be traded in board lots of 2,000 Shares each and the stock code of the Shares will be 9906.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, BOCOM Securities, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a U.S. Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, BOCOM Securities may accept it at its discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service in the Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a director or president of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, June 24, 2020 till 12:00 noon on Tuesday, June 30, 2020 from:

- (i) any of the following offices of the Hong Kong Underwriters:
  - a. **BOCOM International Securities Limited**, at 9/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong;
  - b. **CMB International Capital Limited**, at 45/F, Champion Tower, 3 Garden Road, Central, Hong Kong;
  - c. **Sheng Yuan Securities Limited**, at Room 2202, 22/F, No. 238 Des Voeux Road Central, Hong Kong;
  - d. **Huatai Financial Holdings (Hong Kong) Limited**, at Room 5808-12 The Center, 99 Queen's Road Central, Hong Kong;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- e. **Goldbridge Securities Limited**, at Room 1002H, 10/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong;
- f. **Haitong International Securities Company Limited**, at 22/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong;
- g. **ABCI Securities Company Limited**, at 10/F, Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong;
- h. **AMTD Global Markets Limited**, at 23/F-25/F, Nexxus Building, 41 Connaught Road Central, Hong Kong;
- i. **Zhongtai International Securities Limited**, at 19th Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong;
- j. **Tianda Securities Limited**, at 2401-2410, 24/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong;
- k. **HTF Securities Limited**, at Room 1807, 18/F, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong; and
- l. **Sinomax Securities Limited**, at Room 2705-6, 27/F, Tower One, Lippo Centre, 89 Queensway, Hong Kong

(ii) any of the outlets or branches of the following receiving banks:

- a. **Bank of Communications Co., Ltd. Hong Kong Branch**

District	Outlet Name	Address
Hong Kong Island ...	Business Department	Unit B B/F. & G/F., Unit C G/F., Wheelock House, 20 Pedder Street, Central
Kowloon .....	Ngau Tau Kok Sub-Branch	Shop G1 & G2, G/F., Phase I, Amoy Plaza, 77 Ngau Tau Kok Road
New Territories .....	Sha Tsui Road Sub-Branch	Shops Nos. 3-5 on G/F., Kwong Ming Building, 120-130 Sha Tsui Road, Tsuen Wan

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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b. **Standard Chartered Bank (Hong Kong) Limited**

<u>District</u>	<u>Branch</u>	<u>Address</u>
Kowloon .....	Kwun Tong Branch	G/F & 1/F One Pacific Centre, 414 Kwun Tong Road, Kwun Tong
Kowloon .....	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, June 24, 2020 until 12:00 noon on Tuesday, June 30, 2020 from the Depository Counter of HKSCC 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### **Time for Lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a check or a banker's cashier order attached and marked payable to "**BANK OF COMMUNICATIONS (NOMINEE) CO. LTD. – HONLIV HEALTHCARE PUBLIC OFFER**" in the payment, should be deposited in the special collection boxes provided at any of the outlets or branches of the receiving banks listed above, at the following times:

**Wednesday, June 24, 2020 – 9:00 a.m. to 5:00 p.m.**  
**Friday, June 26, 2020 – 9:00 a.m. to 5:00 p.m.**  
**Saturday, June 27, 2020 – 9:00 a.m. to 1:00 p.m.**  
**Monday, June 29, 2020 – 9:00 a.m. to 5:00 p.m.**  
**Tuesday, June 30, 2020 – 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, June 30, 2020, the last application day or such later time as described in the paragraph headed "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and BOCOM Securities (for itself and on behalf of the Underwriters) will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for Yellow Application Form**

You may refer to the **Yellow** Application Form for details.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 5. APPLYING THROUGH WHITE FORM eIPO SERVICE

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

#### **Time for Submitting Applications under the White Form eIPO**

You may submit your application to the **White Form eIPO** Service at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, June 24, 2020 until 11:30 a.m. on Tuesday, June 30, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, June 30, 2020 or such later time under the paragraph headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

#### **No Multiple Applications**

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

#### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Commitment to sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Honliv Healthcare Management Group Company Limited” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support sustainability.

### 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited  
Customer Service Center  
1/F, One & Two Exchange Square,  
8 Connaught Place Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply in the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and BOCOM Securities (for itself and on behalf of the Underwriters) will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
  - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree that none of our Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions<sup>(1)</sup>

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Wednesday, June 24, 2020 – 9:00 a.m. to 8:30 p.m.**  
**Friday, June 26, 2020 – 8:00 a.m. to 8:30 p.m.**  
**Monday, June 29, 2020 – 8:00 a.m. to 8:30 p.m.**  
**Tuesday, June 30, 2020 – 8:00 a.m. to 12:00 noon**

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*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, June 24, 2020 until 12:00 noon on Tuesday, June 30, 2020 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, June 30, 2020, the last application day or such later time as described in the paragraph headed “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving banks, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor and the Joint Global Coordinators, and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, June 30, 2020.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the paragraph headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; or
- Extreme Conditions

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 30, 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, June 30, 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force and/or Extreme Conditions in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, July 9, 2020 on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at [www.honlivhp.com](http://www.honlivhp.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Thursday, July 9, 2020;
- from the designated results of allocations website at [www.iporeresults.com.hk](http://www.iporeresults.com.hk) (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, July 9, 2020 to 12:00 midnight on Wednesday, July 15, 2020;
- by telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from Thursday, July 9, 2020 to Friday, July 10, 2020 and Monday, July 13, 2020 to Tuesday, July 14, 2020;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, July 9, 2020 to Saturday, July 11, 2020 at all the receiving banks' designated outlets or branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. For more details, see the section headed "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through **White Form eIPO Service**, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, BOCOM Securities, the **White Form eIPO Service Provider** and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the check or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$2.30 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the paragraph headed "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Thursday, July 9, 2020.

### 14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheque(s) and share certificates are expected to be posted on or before Thursday, July 9, 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, July 10, 2020 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, July 9, 2020 or such other date as notified by us in the newspapers.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Thursday, July 9, 2020, by ordinary post and at your own risk.

***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collecting refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Thursday, July 9, 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, July 9, 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, July 9, 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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*(iii) If you apply through the White Form eIPO service*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, July 9, 2020, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, July 9, 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

*(iv) If you apply via Electronic Application Instructions to HKSCC*

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant’s stock account or your CCASS Investor Participant stock account on Thursday, July 9, 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in “Publication of Results” above on Thursday, July 9, 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, July 9, 2020 or such other date as determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, July 9, 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, July 9, 2020.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

**ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HONLIV HEALTHCARE MANAGEMENT GROUP COMPANY LIMITED AND BOCOM INTERNATIONAL (ASIA) LIMITED**

**Introduction**

We report on the historical financial information of Honliv Healthcare Management Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-53, which comprises the consolidated statements of financial position as at 31 December 2017, 2018 and 2019, the company statements of financial position as at 31 December 2017, 2018 and 2019, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-53 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 24 June 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

**Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountant's responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

**Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2017, 2018 and 2019, the consolidated financial position as at 31 December 2017, 2018 and 2019, and its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

*Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

*Dividends*

We refer to Note 19 to the Historical Financial Information which contains information about the dividends paid by the companies now comprising the Group in respect of the Track Record Period and states that no dividend has been paid by Honliv Healthcare Management Group Company Limited in respect of the Track Record Period.

*No statutory financial statements for the Company*

No statutory financial statements have been prepared for the Company since its date of incorporation.

**PricewaterhouseCoopers**  
Certified Public Accountants  
Hong Kong  
24 June 2020

**I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP**

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statement of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all amounts are rounded to the nearest thousand yuan (RMB'000), unless otherwise stated.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment.....	5	415,365	401,041	406,554
Right-of-use assets .....	6(a)	91,020	86,482	87,658
Investment properties .....	8	3,658	3,462	3,266
Intangible assets .....	9	241	127	315
Prepayments .....	13	19,769	20,846	61,560
<b>Total non-current assets</b> .....		<b>530,053</b>	<b>511,958</b>	<b>559,353</b>
<b>Current assets</b>				
Inventories.....	11	12,491	17,972	23,124
Trade receivables .....	12	16,268	42,881	16,988
Other receivables and prepayments .....	13	2,050	4,700	6,257
Amounts due from related parties .....	14	17,235	11,198	–
Restricted deposit.....	16	–	13,000	15,000
Cash and cash equivalents.....	15	10,098	9,930	104,602
<b>Total current assets</b> .....		<b>58,142</b>	<b>99,681</b>	<b>165,971</b>
<b>Total assets</b> .....		<b>588,195</b>	<b>611,639</b>	<b>725,324</b>
<b>EQUITY</b>				
<b>Equity attributable to the owners of the Company</b>				
Share capital.....	17	–	33	33
Reserves .....	18	154,492	77,107	166,146
Retained earnings .....		11,014	26,947	71,394
<b>Subtotal</b> .....		<b>165,506</b>	<b>104,087</b>	<b>237,573</b>
<b>Non-controlling interests</b> .....		<b>1,672</b>	<b>2,710</b>	<b>4,055</b>
<b>Total equity</b> .....		<b>167,178</b>	<b>106,797</b>	<b>241,628</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings .....	20	6,048	–	33,869
Lease liabilities .....	6(b)	417	–	2,700
Deferred revenue .....	21	2,000	2,000	2,000
<b>Total non-current liabilities</b> .....		<b>8,465</b>	<b>2,000</b>	<b>38,569</b>
<b>Current liabilities</b>				
Borrowings.....	20	229,710	203,971	237,827
Trade and notes payables .....	22	89,560	128,446	115,006
Current income tax liabilities .....		50,872	75,881	3,315
Accruals, other payables and provisions ...	23	26,558	37,368	79,031
Amounts due to related parties.....	14	13,604	56,759	7,850
Lease liabilities .....	6(b)	2,248	417	2,098
<b>Total current liabilities</b> .....		<b>412,552</b>	<b>502,842</b>	<b>445,127</b>
<b>Total liabilities</b> .....		<b>421,017</b>	<b>504,842</b>	<b>483,696</b>
<b>Total equity and liabilities</b> .....		<b>588,195</b>	<b>611,639</b>	<b>725,324</b>



## STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Note	As at 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
<b>ASSETS</b>				
<b>Non-current asset</b>				
Investment in subsidiaries .....	7	–	–	14,958
<b>Total non-current assets</b> .....		–	–	14,958
<b>Current assets</b>				
Other receivables and prepayments .....	13	–	–	3,999
Amounts due from related parties .....	14	33	33	–
Cash and cash equivalents.....	15	–	–	125
<b>Total current assets</b> .....		33	33	4,124
<b>Total assets</b> .....		33	33	19,082
<b>EQUITY</b>				
<b>Equity attributable to owners of the Company</b>				
Share capital.....	17	33	33	33
Reserves .....		–	–	18,972
Accumulated deficit .....		–	–	(2)
<b>Total equity</b> .....		33	33	19,003
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Amounts due to related parties.....	14	–	–	79
<b>Total current liabilities</b> .....		–	–	79
<b>Total liabilities</b> .....		–	–	79
<b>Total equity and liabilities</b> .....		33	33	19,082

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
Revenue .....	24	478,924	496,551	531,108
Cost of sales .....	25	(319,294)	(336,585)	(360,952)
<b>Gross profit</b> .....		159,630	159,966	170,156
Other expense .....		(196)	(196)	(196)
Other income .....		–	–	440
Other gains – net .....	27	140	606	207
Administrative expenses.....	25	(45,712)	(48,727)	(74,126)
<b>Operating profit</b> .....		113,862	111,649	96,481
Finance income .....		23	38	706
Finance costs .....		(17,942)	(13,215)	(28,708)
Finance costs – net .....	28	(17,919)	(13,177)	(28,002)
<b>Profit before income tax</b> .....		95,943	98,472	68,479
Income tax expense.....	29	(24,224)	(25,008)	(18,621)
<b>Profit for the year</b> .....		71,719	73,464	49,858
Other comprehensive income .....		–	–	–
<b>Total comprehensive income</b> .....		71,719	73,464	49,858
<b>Profit and total comprehensive income attributable to:</b>				
Owners of the Company .....		71,001	72,727	49,362
Non-controlling interests.....		718	737	496
		71,719	73,464	49,858
<b>Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)</b>				
Basic and diluted earnings per share .....	30	0.18	0.19	0.13

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to the owners of the Company					Total equity
		Share Capital	Reserves	Retained earnings	Sub-total	Non-controlling interests	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Balance at 1 January 2017</b> .....		-	147,380	72,429	219,809	2,220	222,029
<b>Comprehensive income</b>							
- Profit for the year .....		-	-	71,001	71,001	718	71,719
<b>Transactions with owners</b>							
- Appropriation to statutory surplus reserves .....	18(a)	-	7,112	(7,112)	-	-	-
- Dividends .....	19	-	-	(125,304)	(125,304)	(1,266)	(126,570)
<b>Balance at 31 December 2017</b> .....		-	154,492	11,014	165,506	1,672	167,178
<b>Balance at 1 January 2018</b> .....		-	154,492	11,014	165,506	1,672	167,178
<b>Comprehensive income</b>							
- Profit for the year .....		-	-	72,727	72,727	737	73,464
<b>Transactions with owners</b>							
- Completion of the Reorganisation .....		33	(33)	-	-	-	-
- Appropriation to statutory surplus reserves .....	18(a)	-	7,294	(7,294)	-	-	-
- Consideration of the Reorganisation .....	1.2(viii)	-	(163,845)	-	(163,845)	-	(163,845)
- Cash injection by the Controlling Shareholders .....	18(c)	-	80,000	-	80,000	-	80,000
- Transaction with a non-controlling shareholder .....	18(c)	-	(801)	-	(801)	801	-
- Dividends .....	19	-	-	(49,500)	(49,500)	(500)	(50,000)
<b>Balance at 31 December 2018</b> .....		33	77,107	26,947	104,087	2,710	106,797
<b>Balance at 1 January 2019</b> .....		33	77,107	26,947	104,087	2,710	106,797
<b>Comprehensive income</b>							
- Profit for the year .....		-	-	49,362	49,362	496	49,858
<b>Transactions with owners</b>							
- Appropriation to statutory surplus reserves .....	18(a)	-	4,915	(4,915)	-	-	-
- Capital contribution by the Controlling Shareholders .....	18(d)	-	70,000	-	70,000	-	70,000
- Issue of shares of the Company to a pre-IPO investor .....	17(a)	-	14,973	-	14,973	-	14,973
- Transaction with a non-controlling shareholder .....	18(d)	-	(849)	-	(849)	849	-
<b>Balance at 31 December 2019</b> .....		33	166,146	71,394	237,573	4,055	241,628

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
<b>Cash flows from operating activities</b>				
Cash generated from operations .....	31(a)	196,676	136,961	177,232
Income taxes paid.....		–	–	(91,187)
<b>Net cash generated from operating activities</b>		<u>196,676</u>	<u>136,961</u>	<u>86,045</u>
<b>Cash flows from investing activities</b>				
Payments for purchase of property, plant and equipment.....		(12,470)	(6,928)	(65,396)
Payments for purchase of intangible assets.....		(154)	–	(325)
Proceeds from sale of plant and equipment .....	31(b)	–	441	–
Loans to a related party .....	34(b)	(228,304)	(227,245)	(282,295)
Loan repayments from a related party.....	34(b)	238,537	235,577	282,295
Interests received.....		23	38	706
<b>Net cash (used in)/generated from investing activities</b> .....		<u>(2,368)</u>	<u>1,883</u>	<u>(65,015)</u>
<b>Cash flows from financing activities</b>				
Deemed distribution in respect of the Reorganisation .....	1.2(viii)	–	(163,845)	–
Capital contribution from the Controlling Shareholders .....		–	80,000	70,000
Capital contribution from a pre-IPO investor .....		–	–	14,973
Borrowings from banks and financial institutions .....		188,000	198,000	291,400
Repayments of borrowings from banks and financial institutions.....		(236,632)	(229,787)	(223,675)
Borrowings from a related party .....	34(b)	20,018	104,519	91,103
Repayments to a related party.....	34(b)	(20,018)	(65,883)	(129,739)
Borrowings from a third party.....		–	164,000	–
Repayments to a third party .....		–	(164,000)	–
Principal elements of lease payments.....		(2,138)	(2,248)	(1,464)
Dividends paid to shareholders .....		(115,683)	(45,700)	(9,575)
Dividends paid to non-controlling interests .....		(1,266)	(500)	–
Prepayments of listing expenses.....		–	–	(2,580)
Interest paid .....		(20,520)	(13,568)	(26,801)
<b>Net cash (used in)/generated from financing activities</b> .....		<u>(188,239)</u>	<u>(139,012)</u>	<u>73,642</u>
<b>Net increase/(decrease) in cash and cash equivalents</b> .....		<u>6,069</u>	<u>(168)</u>	<u>94,672</u>
Cash and cash equivalents at beginning of year.....		<u>4,029</u>	<u>10,098</u>	<u>9,930</u>
Cash and cash equivalents at end of year.....		<u>10,098</u>	<u>9,930</u>	<u>104,602</u>

## II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1 GENERAL INFORMATION, REORGANIZATION AND BASIS OF PRESENTATION

#### 1.1 General information

Honliv Healthcare Management Group Company Limited (the "Company") was incorporated in the Cayman Islands on 6 January 2016 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Campbells Corporate Services Limited, Floor 4, Willow House, Cricket Square, Grand Cayman KY1-9010, Cayman Islands.

The Company is an investment holding company and together with its subsidiaries (the "Group"), are principally engaged in the ownership, operation and management of hospitals in the People's Republic of China (the "PRC") (the "Listing Business").

These financial statement are presented in Renminbi ("RMB") and rounded to nearest thousand yuan, unless otherwise stated.

#### 1.2 Reorganisation

Prior to the completion of the reorganisation as described below (the "Reorganisation"), the Listing Business was carried out by Henan Honliv Hospital Co., Ltd. ("Honliv Hospital") and its subsidiary, Henan Honliv General Aviation Co., Ltd. ("Honliv Tonghang").

Before the Reorganisation, Honliv Hospital was 92.4% held by Henan Honliv Group Co., Ltd. ("Honliv Group") and 7.6% by Mr. Qin Yan. For the 92.4% equity interests held by Honliv Group, 62.4% and 30.0% were held on behalf of Mr. Qin Yan and Mr. Qin Hong Chao, respectively through an entrustment agreement. Mr. Qin Yan and Mr. Qin Hongchao (together, the "Controlling Shareholders") are two brothers, sons of Qin Zili, who are acting in concert and control the Group throughout the Track Record Period.

In preparation for the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Listing"), the Group underwent the Reorganisation and transferred the Listing Business to the Company through the following steps:

- (i) On 17 November 2015, Mr. Qin Yan established Sunny Rock Capital Limited ("Sunny Rock") in the British Virgin Islands. On the same day, Mr. Qin Hongchao, established Rubrical Investment Limited ("Rubrical Investment") in the British Virgin Islands.
- (ii) On 6 January 2016, the Company was incorporated in the Cayman Islands and was held 70% and 30% by Sunny Rock and Rubrical Investment respectively.
- (iii) On 18 January 2016, the Company established Honliv Health Care Management (HK) Limited ("Honliv Hong Kong") in Hong Kong, as its wholly-owned subsidiary.
- (iv) On 24 March 2016, the Company established Honor Living Investment Limited ("Honor Living") in the British Virgin Islands. On 31 March 2016, the Company transferred its entire interest in Honliv Hong Kong to Honor Living at HK\$5.00.
- (v) On 4 May 2016, Honliv Hong Kong established Henan Hongyong Enterprise Management Consulting Co., Ltd ("Henan Hongyong") in the PRC.
- (vi) In March and July 2016, Honliv Hospital disposed its 90.9% equity interests in Honliv Tonghang in total to Honliv Group at considerations of RMB38,837,000.
- (vii) On 23 June 2016, Honliv Group acquired 1% equity interests in Honliv Hospital from Mr. Qin Yan with consideration of approximately RMB1,560,000. After the acquisition, Honliv Group become the non-controlling interests of Honliv Hospital.
- (viii) On 29 September 2018, in order to release the entrustment arrangement and complete the reorganisation process, Henan Hongyong acquired 91.4% equity interests in Honliv Hospital from Honliv Group in which 61.4% and 30.0% were held on behalf of Mr. Qin Yan and Mr. Qin Hongchao respectively and 7.6% equity interests in Honliv Hospital from Mr. Qin Yan. The total consideration for the acquisitions was approximately RMB163,845,000, which was accounted for as a deemed distribution in this report. Subsequent to these transactions, Honliv Hospital is owned as to 99% indirectly by the Company through Henan Hongyong and 1% by Honliv Group.

Upon completion of the Reorganisation and as at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Company name	Date of Incorporation/establishment	Place of incorporation and kind of legal entity	Particulars of issued share capital	Attributable equity interest of the Group as at				Principal activities and place of operations
				31 December			The date of this report	
				2017	2018	2019		
Directly held:								
Honor Living (Note (2)).....	24 March 2016	The BVI, limited liability company	1 ordinary shares, USD1	100%	100%	100%	100%	Investment holding in the BVI
Indirectly held:								
Honliv Hong Kong (Note (3)).....	18 January 2016	Hong Kong, limited liability company	5,000 ordinary shares, USD5,000	100%	100%	100%	100%	Investment holding in Hong Kong
Henan Hongyong (Note (2)).....	4 May 2016	The PRC, limited liability company#	15,000,000 ordinary shares of RMB 1 each, RMB15,000,000	100%	100%	100%	100%	Investment holding in the PRC
Honliv Hospital (Note (2)).....	24 May 2004	The PRC, limited liability company	146,900,000 ordinary shares of RMB 1 each, RMB146,900,000	99%	99%	99%	99%	Hospital operation and hospital management services in the PRC
Henan Hongjie (Notes (2)).....	9 August 2017	The PRC, limited liability company	1,000,000 ordinary shares of RMB 1 each, RMB1,000,000	100%	100%	100%	100%	Pharmaceutical wholesaler in the PRC

# Registered as wholly Taiwan, Hong Kong and Macao owned enterprises under the PRC law.

*Notes:*

- (1) All companies comprising the Group have adopted 31 December as their financial year end date.
- (2) No audited financial statements have been prepared for the companies as they are newly incorporated or not required to issue audited financial statements under the statutory requirements of their respective places of incorporation.
- (3) The statutory financial statements of the company for the years ended 31 December 2017, 2018 and 2019 were audited by Shing Tak CPA Limited, Certified Public Accountants in Hong Kong.

### 1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business is operated by Honliv Hospital. Pursuant to the Reorganisation, the Listing Business are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisations is merely a recapitalisation of the Listing Business with no change in management of such business and the Controlling Shareholders of the Listing Business are remained the same. Accordingly, the Group resulting from the Reorganisations is regarded as a continuation of the Listing Business under Honliv Hospital and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of Honliv Hospital, with the assets and liabilities of Honliv Hospital and its subsidiary are recognised and measured at the carrying amounts of the Listing Business under the consolidated financial statements of Honliv Hospital for the Track Record Period presented.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied throughout the Track Record Period.

### 2.1 Basis of preparation

#### 2.1.1 Compliance with HKFRS

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

**2.1.2 Historical cost convention**

The financial statements have been prepared on a historical cost basis.

**2.1.3 New and amended standards and interpretation not yet adopted by the Group**

The following standards and amendments to existing standards have been published that are not mandatory for the Track Record Period and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		<b>Effective for annual periods beginning on or after</b>
HKFRS 3 (Amendments).....	Definition of a Business	1 January 2020
HKAS 1 and HKAS 8 (Amendments) ....	Definition of Material	1 January 2020
HKFRS 17 (Amendments).....	Definition of Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28.....	Sale or Contribution of Assets between an Investor and its associate or Joint Venture	To be determined
Conceptual framework for financial reporting 2018.....		1 January 2020

**2.1.4 Going concern**

As at 31 December 2017, 2018 and 2019, the Group's current liabilities exceeded its current assets by RMB354,410,000, RMB403,161,000, RMB 279,156,000, respectively. In addition, as at 31 December 2017, 2018 and 2019, the Group had non-current borrowings of RMB6,048,000, RMB Nil, RMB33,869,000, respectively, the principals of which were all repayable more than twelve months from the respective period end date in accordance with the respective borrowing agreements. The Group had cash and cash equivalents of RMB10,098,000, RMB9,930,000 and RMB104,602,000 as at 31 December 2017, 2018 and 2019, respectively.

Management has given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient funds to fulfil its financial obligations and continue as a going concern. A number of measures have been put in place by management to improve the financial position and alleviate the liquidity pressure. Management has been communicating with the banks which are providing existing banking facilities to the Group with a view to proactively manage the renewal of banking facilities upon maturity and securing additional credit facility. As at the date of this report, Honliv Hospital had renewed RMB115 million bank borrowing upon maturity and further obtained RMB30 million bank borrowing (Note 36) since 1 January 2020. In addition, Honliv Hospital had obtained an additional loan facility of RMB200 million from one of these banks on 9 December 2019. Application of one year loan drawdown can be made under this facility until 9 December 2020 subject to the approval and conditions imposed by the bank. In April 2020, Honliv Hospital has further obtained a RMB48 million banking facility with 18 months maturity period, out of which RMB38 million bank borrowing has been withdrawn with 5.6% annual interest rate(Note 36).

As at 31 December 2019, the Group has not utilized any of the above additional facilities.

Management has prepared cash flow projections of the Group covering a period of not less than twelve months from 31 December 2019. Taking into account the Group's future operational performance and the expected future operating cash inflows; and the continuous availability of banking and other facilities, management concluded that the Group will have sufficient financial resources to support its operations and to meet its financial obligations and commitments as and when they fall due in the coming twelve months from 31 December 2019.

The directors have reviewed the Group's cash flow projection and have made due and careful enquiry and considered the basis and assumptions of management's projections. The directors are satisfied that it is appropriate to prepare the Historical Financial Information on a going concern basis.

## 2.2 Principles of consolidation

### 2.2.1 Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

### 2.2.2 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

## 2.3 Separate financial statements

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

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

## 2.4 Segment Reporting

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

The Group has only one operating segment during the Track Record Period, so no segment information was presented.

## 2.5 Foreign currency translation

### 2.5.1 Functional and presentation currency

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



### 2.5.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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

### 2.5.3 Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## 2.6 Property, plant and equipment

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

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

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

– Buildings and structures .....	3-30 years
– Machinery and equipment .....	2-10 years
– Office equipment and furniture fixtures .....	2-8 years
– Vehicles .....	5-10 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

Construction in progress (the 'CIP') includes the costs of construction and acquisition and capitalized borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to plant, property and equipment and amortised in accordance with policy as stated above.

## 2.7 Investment properties

Investment properties, principally comprising buildings, are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group. Investment properties are measured at cost, including related transaction costs and where applicable borrowing costs. Investment properties are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated using the straight-line method to write off the cost less accumulated impairment loss of the asset over its estimated useful life.

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

## 2.8 Intangible assets

### 2.8.1 Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives of 3 years. Costs associated with maintaining computer software programs are recognised as expense as incurred.

## 2.9 Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## 2.10 Financial assets

### 2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

### 2.10.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

### 2.10.3 Measurement

#### *Debt Instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group adopted measurement below in which was classified debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated statement of comprehensive income and presented in other gains/(losses) – net together with foreign exchange gains and losses.

#### 2.10.4 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1.2 for further details.

#### 2.11 Offsetting financial instruments

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

#### 2.12 Inventories

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

#### 2.13 Trade receivables

Trade receivables are amounts due from customers and governments' social insurance schemes for treatments and general healthcare services rendered and pharmaceutical sales in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 12 for further information about the Group's accounting for trade receivables and Note 3.1.2 for the description of the Group's impairment policies.

#### 2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with banks.

#### 2.15 Share capital

Ordinary shares are classified as equity.

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

#### 2.16 Trade and other payables

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

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

#### 2.17 Borrowings

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

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

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

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

## **2.18 Borrowing costs**

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

## **2.19 Current and deferred income tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

### **2.19.1 Current income tax**

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

### **2.19.2 Deferred income tax**

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

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets and liabilities and when the deferred income tax balances relate to the same taxation authority. Current income tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

## **2.20 Employee benefits**

### **2.20.1 Short-term obligations**

Liabilities for wages and salaries are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

### 2.20.2 Pension obligations

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

### 2.21 Revenue recognition

The Group's revenue is primarily derived from providing treatments and general healthcare service to customers, sales of pharmaceuticals and hospital management services.

Revenues are recognised when, or as, the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- Provides all of the benefits received and consumed simultaneously by the customer;
- Creates and enhances an asset that the customer controls as the Group performs; or
- Does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

The progress towards complete satisfaction of performance obligation, depending on the nature of the good and service to be transferred, is measured based on one of the following methods that best depicts the Group's performance in satisfying the performance obligation:

- Direct measurements of the value of individual services transferred by the Group to the customer; or
- The Group's efforts or inputs to the satisfaction of the performance obligation.

The following is a description of the accounting policy for the principal revenue streams of the Group.

#### 2.21.1 Treatments and General healthcare service

Revenue from provision of treatments and general hospital services is recognised at the point when the related services have been rendered to customers. Transactions are settled by payment from social security card, Hongxintong, or prepaid cards paid by bank card or cash from customers.

#### 2.21.2 Pharmaceutical Sales

Revenue from pharmaceutical sales are recognised when control of the inventory has transferred, being when the inventory are delivered to the customers, the customers has full discretion to use the inventory, and there is no unfulfilled obligation that could affect the customers' acceptance of the inventory.

#### 2.21.3 Revenue from hospital management services

The hospital management services is in relation to the consulting services rendered to Neixiang Jutan Hospital, a not-for-profit private general hospital established under the laws of the PRC in February 2015, with a period of 10 years from 2016 to 2026. Revenue from providing hospital management services is recognised in the accounting period in which the services are rendered over the period as the related services are performed.

### 2.22 Earnings per share

#### 2.22.1 Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, and

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

### 2.22.2 Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### 2.23 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities are the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of apartments are recognised on a straight-line basis as an expense in the consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

## 2.24 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

## 2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets (Note 21 provide further information on how the Group accounts for government grants).

## 2.26 Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 28 below.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

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

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

#### 3.1.1 Market risk

##### (i) Foreign exchange risk

The Group companies mainly operate in the PRC and the transactions and balances are denominated in RMB which is the Company and the other Group companies' presentation and functional currency. The foreign exchange risk to the Group's financial performance is low.

##### (ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short-term and long-term borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Bank borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group has not entered into interest rate swaps to hedge against the exposure to changes in fair values of the borrowings. The Group will, however, continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arise.

As at 31 December 2017, 2018 and 2019, the Group's interest-bearing borrowings at variable rates was RMB77,758,000, RMB123,971,000 and RMB169,696,000 (Note 31).

For the years ended 31 December 2017, 2018 and 2019, if interest rates on borrowings had been one percent higher/lower with all other variables held constant, the post-tax profit for the year would have decreased/increased by RMB583,000, RMB930,000 and RMB1,273,000 respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

### 3.1.2 Credit risk

Credit risk mainly arises from cash and cash equivalents, restricted deposits, and other financial assets at amortised cost, as well as credit exposures to customers and government's social insurance schemes. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets.

#### (i) Risk management

The credit risk of cash and cash equivalents and restricted deposits is limited because the counterparties are state-owned or public listed commercial banks which are high-credit-quality financial institutions located in the PRC.

The Group, being a provider of healthcare services to patients, has a highly diversified customer base, without any single customer contributing material revenue. However, the Group has concentrated debtors' portfolio, as majority patients will claim their medical bills from governments' social insurance schemes and new rural cooperative medical insurance scheme which is run by another government body. The reimbursement from these organisations mainly take three to six months. The Group has policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective organisations' policies and within reimbursement limits, provided fulfilling all ethics and moral responsibilities as healthcare provider. The Group also has controls to closely monitor the patients' billings and claim status to minimize the credit risk.

#### (ii) Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- cash and cash equivalents and restricted deposit
- trade receivables; and
- other financial assets at amortised cost.

#### Cash and cash equivalents and restricted deposit

While cash and cash equivalents and restricted deposits are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

#### Trade receivables

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and whether the payment is past due.

The expected loss rates are based on the payment profiles of the debtors over a period of 12 months before 31 December 2017, 2018 and 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of the PRC in which it provides the services and sells goods to domestic customers, and accordingly adjusts the historical loss rates based on expected changes in the factors.

On that basis, the loss allowance as at 31 December 2017, 2018 and 2019 was determined as follows for trade receivables:

<b>31 December 2017</b>	<b>Current</b>	<b>Past due</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Expected loss rate .....	0.0%	3.6%	
Gross carrying amount-trade receivables.....	15,363	939	16,302
<b>Loss allowance</b> .....	–	34	34



<b>31 December 2018</b>	<b>Current</b>	<b>Past due</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Expected loss rate .....	0.0%	1.2%	
Gross carrying amount-trade receivables.....	38,474	4,461	42,935
<b>Loss allowance</b> .....	–	54	54

<b>31 December 2019</b>	<b>Current</b>	<b>Past due</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Expected loss rate .....	0.0%	2.7%	
Gross carrying amount-trade receivables.....	14,179	2,888	17,067
<b>Loss allowance</b> .....	–	79	79

The closing loss allowances for trade receivables as at 31 December 2017, 2018 and 2019 as follows:

	<b>Trade receivables</b>		
	<b>As at 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Opening loss allowance as at 1 January</b> .....	(51)	(34)	(54)
Decrease/(increase) in trade receivables loss allowance recognised in the consolidated statement of comprehensive income during the year .....	17	(20)	(25)
	(34)	(54)	(79)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 360 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

*Other financial assets at amortised cost*

Other financial assets at amortised cost include other receivables and amounts due from related parties. The directors of the Company have assessed that other receivables and amounts due from related parties have not had a significant increase in credit risk since initial recognition. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of the reporting period of the Group is adopted by management. The directors of the Company do not expect any losses from non-performance by the counterparties of other receivables and amounts due from related parties. Thus no loss allowance provision for other receivables and amounts due from related parties was recognized.

## 3.1.3 Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents to meet operating capital requirements.

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

Contractual maturities of financial liabilities	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 31 December 2017</b>				
Borrowings .....	236,217	6,202	–	242,419
Trade and notes payables .....	89,560	–	–	89,560
Accruals, other payables and provisions (excluding accrued employee benefits and duty and other tax payable) (Note 23) .....	6,651	–	–	6,651
Amounts due to related parties.....	13,604	–	–	13,604
Lease liabilities .....	2,383	422	–	2,805
	348,415	6,624	–	355,039
<b>At 31 December 2018</b>				
Borrowings .....	208,481	–	–	208,481
Trade and notes payables .....	128,446	–	–	128,446
Accruals, other payables and provision (excluding accrued employee benefits and duty and other tax payable) (Note 23) .....	7,124	–	–	7,124
Amounts due to related parties.....	56,759	–	–	56,759
Lease liabilities .....	422	–	–	422
	401,232	–	–	401,232
<b>At 31 December 2019</b>				
Borrowings .....	260,234	37,608	8,804	306,646
Trade and notes payables .....	115,006	–	–	115,006
Accruals, other payables and provision (excluding accrued employee benefits and duty and other tax payable) (Note 23) .....	42,951	–	–	42,951
Amounts due to related parties.....	7,850	–	–	7,850
Lease liabilities .....	2,663	2,504	451	5,618
	428,704	40,112	9,255	478,071

### 3.2 Capital risk management

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

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

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

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at 31 December 2017, 2018 and 2019 was as follows:

	As at 31 December		
	2017	2018	2019
The liability-to-asset ratio.....	71.58%	82.54%	66.69%

There were no changes in the Group's approach to capital management during the Track Record Period. The increase of the liability-to-asset ratio from 2017 to 2018 was due to dividend declared by Honliv Hospital and the Reorganisation of the Group which decrease total equity. While the decrease of the liability-to-asset ratio as at 31 December 2019 was mainly due to the capital contribution by the Controlling Shareholders and a pre-IPO investor to the Group.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### (a) Useful lives of properties, plant and equipment

The estimate of useful lives of property, plant and equipment was made by the management with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as when the actual useful life is different with the one previously estimated.

### (b) Taxation

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

## 5 PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Machinery and equipment	Office equipment and furniture fixtures	Vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 31 December 2016</b>						
Cost.....	240,405	170,047	32,371	20,321	220,760	683,904
Accumulated depreciation.....	(80,247)	(126,704)	(28,868)	(18,899)	–	(254,718)
Net book amount.....	<u>160,158</u>	<u>43,343</u>	<u>3,503</u>	<u>1,422</u>	<u>220,760</u>	<u>429,186</u>
<b>Year ended 31 December 2017</b>						
Opening net book amount.....	160,158	43,343	3,503	1,422	220,760	429,186
Additions.....	–	1,924	729	651	4,493	7,797
Disposals.....	–	(15)	(2)	–	–	(17)
Transfers .....	–	3,057	–	–	(3,057)	–
Depreciation charge.....	(8,686)	(10,378)	(1,377)	(1,160)	–	(21,601)
Closing net book amount.....	<u>151,472</u>	<u>37,931</u>	<u>2,853</u>	<u>913</u>	<u>222,196</u>	<u>415,365</u>
<b>At 31 December 2017</b>						
Cost.....	240,405	174,878	32,959	20,972	222,196	691,410
Accumulated depreciation .....	(88,933)	(136,947)	(30,106)	(20,059)	–	(276,045)
Net book amount.....	<u>151,472</u>	<u>37,931</u>	<u>2,853</u>	<u>913</u>	<u>222,196</u>	<u>415,365</u>
<b>Year ended 31 December 2018</b>						
Opening net book amount.....	151,472	37,931	2,853	913	222,196	415,365
Additions.....	–	3,701	1,227	–	–	4,928
Disposals.....	–	(2)	(11)	–	–	(13)
Depreciation charge.....	(8,686)	(8,787)	(1,329)	(437)	–	(19,239)
Closing net book amount.....	<u>142,786</u>	<u>32,843</u>	<u>2,740</u>	<u>476</u>	<u>222,196</u>	<u>401,041</u>
<b>At 31 December 2018</b>						
Cost.....	240,405	173,628	33,903	20,972	222,196	691,104
Accumulated depreciation .....	(97,619)	(140,785)	(31,163)	(20,496)	–	(290,063)
Net book amount.....	<u>142,786</u>	<u>32,843</u>	<u>2,740</u>	<u>476</u>	<u>222,196</u>	<u>401,041</u>
<b>Year ended 31 December 2019</b>						
Opening net book amount.....	142,786	32,843	2,740	476	222,196	401,041
Additions.....	–	23,367	1,331	322	–	25,020
Disposals.....	–	(25)	(10)	–	–	(35)
Depreciation charge.....	(8,686)	(9,246)	(1,383)	(157)	–	(19,472)
Closing net book amount.....	<u>134,100</u>	<u>46,939</u>	<u>2,678</u>	<u>641</u>	<u>222,196</u>	<u>406,554</u>
<b>At 31 December 2019</b>						
Cost.....	240,405	192,789	34,611	21,260	222,196	711,261
Accumulated depreciation .....	(106,305)	(145,850)	(31,933)	(20,619)	–	(304,707)
Net book amount.....	<u>134,100</u>	<u>46,939</u>	<u>2,678</u>	<u>641</u>	<u>222,196</u>	<u>406,554</u>

Construction in progress as at 31 December 2017, 2018 and 2019 mainly comprises first-phase building being constructed in Henan province, the PRC. In response to certain new government policies regarding private hospital care which requires further revision to the design, the construction of first-phase building was suspended in July 2017 while the Group has started to modify its construction and decoration plan. As at 31 December 2019, the first-phase building construction has not yet been resumed.

The directors of the Group are in the opinion that there is no need to make impairment provision for the first-phase building after considering the following factors:

- (i) management carried out an assessment of impairment provision and noted the recoverable amount of the first-phase building exceeded its carrying amount;
- (ii) an independent valuer has issued a valuation report which has demonstrated the market value of the building, together with the located land of the first-phase building is higher than their carrying amounts.

During the years ended 31 December 2017, 2018 and 2019, the Group has capitalised borrowing costs amounting to RMB2,101,000, Nil and Nil on qualifying assets respectively. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.51%, Nil and Nil annually for the years ended 31 December 2017, 2018 and 2019, respectively.

- i. Buildings pledged for the Group's bank borrowings are as follows (Note 20):

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cost.....	–	4,841	4,841
Accumulated depreciation .....	–	(1,990)	(2,151)
<b>Net book amount .....</b>	<b>–</b>	<b>2,851</b>	<b>2,690</b>

- ii. Machinery and equipment pledged for the Group's other borrowings are as follows (Note 20):

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cost.....	–	–	104,701
Accumulated depreciation .....	–	–	(86,604)
<b>Net book amount .....</b>	<b>–</b>	<b>–</b>	<b>18,097</b>

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

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cost of sales .....	12,839	10,900	11,107
Administrative expenses.....	8,762	8,339	8,365
<b>Total .....</b>	<b>21,601</b>	<b>19,239</b>	<b>19,472</b>

## 6 LEASES

## (a) Right-of-use assets

	Office	Land use rights	Total
	RMB'000	RMB'000	RMB'000
<b>At 31 December 2016</b>			
Cost .....	4,552	118,092	122,644
Accumulated depreciation and amortisation.....	(1,012)	(27,605)	(28,617)
Net book amount .....	3,540	90,487	94,027
<b>Year ended 31 December 2017</b>			
Opening net book amount.....	3,540	90,487	94,027
Additions .....	1,317	–	1,317
Depreciation and amortisation .....	(1,962)	(2,362)	(4,324)
Closing net book amount .....	2,895	88,125	91,020
<b>At 31 December 2017</b>			
Cost .....	5,869	118,092	123,961
Accumulated depreciation and amortisation.....	(2,974)	(29,967)	(32,941)
Net book amount .....	2,895	88,125	91,020
<b>Year ended 31 December 2018</b>			
Opening net book amount.....	2,895	88,125	91,020
Depreciation and amortisation .....	(2,176)	(2,362)	(4,538)
Closing net book amount .....	719	85,763	86,482
<b>At 31 December 2018</b>			
Cost .....	5,869	118,092	123,961
Accumulated depreciation and amortisation.....	(5,150)	(32,329)	(37,479)
Net book value.....	719	85,763	86,482
<b>Year ended 31 December 2019</b>			
Opening net book amount.....	719	85,763	86,482
Additions .....	5,845	–	5,845
Depreciation and amortisation .....	(2,307)	(2,362)	(4,669)
Closing net book amount .....	4,257	83,401	87,658
<b>At 31 December 2019</b>			
Cost .....	5,845	118,092	123,937
Accumulated depreciation and amortisation.....	(1,588)	(34,691)	(36,279)
Net book amount .....	4,257	83,401	87,658

## (b) Lease liabilities

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Lease liabilities</b>			
Current.....	2,248	417	2,098
Non-current.....	417	–	2,700
<b>Total</b> .....	<b>2,665</b>	<b>417</b>	<b>4,798</b>

The consolidated statements of comprehensive income shows the following amounts relating to leases:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Depreciation charge of right of use assets</b>			
Office.....	1,962	2,176	2,307
Land use rights.....	2,362	2,362	2,362
<b>Total</b> .....	<b>4,324</b>	<b>4,538</b>	<b>4,669</b>
Interest expense (included in finance costs).....	244	135	295
Expense relating to short-term leases (included in administrative expenses).....	204	51	600
	<b>448</b>	<b>186</b>	<b>895</b>

The Group leases certain office premises from third parties. Rental contracts are typically made for 1 year to 3 years. The total cash outflow for leases was RMB2,587,000, RMB2,434,000 and RMB2,359,000 for the years ended 31 December 2017, 2018 and 2019, respectively.

Land use rights represents the land use rights granted by the PRC government authority on the use of land within the pre-approved lease period. The original lease terms of the land use rights of the Group held in the PRC are 50 years up to 14 April 2053 and 12 May 2059, respectively.

## 7 INVESTMENT IN SUBSIDIARIES

On 6 June 2019, the Company further invested RMB14,958,000 to Honliv Hong Kong using the proceeds from a pre-IPO investor.

## 8 INVESTMENT PROPERTIES

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>At beginning of the year</b>			
Cost .....	5,878	5,878	5,878
Accumulated depreciation .....	(2,024)	(2,220)	(2,416)
<b>Net book amount</b> .....	<b>3,854</b>	<b>3,658</b>	<b>3,462</b>
<b>For the year</b>			
Opening net book amount .....	3,854	3,658	3,462
Depreciation charge .....	(196)	(196)	(196)
<b>Closing net book amount</b> .....	<b>3,658</b>	<b>3,462</b>	<b>3,266</b>
<b>At end of the year</b>			
Cost .....	5,878	5,878	5,878
Accumulated depreciation .....	(2,220)	(2,416)	(2,612)
<b>Net book amount</b> .....	<b>3,658</b>	<b>3,462</b>	<b>3,266</b>
Fair value at the end of year (a) .....	6,700	7,180	7,240

Investment properties pledged for the Group's bank borrowings are as follows (Note 20):

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cost .....	–	5,878	5,878
Accumulated depreciation .....	–	(2,416)	(2,612)
<b>Net book amount</b> .....	<b>–</b>	<b>3,462</b>	<b>3,266</b>

- (a) As at 31 December 2017, 2018 and 2019, the Group assessed the fair values of investment properties with reference to valuation reports issued by an independent valuer. The valuation method is income capitalisation method which was used to determine the fair value of Level 3 non-financial assets prescribed under the accounting standards. Non-financial assets are included in level 3 if one or more of the significant inputs is not based on observable market data. Income capitalisation method is based on capitalising the rental income derived from the existing tenancies, if any, with due provision for the reversionary potential of each constituent portion of the property at appropriate capitalisation rates.
- (b) Rental income of the Group's investment properties of Nil, Nil and RMB440,000, respectively for the years ended 31 December 2017, 2018 and 2019 was recognised as "other income" and depreciation of the Group's investment properties of RMB196,000, RMB196,000 and RMB196,000 for the years ended 31 December 2017, 2018 and 2019 was recognised as "other expense" in the consolidated statements of comprehensive income.



## 9 INTANGIBLE ASSETS

	As at and for the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>At beginning of the year</b>			
Cost .....	2,007	2,161	2,161
Accumulated amortisation.....	(1,843)	(1,920)	(2,034)
<b>Net book amount.....</b>	<b>164</b>	<b>241</b>	<b>127</b>
<b>For the year</b>			
Opening net book amount.....	164	241	127
Additions .....	154	–	325
Amortisation .....	(77)	(114)	(137)
<b>Closing net book amount.....</b>	<b>241</b>	<b>127</b>	<b>315</b>
<b>At end of the year</b>			
Cost .....	2,161	2,161	2,486
Accumulated amortisation.....	(1,920)	(2,034)	(2,171)
<b>Net book amount.....</b>	<b>241</b>	<b>127</b>	<b>315</b>

The intangible assets of the Group are mainly computer softwares. Amortisation charges were charged in the following categories in the consolidated statements of comprehensive income:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cost of sales .....	30	67	74
Administrative expenses .....	47	47	63
	<b>77</b>	<b>114</b>	<b>137</b>

## 10 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Assets as per consolidated statements of financial position</b>			
<b>At amortised cost</b>			
Trade receivables (Note 12).....	16,268	42,881	16,988
Other receivables (excluding prepayments) (Note 13) ..	733	695	1,095
Amounts due from related parties (Note 14).....	17,235	11,198	–
Restricted deposits (Note 16).....	–	13,000	15,000
Cash and cash equivalents (Note 15).....	10,098	9,930	104,602
	<b>44,334</b>	<b>77,704</b>	<b>137,685</b>

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Liabilities as per consolidated statements of financial position</b>			
<b>At amortised cost</b>			
Borrowings (Note 20) .....	235,758	203,971	271,696
Trade payables and notes payable (Note 22).....	89,560	128,446	115,006
Accruals, other payables and provision (excluding accrued employee benefits and duty and other tax payable) (Note 23) .....	6,651	7,124	42,951
Amounts due to related parties .....	13,604	56,759	7,850
Lease liabilities (Note 6).....	2,665	417	4,798
	<u>348,238</u>	<u>396,717</u>	<u>442,301</u>

**11 INVENTORIES**

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Pharmaceuticals .....	9,748	15,413	20,752
Medical consumables and others.....	2,743	2,559	2,372
	<u>12,491</u>	<u>17,972</u>	<u>23,124</u>

The cost of inventories recognised as expense and included in cost of sales amounted to RMB179,499,000, RMB181,626,000 and RMB192,178,000 for the years ended 31 December 2017, 2018 and 2019, respectively.

**12 TRADE RECEIVABLES**

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Trade receivables .....	16,302	42,935	17,067
Less: allowance for impairment of trade receivables....	(34)	(54)	(79)
Trade receivables – net.....	<u>16,268</u>	<u>42,881</u>	<u>16,988</u>

The carrying amounts of the Group's trade receivables were denominated in RMB and approximated their fair values. The balances represent mainly amounts to be claimed from government's insurance scheme. Details of credit term are set out Note 3.1.2 to this report.

As at 31 December 2017, 2018 and 2019, the ageing analysis of the trade receivables based on demand date was as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Up to 3 months .....	15,363	38,474	14,179
3 to 6 months.....	211	3,130	1,445
6 months to 1 year.....	470	85	1,176
1 to 2 years.....	258	1,229	254
2 to 3 years.....	–	17	13
	<u>16,302</u>	<u>42,935</u>	<u>17,067</u>

(i) **Impairment and risk exposure**

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Details of which are set out in Note 3.1.2 to this report.

All of the trade receivables were denominated in RMB. As a result, there is no exposure to foreign currency risk.

**13 OTHER RECEIVABLES AND PREPAYMENTS**

The Group	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Current</b>			
Other receivables .....	733	695	1,095
Prepayment of utilities expenses.....	1,317	4,005	1,163
Prepayment of listing expenses.....	–	–	3,999
	<u>2,050</u>	<u>4,700</u>	<u>6,257</u>
<b>Non-current</b>			
Prepayments for purchase of machinery .....	19,769	20,846	11,560
Prepayments for construction ( <i>Note 34(c)</i> ) .....	–	–	50,000
	<u>19,769</u>	<u>20,846</u>	<u>61,560</u>
	<u>21,819</u>	<u>25,546</u>	<u>67,817</u>
<b>The Company</b>			
As at 31 December			
2017	2018	2019	
RMB'000	RMB'000	RMB'000	
<b>Current</b>			
Prepayment of listing expenses.....	–	–	3,999
	<u>–</u>	<u>–</u>	<u>3,999</u>

The carrying amounts of other receivables were denominated in RMB and approximated their fair values.

## 14 BALANCES WITH RELATED PARTIES

The Group	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Amounts due from related parties</b>			
Trade in nature.....			
– Honliv Group.....	7,670	11,165	–
Non-trade in nature			
– Honliv Group.....	8,332	–	–
– Henan Honliv school .....	1,200	–	–
– Sunny Rock Capital Limited.....	23	23	–
– Rubrical Investment Limited .....	10	10	–
	9,565	33	–
	17,235	11,198	–

As at 31 December 2017, 2018 and 2019, the ageing analysis of the amounts due from related parties which were trade in nature was as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Up to 3 months.....	7,670	11,165	–

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Amounts due to related parties</b>			
Trade in nature			
– Henan Hongda Constructions Engineering Co.,Ltd....	631	630	–
– Henan Honliv Yishenghuo Co., Ltd .....	35	691	621
	666	1,321	621
Non-trade in nature			
– Honliv Group.....	–	38,636	–
– Mr. Qin Yan .....	12,938	16,802	7,227
– Sunny Rock Capital Limited.....	–	–	1
– Rubrical Investment Limited .....	–	–	1
	12,938	55,438	7,229
	13,604	56,759	7,850

As at 31 December 2017, 2018 and 2019, the ageing analysis of the amounts due to related parties which were trade in nature was as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Up to 3 months .....	35	360	10
3 to 6 months.....	–	298	–
6 months to 1 year.....	631	32	351
1 to 2 years.....	–	631	260
	<u>666</u>	<u>1,321</u>	<u>621</u>

The Company	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Amounts due from related parties</b>			
Non-trade in nature			
– Sunny Rock Capital Limited.....	23	23	–
– Rubrical Investment Limited .....	10	10	–
	<u>33</u>	<u>33</u>	<u>–</u>
<b>Amounts due to related parties</b>			
Non-trade in nature			
– Sunny Rock Capital Limited.....	–	–	1
– Rubrical Investment Limited .....	–	–	1
– Honliv Health Care Management (HK) Limited .....	–	–	77
	<u>–</u>	<u>–</u>	<u>79</u>

The amounts due from and due to related parties were denominated in RMB. Their carrying values as at 31 December 2017, 2018 and 2019 approximated their fair values. As at 31 December 2017, 2018 and 2019, all balances due from and due to related parties were non-interest bearing, unsecured and repayable on demand.

All non-trade amounts due to/from related parties will be settled prior to the Listing.

## 15 CASH AND CASH EQUIVALENTS

The Group	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cash at bank .....	8,808	8,351	101,710
Cash on hand .....	1,290	1,579	2,892
	<u>10,098</u>	<u>9,930</u>	<u>104,602</u>

The Company	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cash at bank .....	–	–	125

Cash at banks earns interest at floating rates based on daily bank deposit rates. The Group's balances of cash at bank which were denominated in RMB and deposited at banks in the PRC.

#### 16 RESTRICTED DEPOSIT

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Secured bank deposits.....	–	13,000	15,000

As at 31 December 2018 and 2019, the balance was restricted deposits held at bank as margin account for notes payable.

#### 17 SHARE CAPITAL

The Group and the Company	Number of ordinary shares	Nominal value of ordinary share	Nominal value of ordinary share	Equivalent nominal value of ordinary share
		USD	HKD	RMB'000
		Authorized:		
Issue of shares on 6 January 2016 .....	50,000	50,000	–	327
Share sub-division on 7 June 2016 .....	3,899,950,000	(50,000)	390,000	–
<b>As at 31 December 2017, 2018 and 2019.....</b>	<b>3,900,000,000</b>	<b>–</b>	<b>390,000</b>	<b>327</b>

The Group and the Company	Number of ordinary shares	Nominal value of ordinary share	Nominal value of ordinary share	Equivalent nominal value of ordinary share
		USD	HKD	RMB'000
		Issued:		
<b>As at 31 December 2017 and 2018 .....</b>	<b>390,000,000</b>	<b>–</b>	<b>39,000</b>	<b>33</b>
Issuance of ordinary shares to a pre-IPO investor (a) .....	5,284,960	–	528	–
<b>As at 31 December 2019.....</b>	<b>395,284,960</b>	<b>–</b>	<b>39,528</b>	<b>33</b>

- (a) On 6 June 2019, the Company issued 5,284,960 ordinary shares, representing 1.337% equity interest of the Company upon the completion of the pre-IPO investment, to Amerson Investment Limited at a consideration of HKD15,000,000 (equivalent to approximately RMB14,973,000) out of which HKD528 (equivalent to approximately RMB443) was included in share capital and HKD14,999,472 (equivalent to approximately RMB14,973,000) in reserves.

- (b) Under the written resolutions of the shareholders of the Company passed on 17 June 2020 and subject to the conditions set out therein, the directors of the Company were authorized to allot and issue a total of 54,715,040 shares credited as fully paid at par to the shareholder(s) whose name(s) appear(s) on the register of members of the Company at close of business on the business day immediately preceding the Listing Date (or as the directors of the Company may direct) by way of capitalization of the sum of HKD5,471.50 standing to the credit of the share premium account of the Company, and the shares to be allotted and issued under this resolution shall rank pari passu in all respects with the existing issued shares.

## 18 RESERVES

The Group		Statutory	Combined	Share	Other	Total
		surplus reserves (a)	capital (b)	premium		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017.....		15,786	131,933	–	(339)	147,380
Appropriation to statutory surplus reserves .....	(a)	7,112	–	–	–	7,112
At 31 December 2017 ...		22,898	131,933	–	(339)	154,492
At 1 January 2018.....		22,898	131,933	–	(339)	154,492
Completion of the Reorganization.....		–	(131,933)	–	131,900	(33)
Appropriation to statutory surplus reserves .....	(a)	7,294	–	–	–	7,294
Consideration of the Reorganisation.....	(Note 1.2(viii))	–	–	–	(163,845)	(163,845)
Cash injection by the Controlling Shareholders.....	(c)	–	–	–	80,000	80,000
Transactions with a non- controlling shareholder .....	(c)	–	–	–	(801)	(801)
At 31 December 2018 ...		30,192	–	–	46,915	77,107
At 1 January 2019.....		30,192	–	–	46,915	77,107
Appropriation to statutory surplus reserves .....	(a)	4,915	–	–	–	4,915
Cash injection by the Controlling Shareholders.....	(d)	–	–	–	70,000	70,000
Issue of shares of the Company to a pre- IPO investor .....	17(a)	–	–	14,973	–	14,973
Transaction with a non- controlling shareholder .....	(d)	–	–	–	(849)	(849)
At 31 December 2019 ...		35,107	–	14,973	116,066	166,146

The Company	Share premium	Other reserves	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2017, 31 December 2017 and 2018.....	–	–	–
Issue of shares of the Company to a pre-IPO investor .	14,973	–	14,973
Listing expenses paid by a subsidiary.....	–	3,999	3,999
At 31 December 2019.....	14,973	18,972	18,972

- (a) In accordance with the PRC regulations and the articles of association of the companies now comprising the Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.
- (b) Combined capital of the Group represented the value of the combined paid-in capital of companies now comprising the Group after eliminating intra-group investments.
- (c) On 28 September 2018, the Controlling Shareholders further injected RMB80,000,000 into Honliv Hospital through Honliv Group and Henan Hongyong further injected RMB100,000 into Honliv Hospital. After the injection, the shareholding ratio of Honliv Hospital remains unchanged. The Group recognised an increase in non-controlling interests of RMB801,000 as a result of the transactions.
- (d) On 29 September 2019, the Controlling Shareholders further injected RMB70,000,000 into Honliv Hospital through Honliv Group. After the injection, the shareholding ratio of Honliv Hospital remains unchanged. The Group recognised an increase in non-controlling interests of RMB700,000 as a result of the transactions.

On 14 November 2019, Henan Hongyong further injected RMB14,850,000 into Honliv Hospital. After the injection, the shareholding ratio of Honliv Hospital remains unchanged. The Group recognised an increase in non-controlling interests of RMB148,500 as a result of the transactions.

## 19 DIVIDENDS

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Dividends.....	126,570	50,000	–

Dividends represented dividends declared by the companies now comprising the Group out of their retained earnings to the then owners of the respective companies, after eliminating intra-group dividends.

For the year ended 31 December 2017, dividends amounting to RMB125,304,000 were declared to the Controlling Shareholders and RMB1,266,000 to the non-controlling interests, respectively, out of which RMB3,427,000 was not paid by Honliv Hospital at the end of the Track Record Period.

Pursuant to a shareholder's agreement of Honliv Hospital on 25 September 2018, a dividend amounting to RMB49,500,000 was declared to the Controlling Shareholders and RMB500,000 to the non-controlling interests, respectively, out of which RMB3,800,000 was not paid by Honliv Hospital at the end of the Track Record Period.

The related outstanding dividends were fully settled by the end of May 2020.

The dividends amounting to RMB9,575,000 which was paid during the year ended 31 December 2019 included RMB6,194,000 of dividends that declared in 2017 and RMB3,381,000 of dividends that declared in 2015.

No dividend was declared by the Company since its incorporation.



## 20 BORROWINGS

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Non-current</b>			
Other borrowings (d) .....	6,048	–	33,869
<b>Current</b>			
Current portion of long-term bank borrowings (a)			
– Secured borrowings (b).....	30,000	–	–
Short-term bank borrowings (a)			
– Secured borrowings (b).....	76,000	86,000	78,000
– Guaranteed borrowings (c) .....	112,000	112,000	130,000
	218,000	198,000	208,000
Other borrowings (d) .....	11,710	5,971	29,827
	229,710	203,971	237,827
<b>Total borrowings</b> .....	<b>235,758</b>	<b>203,971</b>	<b>271,696</b>

## (a) Bank Borrowings

Secured borrowings for the years ended 31 December 2017, 2018 and 2019 bear annual weighted average interest rate at 5.39%, 5.42% and 5.53%, respectively.

Guaranteed borrowings for the years ended 31 December 2017, 2018 and 2019 bear annual weighted average interest rate at 7.24%, 6.18% and 6.37%, respectively.

The maturity of bank borrowings is as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Maturity of bank borrowings			
No later than 1 year.....	218,000	198,000	208,000

(b) Bank borrowings of the Group which are secured by the following:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Property, plant and equipment and investment properties of the Group .....	–	23,000	23,000
Property, plant and equipment of Henan Honliv Group (i) .....	71,000	58,000	55,000
Personal real estate of a related person (ii) .....	35,000	5,000	–
	<u>106,000</u>	<u>86,000</u>	<u>78,000</u>

(i) Certain secured borrowings with additional guarantees are as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Guaranteed by Qin Zili and a related person .....	71,000	46,000	25,000
Guaranteed by Qin Zili .....	–	–	30,000
	<u>71,000</u>	<u>46,000</u>	<u>55,000</u>

(ii) Certain secured borrowings with additional guarantees are as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Guaranteed by Qin Zili and a related person .....	5,000	5,000	–
Guaranteed by Qin Zili and Henan Anti-corrosion Business Group Co., Ltd .....	30,000	–	–
	<u>35,000</u>	<u>5,000</u>	<u>–</u>

(c) Certain bank borrowings of the Group are guaranteed but unsecured as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
The Group .....	–	–	20,000
Honliv Group and Qin Zili .....	83,000	83,000	81,000
Henan Pucheng Property Co., Ltd. ....	29,000	29,000	29,000
	<u>112,000</u>	<u>112,000</u>	<u>130,000</u>

**(d) Other borrowings**

Other borrowings were all secured borrowings obtained from a financial institution.

In January 2019, the Group obtained other borrowing of RMB83,400,000 from a financial institution by entering into an agreement pursuant to which the Group sold machinery to the financial institution at a consideration of RMB100,000,000 and paid service charge and deposit amounting to RMB10,000,000 and RMB6,500,000, respectively. On the same day, the Group leased the machinery from the buyer for 36 months at quarterly rental of approximately RMB9,400,000. Upon the end of the lease term, the buyer is required to transfer the aforementioned machinery to the Group with nominal consideration. The amount of RMB83,400,000 was regarded as a collateralized other borrowing as the transfer of machinery from the Group to the buyer was not qualified as a sale under HKFRS 15.

**(i) Other borrowings are secured by:**

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Helicopters of Honliv Tonghang .....	17,758	5,971	–
Machinery and equipment.....	–	–	63,696
	<u>17,758</u>	<u>5,971</u>	<u>63,696</u>

**(ii) The maturity of other borrowings is as follows:**

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Maturity of other borrowings			
No later than 1 year.....	11,710	5,971	29,827
Later than 1 year and no later than 2 years.....	6,048	–	33,869
	<u>17,758</u>	<u>5,971</u>	<u>63,696</u>

**(e) The carrying amounts of current portion of long-term and short-term borrowings approximated their fair values.**

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		
	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Other borrowings .....	6,048	–	33,869
	<u>6,048</u>	<u>–</u>	<u>33,869</u>
	Fair Value		
	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Other borrowings .....	6,142	–	36,228
	<u>6,142</u>	<u>–</u>	<u>36,228</u>

## 21 DEFERRED REVENUE

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Non-current</b>			
Government subsidy for construction project.....	2,000	2,000	2,000

The amounts represented subsidy granted by and received from a local government authority in the PRC. Relevant government grants related to assets which is a subsidy for first-phase building. Government grants relating to assets are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

As at 31 December 2019, the first-phase building was still under construction (Note 5).

## 22 TRADE AND NOTES PAYABLES

The ageing analysis of the trade payables as at each reporting date based on invoice date were are follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Up to 3 months.....	38,428	46,072	66,952
3 to 6 months.....	28,058	25,460	14,646
6 months to 1 year.....	18,951	23,312	6,509
1 to 2 years.....	773	4,273	8,429
2 to 3 years.....	250	109	407
Over 3 years.....	3,100	3,220	3,063
	89,560	102,446	100,006

Note payables were Nil, RMB26,000,000 and RMB15,000,000 at 31 December 2017, 2018 and 2019 respectively.

## 23 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Accrued employee benefits.....	18,700	29,032	33,690
Deposit from patients (a).....	2,422	1,982	27,333
Duty and other tax payable.....	1,207	1,212	2,390
Payables for plant and equipment.....	3,702	3,595	3,933
Interest payable.....	353	–	1,907
Listing expense payable.....	–	–	4,287
Others.....	174	1,547	5,491
	26,558	37,368	79,031

(a) Deposit from patients includes refundable deposits in the prepaid smart card issued by Honliv Hospital and other refundable deposits made by the patients of Honliv Hospital.

The carrying amounts of accruals, other payables and provisions were denominated in RMB. The carrying amounts of accruals and other payables approximated their fair values due to their short-term maturities.

## 24 REVENUE

During the Track Record Period, the Group's revenue represents the amount received and receivable from provision of treatments and general healthcare service, pharmaceutical sales and hospital management services. Details are as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Treatments and general healthcare service – at a point in time (a) .....	319,088	332,744	354,924
Pharmaceutical sales – at a point in time (a).....	158,176	161,461	173,404
Hospital management services – over time.....	1,660	2,346	2,780
	<u>478,924</u>	<u>496,551</u>	<u>531,108</u>

- (a) The treatments and general healthcare service and pharmaceutical sales' contract period were less than 1 year. The revenue of hospital management service is recognized in the amount to which the Group has a right to invoice. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

## 25 EXPENSES BY NATURE

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Employee benefits expenses ( <i>Note 26</i> ) .....	100,945	119,481	145,260
Cost of pharmaceuticals.....	113,772	117,227	131,580
Cost of medical consumables.....	65,727	64,399	60,598
Utilities, maintenance fee and office expenses .....	41,041	45,260	44,688
Depreciation and amortization .....	26,002	23,891	24,278
Expenses in relation to the Listing .....	–	–	11,152
Auditors' remuneration – audit services.....	–	–	–
Professional consulting fees.....	1,831	1,116	–
Other expenses.....	15,688	13,938	17,522
	<u>365,006</u>	<u>385,312</u>	<u>435,078</u>

## 26 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Wages and salaries.....	89,284	106,705	131,580
Contributions to pension plans (a).....	6,986	7,890	8,071
Welfare and other expenses .....	4,675	4,886	5,609
	<u>100,945</u>	<u>119,481</u>	<u>145,260</u>

Employee benefit expenses were charged in the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cost of sales .....	87,686	105,745	123,350
Administrative expenses .....	13,259	13,736	21,910
	<u>100,945</u>	<u>119,481</u>	<u>145,260</u>

**(a) Contributions to pension plans**

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

**(b) Five highest paid individuals**

For the years ended 31 December 2017, 2018 and 2019, the five individuals whose emoluments were the highest in the Group include 2, 1 and 1 directors, whose emoluments are reflected in the analysis presented in Note 35. The emoluments payable to the remaining individuals were as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Basic salaries, housing allowance, other allowance and benefits in kind.....	690	1,644	3,197
Contribution to pension plans .....	12	16	59
	<u>702</u>	<u>1,660</u>	<u>3,256</u>

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

	Number of individuals		
	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Emolument bands			
Nil to HK\$1,000,000 .....	3	4	3
HK\$1,000,000 to HK\$2,000,000 .....	–	–	1
	<u>3</u>	<u>4</u>	<u>4</u>

## 27 OTHER GAINS – NET

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
(Losses)/gains on disposal of plant and equipment.....	(17)	428	(35)
Others .....	157	178	242
	<u>140</u>	<u>606</u>	<u>207</u>

## 28 FINANCE COSTS – NET

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Finance costs:</b>			
Interest expense on other borrowings .....	5,746	589	10,659
Interest expense on lease liabilities .....	244	135	295
Interest expense on bank borrowings.....	14,053	12,491	12,293
Less: amounts capitalised as qualifying asset (Note 5).....	(2,101)	–	–
Additional cost on the delay of tax payment .....	–	–	5,461
Total finance costs .....	<u>17,942</u>	<u>13,215</u>	<u>28,708</u>
<b>Finance income:</b>			
Interest income .....	(23)	(38)	(706)
<b>Net finance costs</b> .....	<u>17,919</u>	<u>13,177</u>	<u>28,002</u>

## 29 INCOME TAX EXPENSE

The income tax expense of the Group for the years ended 31 December 2017, 2018 and 2019 is analysed as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Current income tax			
– PRC corporate income tax .....	<u>24,224</u>	<u>25,008</u>	<u>18,621</u>

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

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Profit before income tax</b> .....	95,943	98,472	68,479
Calculated at a tax rate of 25% .....	23,986	24,618	17,120
Income not subject to tax .....	–	–	(118)
Expenses not tax deductible.....	208	338	1,555
Tax effect of tax losses not recognised as deferred income tax assets (i) .....	30	52	64
<b>Income tax expense</b> .....	<b>24,224</b>	<b>25,008</b>	<b>18,621</b>

- (i) The Group did not recognise deferred income tax assets of RMB49,000, RMB102,000 and RMB166,000 in 2017, 2018 and 2019, respectively in respect of tax losses amounting to RMB197,000, RMB406,000 and RMB662,000 which can be carried forward against future taxable income in 2017, 2018 and 2019, respectively.

The expiry date of tax losses is as follow:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
As at 31 December 2021.....	75	75	75
As at 31 December 2022.....	122	122	122
As at 31 December 2023.....	–	209	209
As at 31 December 2024.....	–	–	256
<b>At the end of the year</b> .....	<b>197</b>	<b>406</b>	<b>662</b>

**(a) Cayman Islands income tax**

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

**(b) PRC Corporate Income Tax**

Subsidiaries established and operated in Mainland China are subject to PRC corporate income tax at the rate of 25%.

**(c) Hong Kong profits tax**

Hong Kong profits tax rate is 16.5%. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

**(d) Withholding tax**

The withholding tax rate of Honliv Hong Kong was 10% pursuant to PRC corporate income tax based on the remittance of dividends from subsidiaries in the PRC in the foreseeable future.

As at 31 December 2017, 2018 and 2019, deferred income tax liabilities of Nil, RMB1,160,000 and RMB6,311,000 have not been recognized for the withholding tax that would be payable on the unremitted earnings of the PRC subsidiaries. Management expects to be reinvested such amount in these subsidiaries in the foreseeable future. Unremitted earnings of these subsidiaries at 31 December 2017, 2018 and 2019 with accumulative amounted to Nil, RMB11,600,000 and RMB63,105,000.



**30 EARNINGS PER SHARE****(a) Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the Track Record Period.

	Year ended 31 December		
	2017	2018	2019
Profit attributable to owners of the Company (RMB'000) .....	71,001	72,727	49,362
Weighted average number of ordinary shares deemed to be in issue (in thousands) .....	390,000	390,000	393,012
Basic earnings per share (in RMB).....	0.18	0.19	0.13

The basic and diluted earnings per share as presented above has not taken into account the proposed capitalisation issue of 54,715,040 shares pursuant to the shareholders' resolution dated 17 June 2020 because the proposed capitalisation issue has not become effective as of the date of this report.

**(b) Diluted earnings per share**

Diluted earnings per share were the same as basic earnings per share as the Group had no potential dilutive shares throughout the Track Record Period.

**31 CASH GENERATED FROM OPERATIONS****(a) Cash generated from operations**

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Profit before income tax</b> .....	95,943	98,472	68,479
<b>Adjustments for:</b>			
– Depreciation of property, plant and equipment ( <i>Note 5</i> ).....	21,601	19,239	19,472
– Depreciation of right-of-use assets ( <i>Note 6</i> ) .....	4,324	4,538	4,669
– Depreciation of investment properties ( <i>Note 8</i> ).....	196	196	196
– Amortisation of intangible assets ( <i>Note 9</i> ).....	77	114	137
– Losses/(gains) on disposal of property, plant and equipment (see below) .....	17	(428)	35
– Finance costs – net ( <i>Note 28</i> ).....	17,919	13,177	28,002
– (Reversal)/provision for receivables impairment.....	(17)	20	25
<b>Changes in working capital</b>			
– Inventories .....	5,049	(5,481)	(5,152)
– Trade receivables .....	(5,525)	(26,633)	25,868
– Other receivables .....	451	(2,650)	2,442
– Balance with related parties.....	41,565	(760)	10,500
– Trade and notes payables .....	10,973	38,886	(13,440)
– Accruals and other payables .....	4,103	11,271	37,999
– Restricted deposit .....	–	(13,000)	(2,000)
<b>Cash generated from operations</b> .....	196,676	136,961	177,232

**(b) Proceeds from sale of plant and equipment**

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

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Net book amount ( <i>Note 5</i> ) .....	17	13	35
(Losses)/gains on disposal of property, plant and equipment ( <i>Note 27</i> ).....	(17)	428	(35)
Proceeds from disposal of plant and equipment.....	–	441	–

**(c) Net debt reconciliation**

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents .....	10,098	9,930	104,602
Borrowings – repayable within one year .....	(229,710)	(203,971)	(237,827)
Borrowings – repayable after one year .....	(6,048)	–	(33,869)
Leases liabilities – repayable within one year .....	(2,248)	(417)	(2,098)
Leases liabilities – repayable after one year.....	(417)	–	(2,700)
Amounts due to a related party – repayable within one year.....	(12,938)	(55,438)	(7,229)
<b>Net debt</b> .....	<b>(241,263)</b>	<b>(249,896)</b>	<b>(179,121)</b>
Cash.....	10,098	9,930	104,602
Gross debt – interest free rates.....	(12,938)	(55,438)	(7,229)
Gross debt – fixed interest rates .....	(160,665)	(80,417)	(106,798)
Gross debt – variable interest rates.....	(77,758)	(123,971)	(169,696)
<b>Net debt</b> .....	<b>(241,263)</b>	<b>(249,896)</b>	<b>(179,121)</b>

	Borrowings due within 1 year	Borrowings due after 1 year	Amounts due to related parties due within 1 year		Lease liabilities	Total
<b>Net debt as at 31 December 2016</b> ...	(200,442)	(83,948)	(3,549)	(3,486)	(291,425)	
Cash flows.....	12,442	36,190	–	2,138	50,770	
Other changes.....	(41,710)	41,710	(9,389)	(1,317)	(10,706)	
<b>Net debt as at 31 December 2017</b> ...	<b>(229,710)</b>	<b>(6,048)</b>	<b>(12,938)</b>	<b>(2,665)</b>	<b>(251,361)</b>	
Cash flows.....	31,710	77	(38,636)	2,248	(4,601)	
Other changes.....	(5,971)	5,971	(3,864)	–	(3,864)	
<b>Net debt as at 31 December 2018</b> ...	<b>(203,971)</b>	<b>–</b>	<b>(55,438)</b>	<b>(417)</b>	<b>(259,826)</b>	
Cash flows.....	(33,856)	(33,869)	48,211	1,465	(18,049)	
Other changes.....	–	–	(2)	(5,846)	(5,848)	
<b>Net debt as at 31 December 2019</b> ...	<b>(237,827)</b>	<b>(33,869)</b>	<b>(7,229)</b>	<b>(4,798)</b>	<b>(283,723)</b>	

## 32 CONTINGENCIES

The Group did not have any material contingent liabilities as at 31 December 2017, 2018 and 2019.

## 33 COMMITMENTS

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Contracted but not provided for			
– Property, plant and equipment .....	58,019	58,410	81,733

## 34 RELATED PARTY TRANSACTIONS

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

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

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the Track Record Period.

Name	Relationship with the Group
Henan Honliv Group Co., Ltd. (河南省宏力集團有限公司).....	Entity controlled by a close family member of the Controlling Shareholders
Henan Hongda Constructions Engineering Co., Ltd. (河南省宏大建設工程有限公司).....	Entity controlled by a close family member of the Controlling Shareholders
Henan Honliv Yishenghuo Co., Ltd. (河南省宏力一生活有限公司).....	Entity controlled by the Controlling Shareholders
Henan Honliv Advanced Technology Agricultural Development Co., Ltd. (河南省宏力高科技農業發展有限公司).....	Entity controlled by a close family member of the Controlling Shareholders
Ms. Wang Xianglian (王香蓮).....	A close family member of the Controlling Shareholders
Mr. Qin Zili (秦自力) .....	A close family member of the Controlling Shareholders
Henan Honliv Property Development Co., Ltd. (河南省宏力房地產開發有限公司).....	Entity controlled by a close family member of the Controlling Shareholders
Henan Guxiang No. 9 Catering Co., Ltd. (河南省谷香九號餐飲有限公司).....	Common director of the Company
Henan Honliv Luqiao Co., Ltd. (河南省宏力路橋有限公司).....	Entity controlled by a close family member of the Controlling Shareholders
Shandong Dadiandi Yellow River Bridge Construction Investment Co., Ltd. (山東大錕蒂黃河大橋建設投資有限公司).....	Entity controlled by a close family member of the Controlling Shareholders
Henan Honliv School (河南省宏力學校有限公司) .....	Entity controlled by a close family member of the Controlling Shareholders
Henan Honliv General Aviation Co., Ltd. (河南宏力通用航空有限公司).....	Entity controlled by a close family member of the Controlling Shareholders

The following significant transactions were carried out between the Group and its related parties during the Track Record Period.

(a) Transactions with related parties

– Continuing transactions

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Medical examination income (included in “revenue”) provided to related parties</b>			
– Honliv Group.....	–	–	2
– Henan Honliv School.....	556	738	525
– Other related parties .....	337	428	450
	<u>893</u>	<u>1,166</u>	<u>977</u>
<b>Premise rental income (included in “other income”) provided to (i)</b>			
– Henan Honliv Yishenghuo Co., Ltd.....	–	–	330
– Henan Guxiang No. 9 Catering Co. Ltd. ....	–	–	110
	–	–	440
	<u>893</u>	<u>1,166</u>	<u>1,417</u>
<b>Purchase of rental services from</b>			
– Honliv Group (ii).....	–	–	580
<b>Purchase of goods from</b>			
– Henan Honliv Yishenghuo Co., Ltd.....	488	1,073	471
	<u>488</u>	<u>1,073</u>	<u>1,051</u>

– Discontinuing transactions

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Purchase of construction services from</b>			
– Henan Hongda Constructions Engineering Co., Ltd.....	816	–	–

- (i) The Group's investment properties was rented to related parties on a free basis for the years ended 31 December 2017 and 2018 and was rented to related parties at a price which was mutually agreed by both parties from 1 January 2019.
- (ii) The Group's purchase of rental services from Honliv Group on a free basis for the years ended 31 December 2017 and 2018 and purchase at a price which was mutually agreed by both parties from 1 January 2019.
- (iii) After disposal of Honliv Tonghang, the Group did not use the helicopters of Honliv Tonghang for the years ended 31 December 2017, 2018 and 2019.
- (iv) The Group provided parking space to Honliv Tonghang on a free basis for the years ended 31 December 2017, 2018 and 2019.

**(b) Loans to/from related parties**

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Non-interest bearing:			
– Loans to a related party.....	(228,304)	(227,245)	(282,295)
– Repayment of loans from a related party.....	238,537	235,577	282,295
– Borrowings from a related party.....	20,018	104,519	91,103
– Repayments to a related party .....	(20,018)	(65,883)	(129,739)

Relevant loans to/from related parties have been settled as at 31 December 2019.

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

Balances with related parties as at 31 December 2017, 2018 and 2019 were disclosed in Note 14.

Prepayments amounting to RMB50,000,000 as at 31 December 2019 to Henan Hongda Constructions Engineering Co., Ltd. for first-phase building construction were disclosed in Note 13.

**(d) Secured and guaranteed borrowings by related parties' assets**

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Secured and guaranteed borrowings by related parties' assets ( <i>Note 20</i> ) .....	206,758	151,971	136,000

All securities and guarantees provided by related parties will be released prior to the Listing.

**(e) Key management compensation**

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

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Wages and salaries.....	810	973	2,877
Contributions to pension plans.....	22	30	78
Welfare and other expenses .....	11	12	61
	843	1,015	3,016

## 35 BENEFITS AND INTERESTS OF DIRECTORS

## (a) Directors and chief executive emoluments

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

For the year ended 31 December 2017	Salaries	Contribution to a pension plan	Welfare and other expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Mr. Qin Yan .....	300	6	3	309
Dr. Hua Xiuzhi .....	168	6	3	177
Mr. Teng Qingxiao .....	192	6	3	201
Ms. Chen Bing .....	–	–	–	–
Non-executive director				
Mr. Qin Hongchao .....	–	–	–	–
Independent non-executive directors				
Mr. Wang Bing .....	–	–	–	–
Mr. Pu Tianruo .....	–	–	–	–
Mr. Zhao Chun .....	–	–	–	–
Mr. Sun Jigang .....	–	–	–	–
	660	18	9	687
For the year ended 31 December 2018	Salaries	Contribution to a pension plan	Welfare and other expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Mr. Qin Yan .....	300	8	4	312
Dr. Hua Xiuzhi .....	212	8	4	224
Mr. Teng Qingxiao .....	294	8	4	306
Ms. Chen Bing .....	–	–	–	–
Mr. Wang Zhongtao .....	–	–	–	–
Non-executive director				
Mr. Qin Hongchao .....	–	–	–	–
Independent non-executive directors				
Mr. Wang Bing .....	–	–	–	–
Mr. Zhao Chun .....	–	–	–	–
Mr. Sun Jigang .....	–	–	–	–
	806	24	12	842

For the year ended 31 December 2019	Salaries	Contribution to a pension plan	Welfare and other expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Mr. Qin Yan .....	800	8	4	812
Dr. Hua Xiuzhi .....	301	8	4	313
Mr. Teng Qingxiao .....	500	8	4	512
Mr. Wang Zhongtao .....	88	4	2	94
Non-executive director				
Mr. Qin Hongchao .....	-	-	-	-
Independent non-executive directors				
Mr. Zhao Chun.....	-	-	-	-
Mr. Sun Jigang.....	-	-	-	-
	<u>1,689</u>	<u>28</u>	<u>14</u>	<u>1,731</u>

*Notes:*

Mr. Qin Yan was appointed as an executive director and Mr. Qin Hongchao was appointed as a non-executive director on 6 January 2016.

Dr. Hua Xiuzhi, Mr. Teng Qingxiao and Ms. Chen Bing were appointed as executive directors and Mr. Wang Bing, Mr. Pu Tianruo and Mr. Zhao Chun were appointed as independent non-executive directors on 7 June 2016.

Mr. Sun Jigang was appointed as an independent non-executive director from 5 July 2017 to succeed Mr. Pu Tianruo who has resigned as an independent non-executive director from the board on 5 July 2017.

Mr. Wang Zhongtao was appointed as an executive director from 14 March 2018 to succeed Ms. Chen Bing who has resigned as an executive director from the board on 14 March 2018.

Mr. Wang Bing resigned as an independent non-executive director from the board on 17 December 2018.

Mr. Hua Xiuzhi resigned as an executive director from the board on 10 December 2019.

(b) No directors waived or agreed to waive any emoluments during the Track Record Period. No emoluments were paid to directors as an inducement to join or upon joining the Group or as compensation for loss of office during the Track Record Period.

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Track Record Period.

**36 EVENTS OCCURRING AFTER THE REPORTING PERIOD**

- (a) On 13 March 2020, Honliv Hospital obtained a one-year bank borrowing amounting to RMB30,000,000 with an annual interest rate of 5.0%. In April 2020, Honliv Hospital has further obtained a RMB48 million banking facility with 18 months maturity period, out of which RMB38 million bank borrowing has been withdrawn with 5.6% annual interest rate.
- (b) Honliv Hospital's bank borrowings amounting to RMB115,000,000 as at 31 December 2019 have been renewed upon maturity with one-year borrowing period by the end of this report date.
- (c) The outbreak of coronavirus disease COVID-19 ("COVID-19") started to impact Honliv Hospital's operations which result of a decrease in the revenue of the Group for the four months ended 30 April 2020 as compared to the corresponding period of 2019. However, starting from the second quarter of 2020, with the local government easing travel restrictions, patient visits to Honliv Hospital has gradually resumed to normal. Since 1 April 2020 to 15 May 2020, the aggregate number of inpatient and outpatient visits to the hospital increased by approximately 2.2% as compared to the corresponding period in 2019. Furthermore, the directors of the Group believe that the hospital being designated to provide treatment and caring services to patients who are or may be infected with COVID-19, as a validation of the hospital's treatment capabilities, will boost the hospital's brand recognition and reputation and attract more patients to the hospital in the long run. Based on the above factors and information available as of the date of this report, the directors of the Group believe that the outbreak of COVID-19 would not result in a material adverse effect on the Group's continuing business operation and sustainability.

However, it is uncertain when and whether COVID-19 could be contained. The above analyses are made by the directors of the Group based on currently available information concerning COVID-19. The Group is now focused on all possible operational cost containment options. The Group will continue to assess the impact of the outbreak of COVID-19 on the Group's operation and financial performance and closely monitor its financial and liquidity position.

**III SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2019 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2019.



## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The information set out in this Appendix does not form part of the Accountant's Report from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only.*

*The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.*

### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Group attributable to the owners of the Company as of 31 December 2019 as if the Global Offering had taken place on 31 December 2019.

The unaudited pro forma statement of adjusted net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 December 2019 or at any future dates following the Global Offering. The unaudited pro forma statement of adjusted net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2019 as set out in the Accountant's Report of the Company, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2019 <sup>(1)</sup>	Estimated net proceeds from the Global Offering <sup>(2)</sup>	Unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company as at 31 December 2019	Unaudited pro forma adjusted net tangible assets per Share <sup>(3), (5)</sup>	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$1.80 per Share .....	237,258	215,246	452,504	0.75	0.82
Based on an Offer Price of HK\$2.30 per Share .....	237,258	281,114	518,372	0.86	0.94

*Notes:*

- (1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2019 is extracted from the Accountant's Report of the Company as set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at 31 December 2019 of approximately RMB237,573,000 with an adjustment for intangible assets as at 31 December 2019 of approximately RMB315,000.
- (2) The estimated net proceeds from the Global Offering are based on 150,000,000 Offer Shares of the Offer Price of HK\$1.80 per Share and HK\$2.30 per Share, respectively, after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB11,152,000 which have been accounted for in the Group's consolidated statements of comprehensive income prior to 31 December 2019) payable by the Company and takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this prospectus.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 600,000,000 Shares were in issue assuming that the Global Offering and the Capitalisation Issue had been completed on 31 December 2019 but takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option, any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company under the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this prospectus.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2019.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted to Hong Kong dollars at a rate of RMB0.91484 to HK\$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

**B. ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



羅兵咸永道

**Independent Reporting Accountant's Assurance Report on the Compilation of Unaudited Pro Forma Financial Information**

To the Directors of Honliv Healthcare Management Group Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Honliv Healthcare Management Group Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 December 2019, and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages II-1 to II-2 of the Company's prospectus dated 24 June 2020, in connection with the proposed global offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed global offering on the Group's financial position as at 31 December 2019 as if the proposed global offering had taken place at 31 December 2019. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the year ended 31 December 2019, on which an accountant's report has been published.

***Directors' Responsibility for the Unaudited Pro Forma Financial Information***

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

***Our Independence and Quality Control***

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

***Reporting Accountant's Responsibilities***

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*”, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed global offering at 31 December 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

***Opinion***

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong, 24 June 2020

*The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 March 2020 of the property interest held by Henan Honliv Hospital.*



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited  
7/F, One Taikoo Place,  
979 King's Road, Hong Kong  
tel +852 2846 5000 fax +852 2169 6001  
Company Licence No.: C-030171

仲量聯行企業評估及諮詢有限公司  
鰂魚涌英皇道979號太古坊一座7樓  
電話 +852 2846 5000 傳真 +852 2169 6001  
公司牌照號碼：C-030171

24 June 2020

The Board of Directors  
Honliv Healthcare Management Group Company Limited  
Floor 4, Willow House  
Cricket Square  
Grand Cayman KY1-9010  
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the property interest held by Henan Honliv Hospital Co., Ltd. ("**Henan Honliv Hospital**"), a 99% interests owned subsidiary of Honliv Healthcare Management Group Company Limited (the "**Company**") in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interest as at 31 March 2020 (the "**valuation date**").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the completed buildings and structures of the property and the particular location in which they are situated, there are unlikely to be relevant market comparables sales readily available, the property has been valued by the cost approach with reference to its depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the

land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

In valuing the construction in progress (the “CIP”) portion of the property which was under constructions as at the valuation date, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have adopted the comparison approach by making reference to land comparable sales evidence as available in the relevant market and have also taken into account the accrued construction cost and professional fees relevant to the stage of construction as at the valuation date. We have relied on the accrued construction cost and professional fees information provided by the Group according to the different stages of construction of the property as at the valuation date, and we did not find any material inconsistency from those of other similar developments.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards issued by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of Real Estate Title Certificates and other official documents relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Company’s PRC Legal Adviser – Commerce & Finance Law Offices, concerning the validity of the property interest in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the property was carried out in December 2019 by Mrs. Gloria Wang who is a China Certified Public Valuer and has 11 years' experience in property valuation in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation is therefore reported on the basis of "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation under frequent review.

We are instructed to provide our opinion of value as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the outbreak of COVID-19 has caused much disruption to economic activities around the world. This disruption has increased the risk towards the achievability of the rental/income projections. It may also have a negative impact towards investment sentiment, and hence any form of required rate of return as well as liquidity of any asset. As of the report date, it is uncertain how long the disruption will last and to what extent it will affect the economy. As a result it causes volatility and uncertainty that values may change significantly and unexpectedly even over short periods. The period required to negotiate a sale may also extend considerably beyond the normally expected period, which would also reflect the nature and size of the property.



Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificate is attached.

Yours faithfully,  
For and on behalf of  
**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**

**Eddie T. W. Yiu**  
*MRICS MHKIS RPS (GP)*  
*Senior Director*

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*Note:* Eddie T. W. Yiu is a Chartered Surveyor who has 26 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at valuation date RMB
<p>Henan Honliv Hospital located at No. 8 Bo'ai Road Changyuan County Xinxiang City Henan Province The PRC</p>	<p>Henan Honliv Hospital comprises 16 parcels of land with a total site area of approximately 329,236.26 sq.m., and 23 buildings and various ancillary structures erected thereon which were completed in various stages between 2006 and 2013.</p> <p>The completed buildings have a total gross floor area ("GFA") of approximately 128,438.22 sq.m.</p> <p>The completed buildings include a medical composite building, a ward building, an office building, a service center, 9 dormitory buildings, a boiler room and 9 ancillary buildings. The structures mainly include boundary walls, wells, roads, sheds and fountain.</p> <p>The property also comprises a CIP which is a medical building scheduled to be completed in November 2020 and is erected on portion of the subject land parcels. Upon completion, the CIP will have a GFA of approximately 52,453 sq.m.</p> <p>The construction cost of the CIP is estimated to be approximately RMB285,050,000, of which approximately RMB204,134,850 had been incurred up to the valuation date.</p> <p>The land use rights of the property have been granted for a term of 50 years with the expiry dates on 14 April 2053 and 12 May 2059 for comprehensive and medical uses.</p>	<p>As at the valuation date, the completed buildings of the property were held by Henan Honliv Hospital for hospital operation purpose, except for some units with a total lettable area of approximately 3,196.03 sq.m. which were rented to 2 tenants for commercial use.</p> <p>The CIP of the property was under construction as at the valuation date.</p>	<p>588,000,000</p>

*Notes:*

1. Pursuant to 24 Real Estate Title Certificates, the completed buildings of the property with a total GFA of approximately 128,438.22 sq.m. are owned by Henan Honliv Hospital. The land use rights of 16 parcels of land with a total site area of approximately 329,236.26 sq.m. have been granted to Henan Honliv Hospital for a term expiring on 14 April 2053 and 12 May 2059 for comprehensive and medical uses. The details are set out as follows:

No.	Certificate No.	GFA (sq.m.)	Site Area (sq.m.)	Issuance Date
(1)	Yu (2017) Chang Yuan Xian Bu Dong Chan Quan Di No. 0003658	33,450.58	37,318.8	25 May 2017
(2)	Yu (2017) Chang Yuan Xian Bu Dong Chan Quan Di No. 0003660	29,032.52	Included in above	25 May 2017
(3)	Yu (2017) Chang Yuan Xian Bu Dong Chan Quan Di No. 0003659	1,179.71	Included in above	25 May 2017
(4)	Yu (2017) Chang Yuan Xian Bu Dong Chan Quan Di No. 0003663	225.36	Included in above	25 May 2017
(5)	Yu (2017) Chang Yuan Xian Bu Dong Chan Quan Di No. 0003662	52.13	Included in above	25 May 2017
(6)	Yu (2017) Chang Yuan Xian Bu Dong Chan Quan Di No. 0003664	66.69	Included in above	25 May 2017

No.	Certificate No.	GFA (sq.m.)	Site Area (sq.m.)	Issuance Date
(7)	Yu (2016) Chang Yuan Xian Bu Dong Chan Quan Di No. 0001947	12,445.57	37,901.35	30 August 2016
(8)	Yu (2016) Chang Yuan Xian Bu Dong Chan Quan Di No. 0001954	5,802.49	Included in above	30 August 2016
(9)	Yu (2016) Chang Yuan Xian Bu Dong Chan Quan Di No. 0001945	466.53	Included in above	30 August 2016
(10)	Yu (2016) Chang Yuan Xian Bu Dong Chan Quan Di No. 0001949	104.00	Included in above	30 August 2016
(11)	Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di No. 0008166	4,051.62	8,142.55	15 July 2019
(12)	Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di No. 0005677	7,364.01	19,761.15	17 May 2019
(13)	Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di No. 0005681	3,570.89	5,823.57	17 May 2019
(14)	Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di No. 0005686	3,696.08	3,664.18	17 May 2019
(15)	Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di No. 0005682	3,696.08	6,006.33	17 May 2019
(16)	Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di No. 0005680	1,215.00	1,560.52	17 May 2019
(17)	Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di No. 0005684	1,603.72	1,557.61	17 May 2019
(18)	Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di No. 0005679	4,501.91	6,575.21	17 May 2019
(19)	Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di No. 0005685	4,388.10	4,585.57	17 May 2019
(20)	Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di No. 0005683	4,388.10	4,214.96	17 May 2019
(21)	Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di No. 0005678	5,843.08	5,566.56	17 May 2019
(22)	Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di No. 0005663	363.89	5,535.40	17 May 2019
(23)	Yu (2017) Chang Yuan Xian Bu Dong Chan Quan Di No. 0003661	930.16	37,272.50	25 May 2017
(24)	Yu (2016) Chang Yuan Xian Bu Dong Chan Quan Di No. 0001832	N/A	143,750.00	23 August 2016
<b>Total:</b>		<u>128,438.22</u>	<u>329,236.26</u>	

- Pursuant to 2 Tenancy Agreements, various units on the first and second floors of the service center of the property with a total lettable area of approximately 3,196.03 sq.m. were rented to 2 tenants which are connected parties of the Company for a term expiring on 31 December 2020 at a total annual rental of RMB440,000, exclusive of water and electricity charges.
- Pursuant to a Construction Work Planning Permit – Chang Gui Jian Zheng Fu No. 2009026 in favour of Henan Honliv Hospital, the CIP of the property with a planned GFA of approximately 52,453 sq.m have been approved for construction.
- Pursuant to a Construction Work Commencement Permit – No. 410728201103280101 in favour of Henan Honliv Hospital, permission by the relevant local authority was given to commence the construction of the CIP of the property with a planned GFA of approximately 52,453 sq.m.
- As advised by the Company, the respective site area of the CIP portion is approximately 95,469 sq.m.
- The market value of the CIP of the property as if completed as at the valuation date was estimated to be RMB317,800,000.
- Pursuant to a Mortgage Contract of Maximum Amount entered into between Industrial and Commercial Bank of China Changyuan Branch and Henan Honliv Hospital, the service center of the property with a GFA of approximately 5,802.49 sq.m. under the Real Estate Title Certificate – Yu (2016) Chang Yuan Xian Bu Dong Chan Quan Di No. 0001954 is subject to a mortgage for a loan of a maximum amount of RMB25,020,000 expiring on 30 January 2021.
- Pursuant to a Mortgage Contract of Maximum Amount entered into between Bohai Bank Co., Ltd. Zhengzhou Branch and Henan Honliv Hospital, 4 buildings of the property with a total GFA of approximately 12,995.26 sq.m. under the Real Estate Title Certificates – Yu (2019) Chang Yuan Xian Bu Dong Chan Quan Di Nos. 0005680, 0005682, 0005683 and 0005686 are subject to a mortgage for a loan of a maximum amount of RMB48,000,000 expiring on 23 December 2021.

9. We have been provided with a legal opinion regarding the property interest by the Company's PRC Legal Adviser, which contains, *inter alia*, the following:
- Henan Honliv Hospital legally owns the land use rights and the building ownership rights of the property mentioned in note 1 within the valid term of the land use rights;
  - 5 buildings of the property mentioned in notes 7 and 8 are subject to mortgages. Except for the mortgages of the buildings of the property, Henan Honliv Hospital is entitled to legally occupy, use, lease, mortgage and otherwise dispose of the land parcels and buildings of the property;
  - the tenancy agreements mentioned in note 2 are legal and valid. Henan Honliv Hospital as a lessor has the rights to lease these various units of the property; and
  - Henan Honliv Hospital has obtained the requisite approvals and permits in respect of the development and construction of the CIP.
10. The property contributes a significant portion of revenue to the Group, we are of the view that the property is the material property held by the Group:

Details of the material property

- General description of location of the property : The property is located at the western part of Changyuan County. It is approximately 85 kilometers to the city centre of Xinxiang City, and approximately 4 kilometers to Changyuan Railway Station. The surrounding area of the property is well-served by public transportation and ancillary facilities. Developments in the vicinity are mainly residential developments.
  - Details of encumbrances, liens, pledges, mortgages against the property : A service center and 4 dormitory buildings of the property are subject to 2 mortgages (refer to notes 7 and 8).
  - Environmental Issue : No environmental impact assessment has been carried out.
  - Details of investigations, notices, pending litigation, breaches of law or title defects : Nil
  - Future plans for construction, renovation, improvement or development of the property : As advised by the Group, the construction cost required for the development of the CIP in the next 12 months from the date of this document would be approximately RMB80,900,000.
11. For the purpose of this report, the property is classified into 2 groups according to the purpose for which it is held, we are of the opinion that the market value of such groups as at the valuation date is set out as below:

<b>Group</b>	<b>Market value in existing state as at the valuation date</b>
	<b>(RMB)</b>
Group I – Held for operation .....	348,000,000
Group II – Held under development .....	240,000,000
<b>Total:</b> .....	<b>588,000,000</b>

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## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

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### SUMMARY OF THE CONSTITUTION OF OUR COMPANY

#### 1 Memorandum of Association

The Memorandum of Association of our Company was conditionally adopted on June 17, 2020 and states, inter alia, that the liability of the members of our Company is limited, that the objects for which our Company is established are unrestricted and our Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in the section headed “Documents Available for Inspection” in Appendix VI to this prospectus.

#### 2 Articles of Association

The Articles of Association of our Company were conditionally adopted on June 17, 2020 and include provisions to the following effect:

##### 2.1 *Classes of Shares*

The share capital of our Company consists of ordinary shares. The authorized share capital of our Company at the date of adoption of the Articles is HK\$390,000 divided into 3,900,000,000 shares of HK\$0.0001 each.

##### 2.2 *Directors*

###### *(a) Power to allot and issue Shares*

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles of Association, the unissued shares in our Company (whether forming part of its original or any increased capital) shall be at the disposal of our Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as our Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by our Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as our Directors may determine. Subject to the Cayman Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of our Company or the holder thereof, liable to be redeemed.

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*(b) Power to dispose of the assets of our Company or any subsidiary*

The management of the business of our Company shall be vested in our Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by our Company and are not by the Articles of Association or the Cayman Companies Law expressly directed or required to be exercised or done by our Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Law and of the Articles of Association and to any regulation from time to time made by our Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of our Directors which would have been valid if such regulation had not been made.

*(c) Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by our Company in general meeting.

*(d) Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

*(e) Financial assistance to purchase Shares*

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in our Company or any such subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

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*(f) Disclosure of interest in contracts with our Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with our Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of our Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to our Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by our Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of our Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of our Company or any of its subsidiaries including:
  - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or

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(B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of our Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company.

(g) *Remuneration*

Our Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by our Directors, or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst our Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

Our Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of our Company or in the discharge of their duties as Directors.

Our Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of our Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of our Company shall from time to time be fixed by our Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as our Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.



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*(h) Retirement, appointment and removal*

The number of Directors shall not be less than two.

Our Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of our Company and shall then be eligible for re-election at that meeting.

Our Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between our Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director).

Our Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. Our Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of our Company and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors and which Directors who are to retire by rotation at such meeting.

No person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of our Company notice in writing by a member of our Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors. The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to our Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and our Directors resolve that his office be vacated;

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- (iii) if, without leave, he is absent from meetings of our Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and our Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by a notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of our Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of our Company under the Articles of Association.

At every annual general meeting of our Company one-third of our Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. Our Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

*(i) Borrowing powers*

Our Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

*(j) Proceedings of the Board*

Our Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

**2.3 Alteration to constitutional documents**

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

***2.4 Variation of rights of existing shares or classes of shares***

If at any time the share capital of our Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

***2.5 Alteration of capital***

Our Company may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

Our Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, our Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by our Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares ratably in accordance with their rights and interests or may be paid to our Company for our Company's benefit;

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- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled subject to the provisions of the Cayman Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares.

Our Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Cayman Companies Law.

***2.6 Special resolution-majority required***

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of our Company as, being entitled to do so, vote in person or, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorized representatives, at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution signed by all members for the time being entitled to receive notice of and to attend and vote at general meetings (or being corporations by their duly appointed representatives), and any such resolution shall be deemed to have been passed at a meeting held on the date on which it was signed by the last member to sign.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, where proxies are allowed, by proxy or, in the case of corporations, by their duly authorized representatives, at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of our Company aforesaid.

***2.7 Voting rights***

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of our Company.

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Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of our Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by our Directors, no person other than a member of our Company duly registered and who shall have paid all sums for the time being due from him payable to our Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of our Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of our Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of our Company or at any general meeting of any class of members of our Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) could exercise as if it were an individual member of our Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

***2.8 Annual general meetings and extraordinary general meetings***

Our Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorize). The annual general meeting shall be specified as such in the notices calling it.

Extraordinary general meetings may be convened on the requisition of two or more shareholders (or any one member which is a recognized clearing house (or its nominee(s)) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of our Company having the right of voting at general meetings.

***2.9 Accounts and audit***

Our Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of our Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Law.

Our Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of our Company, or any of them, shall be open to the inspection by members of our Company (other than officers of our Company) and no such member shall have any right of inspecting any accounts or books or documents of our Company except as conferred by the Cayman Companies Law or any other relevant law or regulation or as authorized by our Directors or by our Company in general meeting.

Our Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of our Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of our Company and, in any other case, since the preceding account, together with a statement of financial position as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of our Company for the period covered by the profit and loss account and the state of our Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of our Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by our Company as provided in the Articles of Association to every member of our Company and every holder of debentures of our Company provided that our Company shall not be required to send copies of those documents to any person of whose address our Company is not aware or to more than one of the joint holders of any shares or debentures.

Our Company shall at every annual general meeting appoint an auditor or auditors of our Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary

resolution of the members in general meeting. The remuneration of the auditors shall be fixed by our Company at the annual general meeting at which they are appointed provided that in respect of any particular year our Company in general meeting may delegate the fixing of such remuneration to our Directors.

***2.10 Notice of meetings and business to be conducted thereat***

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of our Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from our Company).

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

***2.11 Transfer of shares***

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as our Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless our Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of our Company in respect thereof. All instruments of transfer shall be retained by our Company.

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Our Directors may, in its absolute discretion, and without assigning any reason, refuse to register any transfer of any share which is not fully paid up or on which our Company has a lien. Our Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with our Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be canceled) and such other evidence as our Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favor of our Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as our Directors may from time to time require) is paid to our Company in respect thereof.

If our Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with our Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of our Company closed at such times for such periods as our Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).



***2.12 Power of our Company to purchase its own shares***

Our Company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and our Directors may only exercise this power on behalf of our Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as canceled upon the repurchase. The holder of the shares being purchased shall be bound to deliver up to our Company at its principal place of business in Hong Kong or such other place as our Directors shall specify the certificate(s) thereof, if any, for cancellation and thereupon our Company shall pay to him the purchase or redemption monies in respect thereof.

***2.13 Power of any subsidiary of our Company to own shares***

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

***2.14 Dividends and other methods of distribution***

Subject to the Cayman Companies Law and the Articles of Association, our Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by our Directors. No dividend may be declared or paid other than out of profits and reserves of our Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

Our Directors may from time to time pay to the members of our Company such interim dividends as appear to our Directors to be justified by the profits of our Company. Our Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

Our Directors may retain any dividends or other monies payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. Our Directors may also deduct from any dividend or other monies payable to any member of our Company all sums of money (if any) presently payable by him to our Company on account of calls, installments or otherwise.

No dividend shall carry interest against our Company.

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Whenever our Directors or our Company in general meeting have resolved that a dividend be paid or declared on the share capital of our Company, our Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of our Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of our Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as our Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. Our Company may upon the recommendation of our Directors by ordinary resolution resolve in respect of any one particular dividend of our Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of our Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of our Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of our Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of our Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to our Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Our Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, our Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by our Directors and shall revert to our Company.

Whenever our Directors or our Company in general meeting have resolved that a dividend may be paid or declared, our Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution our Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of our Company, and may fix the

value for distribution of such specific assets and may determine that cash payments shall be made to any members of our Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to our Directors.

**2.15 Proxies**

Any member of our Company entitled to attend and vote at a meeting of our Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of our Company.

Instruments of proxy shall be in common form or in such other form as our Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by our Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of our Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of our Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

**2.16 Calls on shares and forfeiture of shares**

Our Directors may from time to time make calls upon the members of our Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of our Company shall (subject to our Company

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serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as our Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of our Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as our Directors may determine, but our Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, our Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of our Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of our Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of our Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to our Company all monies which at the date of forfeiture were payable by him to our Company in respect of the shares, together with (if our Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as our Directors may prescribe from the date of forfeiture until payment, and our Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

***2.17 Inspection of register of members***

The register of members of our Company shall be kept in such manner as to show at all times the members of our Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as our Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as our Directors may impose) be open to inspection by any member of our Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as our Directors may determine for each inspection.

***2.18 Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman which shall not be treated as part of the business of the meeting.

Two members of our Company present in person or by proxy shall be a quorum provided always that if our Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of our Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

The quorum for a separate general meeting of the holders of a separate class of shares of our Company is described in paragraph 2.4 above.

***2.19 Rights of minorities in relation to fraud or oppression***

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

***2.20 Procedure on liquidation***

If our Company shall be wound up, and the assets available for distribution amongst the members of our Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of our Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of our Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If our Company shall be wound up, the liquidator may with the sanction of a special resolution of our Company and any other sanction required by the Cayman Companies Law, divide amongst the members of our Company in specie or kind the whole or any part of the assets of our Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of our Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of our Company as the liquidator, with the like sanction and subject to the Cayman Companies Law, shall think fit, but so that no member of our Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

***2.21 Untraceable members***

Our Company shall be entitled to sell any shares of a member of our Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) our Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, our Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

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## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW

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### SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

#### 1 Introduction

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

#### 2 Incorporation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 6 January 2016 under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

#### 3 Share Capital

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancelation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

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- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

#### **4      Dividends and Distributions**

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).



## **5      Shareholders' Suits**

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

## **6      Protection of Minorities**

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

## **7      Disposal of Assets**

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

## **8      Accounting and Auditing Requirements**

The Cayman Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**9      Register of Members**

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**10     Inspection of Books and Records**

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**11     Special Resolutions**

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

**12     Subsidiary Owning Shares in Parent**

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

**13     Mergers and Consolidations**

The Cayman Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands

together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

#### **14    Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

#### **15    Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

#### **16    Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

#### **17    Liquidation**

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the

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## **APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANIES LAW**

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company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, ratably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

### **18 Stamp Duty on Transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

### **19 Taxation**

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, our Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to our Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
  - (i) on or in respect of the shares, debentures or other obligations of our Company; or
  - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to our Company.

### **20 Exchange Control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

### **21 General**

Campbells, our legal adviser on Cayman Islands law, have sent to us a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Documents Available for Inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation**

We were incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on January 6, 2016. Our Company has established a place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, and has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on June 13, 2016. Mr. Qin Yan and Ms. Lau Jeanie have been appointed as the authorized representatives of our Company under the Companies Ordinance for the acceptance of service of process on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, our corporate structure, and our Memorandum of Association and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of the relevant provisions of our Memorandum of Association and Articles of Association and certain relevant aspects of the Companies Law are set out in Appendix IV to this prospectus.

**2. Changes in the share capital of our Company**

On January 6, 2016, the date of our incorporation, our authorized share capital was US\$50,000.00 divided into 50,000 shares of US\$1.00 each. The following sets out the changes in our share capital since the date of our incorporation.

On January 6, 2016, our Company issued and allotted one Share to the initial subscriber at par value of US\$1.00 per Share, who immediately transferred such Share to Rubrical Investment at par value of US\$1.00 per Share. On the same day, our Company additionally allotted 1,499 Shares to Rubrical Investment and 3,500 Shares to Sunny Rock at par value of US\$1.00 per Share. Upon completion of these transactions, the total issued share capital of our Company was held as to 70% by Sunny Rock and 30% by Rubrical Investment.

On June 7, 2016, our Company subdivided its authorized share capital, immediately following which the authorized share capital of our Company was HK\$390,000 divided into 3,900,000,000 ordinary shares of a par value of HK\$0.0001 each.

Assuming that the Global Offering becomes unconditional and the Offer Shares are issued, immediately following completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), the issued share capital of our Company will be HK\$60,000 divided into 600,000,000 Shares, all fully paid or credited as fully paid and 3,300,000,000 Shares will remain unissued.

Save as disclosed in this Appendix, there has been no alteration in our registered share capital since our establishment.

### 3. Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the Listing. For more details, please refer to the paragraph headed “History, Reorganization and Corporate Structure — The Reorganization” in this prospectus.

### 4. Changes in the share capital of our subsidiaries

Our principal subsidiaries (for the purpose of the Listing Rules) as of the date of this prospectus are set out under the financial information in the Accountant’s Report as contained in Appendix I to this prospectus. The following sets out the changes in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

On September 17, 2018, the registered capital of Henan Hongyong was increased from RMB100,000 to RMB15,000,000.

On December 4, 2018, the registered capital of Henan Honliv Hospital was increased from RMB131,800,000 to RMB131,900,000.

On November 7, 2019, the registered capital of Henan Honliv Hospital was increased from RMB131,900,000 to RMB146,900,000.

### 5. Restrictions on share repurchase

#### (a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

##### (i) *Shareholders’ approval*

All proposed repurchases of shares (which must be fully paid up) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our then Shareholders on June 17, 2020, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase such aggregate number of Shares not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue and before the exercise of the Over-allotment Option. The mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognized by the SFC and the Stock Exchange for this purpose. Such mandate is to expire either at the conclusion of our next annual general meeting, the date by which our next annual general meeting is required by our Articles of Association or any other applicable laws to be held, or when revoked, varied or renewed by an ordinary resolution of Shareholders in general meeting, whichever first occurs.

*(ii) Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

*(iii) Trading restrictions*

The total number of Shares which we may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Global Offering. We may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Stock Exchange. We are also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. We are required to procure that the broker appointed by us to effect a repurchase of Shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

*(iv) Status of repurchased Shares*

All repurchased Shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those Shares must be cancelled and destroyed.

*(v) Suspension of repurchase*

Pursuant to the Listing Rules, we may not make any repurchases of Shares after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for us to publish an announcement of our results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, we may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional.

*(vi) Procedural and reporting requirements*

As required by the Listing Rules, repurchases of shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Stock Exchange business day following any day on which we may make a purchase of shares. The report must state the total number of shares purchased the previous day, the purchase price per share or the highest and lowest prices paid for such purchases. In addition, our annual report is required to disclose details regarding repurchases of shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

*(vii) Connected parties*

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a connected person (as defined in the Listing Rules) and a connected person shall not knowingly sell its securities to our company on the Stock Exchange.

**(b) Reasons for repurchases**

Our Directors believe that it is in the best interests of us and Shareholders for our Directors to have general authority from the Shareholders to enable our Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit us and our Shareholders.

**(c) Funding of repurchases**

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of the Cayman Islands. On the basis of the current financial position as disclosed in this prospectus and taking into account the current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. Our Directors, however, do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or gearing levels which in the opinion of our Directors are from time to time appropriate for us.

The exercise in full of the Repurchase Mandate, on the basis of 600,000,000 Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering (but without taking into account any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme), could accordingly result in 60,000,000 Shares being repurchased by us during the period prior to (1) the conclusion of our next annual general meeting; (2) the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or (3) the revocation or variation of the Repurchase Mandate by an ordinary resolution of the Shareholders in general meeting, whichever occurs first.



**(d) General**

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to us or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands. We have not repurchased any Shares since our incorporation.

If, as a result of any repurchase of Shares, a shareholder's proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Companies Ordinance and the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances. No connected person has notified us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

**6. Resolutions of our Shareholders**

Pursuant to the resolutions in writing all our Shareholders passed on June 17, 2020, it was resolved, among others, that:

- (i) conditional and immediately upon the Listing, the Memorandum and Articles of Association be approved with effect upon Listing;
- (ii) conditional on (1) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (2) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise:
  - (a) the Capitalization Issue, Global Offering and the Over-allotment Option were approved and our Directors were authorized to effect the same, and to allot and issue the Offer Shares pursuant to the Capitalization Issue, Global Offering and the Over-allotment Option;
  - (b) the grant of the Over-allotment Option by our Company to the International Underwriters to allot and issue up to 15% of the Offer Shares initially available under the Global Offering to cover the over-allocations in the International Offering was approved;

- (c) the proposed Listing was approved and our Directors were authorized to implement such Listing;
  - (d) the rules of the Share Option Scheme, the principal terms of which are set forth in the paragraph headed “E. Share Option Scheme” in this Appendix, were approved and adopted with effect from the Global Offering and our Directors were authorized to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of the options which may be granted under the Share Option Scheme and to take all such actions as may be necessary and/or desirable to implement and give effect to the Share Option Scheme; and
  - (e) subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors be authorised to allot and issue a total of 54,715,040 Shares credited as fully paid at par to the holders of the Shares on the register of members of our Company at the close of business on the date immediately preceding the date on which the Global Offering becoming unconditional (or as they may direct) in proportion to their respective shareholdings in our Company (as nearly as possible without fractions) by way of capitalization of the sum of HK\$5,471.50 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares.
- (iii) a general unconditional mandate was granted to our Directors to allot, issue and deal with Shares, and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (excluding any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme).

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or scrip dividend scheme or similar arrangements or a specific authority granted by our Shareholders or upon the exercise of the Over-allotment Option or the exercise of options which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) the expiration of the period within which the next annual general meeting of our Company is required to be held under the applicable laws or the Articles of Association; or
- (c) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting of our Company,

whichever is the earliest,

- (iv) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (excluding Shares which may be allotted and issued upon the exercise of the Over-allotment Option or the exercise of options which may be granted under the Share Option Scheme).

This mandate only relates to repurchase made on the Stock Exchange or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose) and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules. This general mandate to repurchase Shares will remain in effect until:

- (a) the conclusion of the next annual general meeting of our Company;
  - (b) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or
  - (c) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting of our Company; whichever is the earliest; and
- (v) the general unconditional mandate as mentioned in paragraph (iii) above would be extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (iv) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering, excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of options which may be granted under the Share Option Scheme).

## **B. FURTHER INFORMATION ABOUT OUR BUSINESS**

### **1. Summary of material contracts**

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this prospectus which are or may be material:

- (a) a share subscription agreement dated June 6, 2019 entered into between our Company and Amerson Investment Limited, details of which are included in the paragraph headed “History, Reorganization and Corporate Structure — The Pre-IPO Investment” in this prospectus;

- (b) a cornerstone investment agreement dated June 22, 2020 entered into among our Company, Changyuan City Investment Group Co., Ltd. (長垣市投資集團有限公司), BOCOM International (Asia) Limited (交銀國際(亞洲)有限公司) and BOCOM International Securities Limited (交銀國際證券有限公司), details of which are included in the section headed “Cornerstone Placing” in this prospectus; and
- (c) the Hong Kong Underwriting Agreement.

## 2. Our material intellectual property rights




### (a) Domain names

As of the Latest Practicable Date, we had registered the following internet domain name which is material to our business:


No.	Domain Name	Registrant	Effective Period
1	honlivhp.com	Henan Honliv Hospital	2003.12.24 - 2020.12.24

### (b) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which are material to our business:

No.	Trademark	Registration No.	Place of Application	Registrant	Class	Expiry Date
1.		11270295	PRC	Henan Honliv Hospital	44	2023.12.20
2.		10875223	PRC	Henan Honliv Hospital	44	2023.08.27
3.	<b>HONLIVHP</b>	9244505	PRC	Henan Honliv Hospital	44	2022.03.27
4.		9244435	PRC	Henan Honliv Hospital	44	2022.03.27
5.	<b>宏力</b>	5549464	PRC	Henan Honliv Hospital	43	2029.12.06
6.	<b>宏力医院</b>	5275555	PRC	Henan Honliv Hospital	44	2029.10.20

No.	Trademark	Registration No.	Place of Application	Registrant	Class	Expiry Date
7.		5253819	PRC	Henan Honliv Hospital	43	2029.09.20
8.		5253815	PRC	Henan Honliv Hospital	44	2029.09.20
9.		4042143	PRC	Henan Honliv Hospital	44	2028.02.06
10.		3542873	PRC	Henan Honliv Hospital	43	2025.06.06
11.		303686770	HK	Henan Honliv Hospital	41, 44	2026.02.15
12.		303686789	HK	Henan Honliv Hospital	44	2026.02.15
13.		303686798	HK	Henan Honliv Hospital	44	2026.02.15
14.		303686806	HK	Henan Honliv Hospital	44	2026.02.15
15.		303686815	HK	Henan Honliv Hospital	44	2026.02.15

No.	Trademark	Registration No.	Place of Application	Registrant	Class	Expiry Date
16.		303686824	HK	Henan Honliv Hospital	44	2026.02.15
17.	<b>HONLIVHP</b>	303686833	HK	Henan Honliv Hospital	44	2026.02.15

### (c) Copyrights

As of the Latest Practicable Date, we had registered the following copyrights in the PRC which are material to our business:

No.	Registrant	Title of copyright	Registration No.	Place of Registration	Registration Date
1.	Henan Honliv Hospital	Logo of Henan Honliv Hospital (河南宏力醫院院標)	GZDZ-2013-F-00113366	PRC	2013.11.27
2.	Henan Honliv Hospital	Xin Xi She Hui, Zhen Qing Wei Min (心繫社會 真情為民)	GZDZ-2013-F-00113375	PRC	2013.11.27

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS

### 1. Particulars of Directors' Service Contracts

Each of our executive Directors, entered into a service contract with our Company on June 17, 2020. Each service contract is for an initial term of three years commencing from the Listing Date. Our non-executive Director, and each of our independent non-executive Directors entered into a letter of appointment with our Company on June 17, 2020. Each letter of appointment is for an initial term of three years commencing from the Listing Date.

Details of our Company's remuneration policy is described in paragraph headed "Directors and Senior Management — Compensation of Directors and Senior Management" in this prospectus.

### 2. Remuneration of our Directors

The aggregate remuneration (including salaries, allowances, discretionary bonus, retirement benefits scheme contributions and other benefits) paid to our Directors by us and our subsidiaries was approximately RMB687,000, RMB842,000 and RMB1,731,000, respectively, for the years ended December 31, 2017, 2018 and 2019.

The aggregate remuneration (including salaries, allowances, discretionary bonus, retirement benefits scheme contributions and other benefits) paid to our Group's five highest paid individuals was approximately RMB1,212,000, RMB1,972,000 and RMB4,068,000, respectively, for the years ended December 31, 2017, 2018 and 2019.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office during the Track Record Period. None of our Directors waived or agreed to waive any emoluments during the Track Record Period.

Under the arrangements presently in force, the aggregate remuneration of our Directors for the year ending December 31, 2020, excluding discretionary bonus, is approximately RMB2,100,000.

## D. DISCLOSURE OF INTERESTS

### 1. Disclosure of Interests of our Directors

Immediately following the completion of the Global Offering and the Capitalization Issue (but without taking account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which have been or may be granted under the Share Option Scheme), the interests or short positions of our Directors in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFC (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, under Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, once the Shares are listed, will be as follows:

<u>Name of Directors</u>	<u>Nature and capacity in which interests are held</u>	<u>Number of Shares or underlying Shares immediately after the Global Offering and the Capitalization Issue</u>	<u>Approximate percentage of shareholding in the total share capital of our Company immediately after the Global Offering and the Capitalization Issue<sup>(1)</sup></u>
Mr. Qin Yan <sup>(2)</sup> .....	Interest in a controlled corporation	310,788,450 ordinary Shares (L)	51.80%
	Interest held jointly with another person	133,195,050 ordinary Shares (L)	22.20%
Mr. Qin Hongchao <sup>(3)</sup> .....	Interest in a controlled corporation	133,195,050 ordinary Shares (L)	22.20%
	Interest held jointly with another person	310,788,450 ordinary Shares (L)	51.80%

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*Notes:*

- (1) The calculation is based on the total number of 600,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalization Issue (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option).
- (2) Such shares are held by Sunny Rock. Sunny Rock is owned as to 100% by Mr. Qin Yan. Thus, Mr. Qin Yan is deemed to be interested in such shares held by Sunny Rock by virtue of Part XV of the SFO. Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock, and Rubrical Investment are concert parties under the Concert Party Agreement. By virtue of the SFO, subsequent to the Capitalization Issue and the Global Offering, Mr. Qin Yan and Sunny Rock are interested in 133,195,050 ordinary Shares held by Mr. Qin Hongchao and Rubrical Investment.
- (3) Such shares are held by Rubrical Investment. Rubrical Investment is owned as to 100% by Mr. Qin Hongchao. Thus, Mr. Qin Hongchao is deemed to be interested in such shares held by Rubrical Investment by virtue of Part XV of the SFO. Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock, and Rubrical Investment are concert parties under the Concert Party Agreement. By virtue of the SFO, subsequent to the Capitalization Issue and the Global Offering, Mr. Qin Hongchao and Rubrical Investment are interested in 310,788,450 ordinary Shares held by Mr. Qin Yan and Sunny Rock.

## **2. Substantial Shareholders**

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, immediately following the completion of the Global Offering and the Capitalization Issue and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the exercise of options which were granted under the Share Option Scheme, our Directors are not aware of any other person (not being a Director or chief executive of our Company) who will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of our Company.

## **3. Interest of the Substantial Shareholders of Any Member of Our Group (Other than Our Company)**

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalization Issue, no persons will, directly or indirectly, be interested in 10% or more of the issued voting shares in all circumstances at general meetings of any member of our Group (other than us).

## **4. Disclaimers**

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executive of our Company has any interests and short positions in our Shares, underlying Shares or debentures of us or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to us and the Stock Exchange, in each case once our Shares are listed;



- (b) in connection with the Underwriting Agreements, none of our Directors or nor any of the parties listed in the paragraph headed “F. Other Information — 8. Qualification of Experts” in this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;
- (c) none of our Directors is aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is interested, directly or indirectly, in 10% or more of the issued voting shares of any member of our Group;
- (d) in connection with the Underwriting Agreements, none of our Directors or nor any of the parties listed in headed “F. Other Information — 8. Qualification of Experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (e) in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed “F. Other Information — 8. Qualification of Experts” in this Appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities; and
- (f) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders who own more than 5% of the number of issued shares of our Company have any interests in the five largest customers or the five largest suppliers of our Group.

## **E. SHARE OPTION SCHEME**

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the resolutions in writing of all our Shareholders passed on June 17, 2020.

### **(a) Purpose**

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward our employees, our Directors and other selected participants for their contributions to our Group. Given that our Directors are entitled to determine the performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalize on the benefits of the options granted.

**(b) Who may join**

Our Directors (which expression shall, for the purpose of this paragraph, include a duly authorized committee thereof) may, at their absolute discretion, invite any person belonging to any of the following classes of participants, who our Board considers, in its sole discretion, have contributed or will contribute to our Group, to take up options to subscribe for Shares:

- (i) any directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of our Group; and
- (ii) any advisers, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners, service providers of any member of our Group.

For the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of these classes of participants. For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of these classes of participants shall not, by itself, unless our Directors otherwise so determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of these class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to the participant's contribution to the development and growth of our Group.

**(c) Maximum number of Shares**

- (i) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 30% of the issued share capital of our Company from time to time.
- (ii) The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Stock Exchange, such 10% limit represents 60,000,000 Shares (the "General Scheme Limit"), but excluding any Shares which may be issued upon the exercise of the Over-allotment Option.
- (iii) Subject to paragraph (i) above and without prejudice to paragraph (iv) below, our Company may issue a circular to its Shareholders and seek approval of its Shareholders in a general meeting to extend the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group shall not exceed 10% of the Shares in issue as of the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other

share option scheme of our Group will not be counted. The circular sent by our Company to its Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

- (iv) Subject to paragraph (i) above and without prejudice to paragraph (iii) above, our Company may seek separate Shareholders' approval in a general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in paragraph (iii) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to its Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

**(d) Maximum entitlement of each participant**

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being (the "Individual Limit"). Any further grant of options in aggregate in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to our Shareholders and our Shareholders' approval in general meeting of our Company with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

**(e) Grant of options to connected persons**

- (i) Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).
- (ii) Where any grant of options to a substantial Shareholder of our Company or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
  1. representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the Shares in issue; and

2. having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet the date of the offer of grant, in excess of HK\$5 million (or such other higher amount as may from time to time be specified by the Stock Exchange);

such further grant of options must be approved by our Shareholders in a general meeting. Our Company must send a circular to its Shareholders. The grantee, his associates and all core connected persons of our Company must abstain from voting in favor of the relevant resolution at such general meeting. Any vote taken at the general meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates must be approved by our Shareholders in a general meeting.

**(f) Time of acceptance and exercise of option**

An option may be accepted by a participant within 5 Business Days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Share Option Scheme. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

**(g) Performance targets**

Unless our Directors otherwise determine and state in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

**(h) Subscription price for Shares and consideration for the option**

The subscription price per Share under the Share Option Scheme will be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a Business Day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five Business Days immediately preceding the date of the offer of grant (provided that in the event that any option is proposed to be granted within a period of less than five Business Days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Global Offering shall be used as the closing price for any Business Day falling within the period before Listing); and (iii) the nominal value of a Share on the date of grant.

A nominal consideration of HK\$1.00 is payable upon acceptance of the grant of an option.

**(i) Ranking of Shares**

- (i) Shares allotted and issued upon the exercise of an option will be identical to the then existing issued shares of our Company and subject to all the provisions of the Memorandum of Association and Articles of Association and will rank *pari passu* in all respects with the fully paid Shares in issue on the date the name of the grantee is registered on the register of members of our Company or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (“Exercise Date”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights or rights to participate in any dividends or distributions (including those arising on a liquidation of our Company) declared or recommended or resolved to be paid to the Shareholders on the register until the completion of the registration of the grantee on the register of members of our Company as the holder thereof.
- (ii) Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

**(j) Restrictions on the time of grant of options**

No offer for grant of options shall be made after inside information has come to our Company’s knowledge until it has announced the information in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of the meeting of our Directors (as such date is first notified to the Stock Exchange in accordance with the requirements of the Listing Rules) for the approval of our Company’s results for any year, half-year, quarter or any other interim period (whether or not required under the Listing Rules); and (b) the last date on which our Company must publish its announcement of its results for any year, half-year, quarter or any other interim period (whether or not required under the Listing Rules), and ending on the date of the announcement of the results, no offer for grant of options may be made.

Our Directors may not grant any option to a participant who is a Director during the period or time in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

**(k) Period of the Share Option Scheme**

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

**(l) Rights are personal to the grantee**

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest in favor of or enter into any agreement with any other person over or in relation to any option, except for the transmission of an option on the death of the grantee to his personal representative(s) on the terms of the Share Option Scheme.

**(m) Rights on ceasing employment**

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, or for serious misconduct or other grounds referred to in sub-paragraph (o) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was physically at work with our Group whether salary is paid in lieu of notice or not.

**(n) Rights on death**

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of death of the grantee.

**(o) Rights on dismissal**

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group into disrepute) or on any other ground on which an employer would be entitled to terminate his or her employment summarily, his option will lapse automatically and will not be exercisable on or after the date of ceasing to be an Eligible Employee.

**(p) Rights on a general offer, a compromise or arrangement**

If a general offer by way of takeover or otherwise (other than by way of scheme of arrangement) is made to our Shareholders (other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, our Company shall forthwith give notice thereof to the grantee and the grantee shall be entitled to exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company, at any time within such period as shall be notified by our Company.

If a general offer for Shares by way of scheme of arrangement is made to our Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, our Company shall forthwith give notice thereof to the grantee and the grantee may at any time thereafter (but before such time as shall be notified by our Company) exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company.

**(q) Rights on winding up**

In the event a notice is given by our Company to our Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to the grantee and the grantee (or in the case of the death of the grantee, his personal representatives(s)) may at any time within such period as shall be notified by our Company, subject to the provisions of all applicable laws, exercise the option to its full extent or, if our Company shall give the relevant notification, to the extent notified by our Company, and our Company shall as soon as possible and in any event no later than three days prior to the date of the proposed general meeting, allot, issue and register in the name of the Grantee such number of fully paid Shares which fall to be issued on exercise of such option.

**(r) Adjustments to the subscription price**

In the event of a capitalization issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, such corresponding adjustment (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to (a) the number or nominal amount of Shares to which the Share Option Scheme or any option relates, so far as unexercised, and/or (b) the subscription price of the option concerned, and/or (c) the method of exercise of the Option, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) no adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any adjustment made on a capitalization issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules and such other applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange (including, but not limited to, the "Supplementary Guidance on Main Board Listing Rule 17.03(13) and the Note immediately after the Rule" attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes).

**(s) Cancellation of options**

Any options granted but not exercised may be cancelled if the grantee so agrees. Issuance of new options to the same grantee may only be made if there are unissued options available under the Share Option Scheme (excluding the cancelled options) and in compliance with the terms of the Share Option Scheme.

**(t) Termination of the Share Option Scheme**

Our Company may by ordinary resolution in a general meeting at any time resolve to terminate the Share Option Scheme prior to the expiry of the Share Option Scheme and in such event no further options shall be offered or granted but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

**(u) Lapse of option**

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the period referred to in sub-paragraph (f);
- (ii) the expiry of the periods or dates referred to in sub-paragraphs (m), (n), (o), (p) and (q);
- (iii) the date on which the grantee commits a breach of the provision which restricts the grantee to transfer or assign an option granted under the Share Option Scheme or sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest in favor of or enter into any agreement with any other person over or in relation to any option except for the transmission of an Option on the death of the Grantee to his personal representative(s) on the terms of this Scheme;
- (iv) the date on which the grantee (being an employee or a director of any member of our Group) ceases to be a participant of the Share Option Scheme by reason of the termination of his or her employment or engagement on the grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his or her debts or has become bankrupt or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment summarily;
- (v) the date on which the grantee joins a company which the board believes in its sole and reasonable opinion to be a competitor of our Company;
- (vi) the date on which the grantee (being a corporation) appears either to be unable to pay or to have no reasonable prospect of being able to pay its debts or has become insolvent or has made any arrangement or composition with its creditors generally; and
- (vii) unless our Board otherwise determines, and other than in the circumstances referred to in sub-paragraphs (m) or (n), the date the Grantee ceases to be a Participant (as determined by a Board resolution) for any other reason.



**(v) Others**

- (i) The Share Option Scheme is conditional on the Listing Committee granting or agreeing to grant approval of (subject to such condition as the Stock Exchange may impose) the listing of and permission to deal in such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number representing the General Scheme Limit. Application has been made to the Listing Committee for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.
- (ii) The terms and conditions of the Share Option Scheme relating to the matters set forth in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of our Shareholders in a general meeting.
- (iii) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by our Shareholders in a general meeting and the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (iv) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (v) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by our Shareholders in a general meeting.

**(w) Value of options**

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as of the Latest Practicable Date. Any such valuation will have to be made on the basis of a certain option pricing model or other method that depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options granted as of the Latest Practicable Date would be based on a number of speculative assumptions that are not meaningful and would be misleading to investors.

**(x) Grant of options**

As of the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme.

**F. OTHER INFORMATION****1. Estate Duty**

Our Directors have been advised that no material liability for estate duty under the law and regulations of the Cayman Islands, BVI, the PRC and other jurisdictions in which the companies comprising our Group are incorporated is likely to fall upon any member of our Group.

**2. Indemnities**

Each of our Controlling Shareholders has entered into a deed of indemnity in favor of us to provide the indemnities in respect of taxation resulting from income, profits or gains earned, accrued or received as well as any claims, penalties, fines, damages, losses, fees and expenses and liabilities relating to the non-compliance incidents including but not limited to social insurance plans and housing reserve fund and property title defects of any members of our Group which may be subject and payable on or before the date when the Global Offering becomes unconditional, save:

- (a) to the extent that specific provision or reserve has been made for such taxation in the audited consolidated financial statements of our Group as set out in Appendix I to the Prospectus;
- (b) to the extent that the liability for such taxation would not have arisen but for any act or omission of, or delay by, any member of our Group after the Listing Date; and
- (c) to the extent such loss arises or is incurred only as a result of a retrospective change in law or regulations or the interpretation or practice thereof by any relevant authority coming into force after the Listing Date.

**3. Personal Guarantees**

Our Directors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

**4. Litigation**

Save as disclosed in the paragraph headed “Business — Legal Proceedings and Compliance” in this prospectus, as of the Latest Practicable Date, we are not involved in any material litigation, arbitration or administrative proceedings. So far as our Directors are aware of, no such material litigation, arbitration or administrative proceedings are pending or threatened against any member of our Group.

**5. Sole Sponsor**

The Sole Sponsor has declared its independence pursuant to Rule 3A.07 of the Listing Rules.

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, our Shares to be issued under the Global Offering and any Shares which may be issued pursuant to the exercise of the Over-allotment Option on the Main Board of the Stock Exchange. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

Our Company agreed to pay the Sole Sponsor a fee of US\$600,000 to act as the Sole Sponsor to our Company in relation to the Global Offering.

## 6. Compliance Adviser

We have appointed Central China International Capital Limited as our compliance adviser upon the Listing in compliance with Rule 3A.19 of the Listing Rules.

## 7. Preliminary Expenses

As of the Latest Practicable Date, our Company has not incurred any preliminary expenses.

## 8. Qualification of Experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualifications
BOCOM International (Asia) Limited .....	Licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO
PricewaterhouseCoopers .....	Certified Public Accountants under Professional Accountants Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588)
Commerce & Finance Law Offices .....	PRC Legal Adviser
Campbells.....	Cayman Islands legal adviser
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. ....	Industry consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited .....	Property valuer

## 9. Consents of Experts

Each of the experts as referred to in the paragraph headed “F. Other Information — 8. Qualification of Experts” in this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

Neither of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

#### **10. Promoters**

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities, amount or other benefit has been paid, allotted or given, or has been proposed to be paid, allotted or given, to any promoters in connection with the Global Offering or the related transactions described in this prospectus.

#### **11. No Material Adverse Change**

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since December 31, 2019 (being the date to which our latest audited consolidated financial statements were prepared, as set out in the Accountant's Report contained in Appendix I to this prospectus).

#### **12. Binding Effect**

This prospectus shall have the effect, if any application is made pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provision) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

#### **13. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

#### **14. Taxation of Holders of Our Shares**

##### **(a) Hong Kong**

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration AVI or, if higher, the value of the Shares being sold or transferred. Dividends paid on Shares will not be subject to tax in Hong Kong and no tax is imposed in Hong Kong in respect of capital gains. However, profits from dealings in the Shares derived by persons carrying on a business of trading or dealings in securities in Hong Kong arising in or derived from Hong Kong may be subject to Hong Kong profits tax. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

*(b) Cayman Islands*

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

*(c) Consultation with professional advisers*

Potential investors in the Global Offering are urged to consult their professional tax advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners or any other person or party involved in the Global Offering accept responsibility for any tax effects on, or liabilities of, any person, resulting from the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to our Shares.

**15. Miscellaneous**

Save as disclosed in this prospectus:

- (a) within the two years preceding the date of this prospectus: (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash, and (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any Shares of our Company or any of its subsidiaries;
- (b) no Share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- (c) we have not issued nor agreed to issue any founder share, management shares or deferred shares;
- (d) we have no outstanding convertible debt securities or debentures;
- (e) within the two years preceding the date of this prospectus, no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries within the two years preceding the date of this prospectus;
- (f) there are no arrangements under which future dividends are waived or agreed to be waived;
- (g) there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months; and
- (h) no part of the equity or debt securities of our Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Stock Exchange is currently being or agreed to be sought.

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## APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

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### DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were

- (a) copies of the **WHITE, YELLOW** and **GREEN** application forms;
- (b) copies of each of the material contracts referred to in Appendix V to this prospectus and their certified English translations (where appropriate); and
- (c) the written consents referred to in Appendix V to this prospectus.

### DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of O'Melveny & Myers at 31/F, AIA Central, 1 Connaught Road Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and Articles of Association;
- (b) the accountant's report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for the years ended December 31, 2017, 2018 and 2019;
- (d) the report on the unaudited pro forma financial information from PricewaterhouseCoopers, the text of which is set out in Appendix II to this prospectus;
- (e) the industry report published by Frost & Sullivan and referred to in the section headed "Industry Overview" in this prospectus;
- (f) the PRC legal opinions issued by Commerce & Finance Law Offices, our legal advisers on PRC law, in respect of our general matters and property interests;
- (g) the material contracts referred to in the paragraph headed "B. Further Information about Our Business — 1. Summary of Material Contracts" in Appendix V to this prospectus;
- (h) the service contracts referred to in the paragraph headed "C. Further Information about Our Directors — 1. Particulars of Directors' Service Contracts" in Appendix V to this prospectus;
- (i) the written consents referred to in the paragraph headed "F. Other Information — 9. Consents of Experts" in Appendix V to this prospectus;

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**APPENDIX VI      DOCUMENTS DELIVERED TO THE REGISTRAR OF  
COMPANIES AND AVAILABLE FOR INSPECTION**

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- (j) the letters, summary of values and valuation certificates relating to our property interests prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the texts of which are set out in Appendix III to this prospectus;
- (k) the letter prepared by Campbells, our legal adviser on the Cayman Islands laws, summarizing the constitution of our Company and certain aspects of the Cayman Islands company law referred to in Appendix IV to this prospectus;
- (l) the rules of the Share Option Scheme; and
- (m) the Cayman Companies Law.

**Honliv Healthcare Management Group Company Limited**  
**宏力醫療管理集團有限公司**