

(A joint stock limited liability company incorporated in the People's Republic of China)
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Contents

About the Report	2
Our Strategy of Sustainable Development	3
Stakeholder Engagement	3
Environment Protection	4
Green Construction	4
Green Operation	5
Culture of Cherishing Talents	8
Employment	8
Health and Safety	8
Development and Training	10
Labour Standard	11
Strict Supply	12
Supplier Inspection	12
Respect and Care for Life	13
Patients' Safety	13
Patients' Interest	14
Quality of Medical Service	14
Listen to Patients	15
Anti-corruption	16
Giving Back to Community	17
SEHK ESG Reporting Guide Content Index	18

About the Report

Wenzhou Kangning Hospital Co., Ltd. (“Kangning”, “We” or “Our Company”, together with its subsidiaries, the “Group”) was established in 1996, with its head office located in Wenzhou City, Zhejiang Province, the People’s Republic of China (the “PRC” or “China”). It is primarily engaged in providing psychiatric specialty healthcare services, and is currently the largest private psychiatric specialty hospital group in China. As at 31 December 2016, the Group owned and managed 14 healthcare facilities, and the number of beds under operation and management was 3,367.

This report, as our first Environment, Social and Governance (“ESG”) report, is prepared in accordance with the “ESG Reporting Guide” set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “SEHK”). This report aims to disclose the overall management approaches, strategies, and performance on the sustainable development of the Group during the reporting period from 1 January 2016 to 31 December 2016. Unless otherwise stated, this report covers self-owned healthcare facilities of the Group located in the PRC, including (i) 8 hospitals in operation, namely Wenzhou Kangning Hospital, Qingtian Kangning Hospital Co., Ltd., Cangnan Kangning Hospital Co., Ltd., Yongjia Kangning Hospital Co., Ltd., Yueqing Kangning Hospital Co., Ltd., Linhai Kangning Hospital Co., Ltd., Wenzhou Yining Geriatric Hospital Co., Ltd. and Quzhou Yining Hospital Co., Ltd.; and (ii) 3 hospitals under construction, namely Pingyang Kangning Hospital Co., Ltd., Shenzhen Yining Hospital Co., Ltd. and Hangzhou Yining Hospital Co., Ltd.

We welcome any opinions and suggestions with regards to this report and our sustainability performance. Please contact us by email to ir@knhosp.cn.

Our Strategy of Sustainable Development

Kangning's objective of "create a hospital with loves

For domestic waste, we have introduced measures to motivate employees for recycling of waste. For example, a bonus will be granted based on the recycling volume of each department according to the relevant ratios for waste recycling set by the hospital.

- Sewage

Sewage is divided into domestic sewage and special wastewater in the hospital. We have adopted advanced sewage treatment system for sewage treatment and the sewage can be discharged only if it has met the Standard for Sewage Discharge by Medical Institutions (GB18466-2005). In addition, we monitor the sewage every day and maintain the drainage system on a regular basis in order to keep the sewerage system functioning properly and ensure the legal discharge of sewage.

□ *Use of resources*

In terms of use of resources, we have been adhering to the concept of “conservation” and have encouraged various entities to uphold this virtue through different methods. We formulate the resource consumption indicators for the appraisal year based on the historical resource consumption for each entity, and pay bonus linked to the completion of the above indicators, in order for the staff to cultivate the habit of saving resources.

- Paper saving

In order to reduce paper waste, we have developed the Regulation on Using Office Paper to manage the procurement, management, distribution, use and disposal of office paper. The specific measures include the implementation of paperless office, double-sided printing of office paper, distribution of corporate documents and material in the form of scanning or electronic version and etc.

- Energy conservation

We have formulated the Administrative Regulations on Electricity Utilization and have promoted saving electricity. The specific electricity saving measures include minimizing the stand-by status of medical equipments and opening air-conditioners only if above 34 degrees in summer or below zero degree in winter.

- Water saving

We have set up Management System for Water Supply and established a “Leading Group for the Water Supply Management of Hospital” to be responsible for the management, coordination and direction of different kinds of water supply in the whole hospital. Water supply we manage includes toilet water, patient’s washing and cleaning water and maintenance water. We allocate different specialized personnel to manage different usages of water. Meanwhile, we encourage all staff and inpatients to cultivate the habit of water saving, and implement “The user pays” practice by charging them fees based on the actual usage shown on individual water meters.

▯ *Greening the hospital*

Greening is the beginning of creating a comfortable and close-to-nature life. We encourage greening in the whole hospital and strive

Culture of Cherishing Talents

We always consider talents as the cornerstone of our success and care for our employees in the spirit of “humble service” to create a fair, safe and harmonious working environment for them.

Emplo men¹

The Group has formulated our human resources policy in accordance with the laws and regulations such as the Labor Law of the PRC (the “Labor Law”) and the Labor Contract Law of the PRC (the “Labor Contract Law”), which specifically includes:

□ *Recruitment, promotion and dismissal*

We set up job requirements for each post and focus on the talent, academic achievement, moral character and the ability to integrate into our corporate culture of the candidates in recruiting. We sign the “Labor Contract” or “Service Contract” with all of our employees. Annual assessment will be conducted on our employees in terms of job performance, working skills, professional ethics and ethical practice, and the assessment result will be taken as the basis of promotion.

We don’t usually take the initiative to dismiss employees, but we will start the dismissal procedures if the employees are in serious violation of relevant laws and regulations or the circumstances are particularly bad. We strictly comply with the provisions of the Labor Contract to perform the dismissal procedures and offer compensation.

□ *Compensation and welfare*

We offer compensation mainly including wage and bonus. The wage is associated with the post, qualification and title of the employee and the bonus is related to the assessment performance of the employee. The welfare mainly includes the social insurance, housing provident fund and holiday condolences as required under the Social Insurance Law of the PRC.

□ *Working hours and rest periods*

We strictly comply with the provisions of the Labor Contract to perform the dismissal procedures and offer compensation.

□ *Protection against occupational hazard*

We pay special attention to protection against occupational hazard, as medical works will be suffered from relatively significant occupational risks. We set up a special healthcare division, which is responsible for undertaking protection against occupational hazard and enhancing the staff's awareness of self-protection by ways of training, bulletin board and distributing brochures. Meanwhile, we will arrange staffs to have a body check biennially. In addition, we also set up following measures to protect the occupation safety of medical staffs:

Protection issues	Precautionary measures
Prevent infection by pathogen	Medical staffs shall wear gloves, respirator with anti-permeation function, protective glasses, masks and even isolation gowns or aprons with anti-permeation function.
Prevent injuries by sharp objects	We will provide training on sharp object injuries and occupational exposure and self-protection knowledge to medical staffs to enhance the occupational safety and self-protection awareness of whole staffs.
Prevent suffering risk of infection by blood-borne pathogens	Apart from providing trainings and taking precautionary measures, we will also conduct 6 month tracking on staffs that suffered occupational exposure. The fees for prophylactic drugs and relevant blood examination incurred by staffs that suffered occupational exposure shall be reimbursed.
Prevent radiation occupational disease	We will carry out an examination on the performance of the radiation equipment every year and conduct occupational body check for its staffs biennially.

□ *Balance between work and life*

We help staff to achieve a balance between work and life through a series of sport events, leisure and cultural programs, and create a proper and relaxed atmosphere for work. In 2016, we held a number of activities that created common memories and a strong sense of belongings, such activities include Kangning Culture Season, Five Man Football Game, Youth Fun Games, China Dream and Working Create Beauty, Autumn Trip, Campus Sport Meeting and etc.

Development and Training

We attach great importance to providing quality training and development to medical personnel and other staff, and provide training and development opportunities for the staff, including general skills and professional skills training. In addition, we give potential and talented staff the opportunities to pursue management courses and short-term study.

We also encourage the staff to take advantage of our open policies to develop their own talents. Doctors and nurses are able to switch posts among our various medical institutions and external facilities operated with third parties. We believe these can enhance their ability to adapt to new environment and expand the scope of training opportunities.

Labor Standard

Kangning strictly abides by the Labor Law and the Labor Contract Law, including salary standards that meet the minimum wage standard, statutory holidays and elimination of forced labor or child labor.

We require the candidate to provide identity card information at the time of recruitment, and the recruiter will check whether the candidate's age is in compliance with the law. Also, we will conduct at least two interviews with the candidate to confirm there is no forced labor.

Strict Supply

We realize that the quality, development and reputation of our medical services shall be also affected by suppliers, so we seek to establish durable cooperative relationship with business partners on the basis of mutual benefit, and put emphasis on management and regulation of the supply chain's environment and social risks.

Supplier Inspection

As required by the Drug Administration Law of the PRC, Regulations for Implementation of the Drug Administration Law of the PRC, Regulations for the Control of Narcotic Drugs and Psychotropic Drugs, Regulations for the Supervision and Administration of Medical Devices and Management Provisions for Medical Device Distributing Enterprise License, we developed review and evaluation systems for the qualification of the suppliers of medicines and medical devices, require productions enterprises to provide copies for Drug Production License stamped with corporate seal, and require agents to provide Drug Operation License and GSP certification as well. Through review of the qualification of suppliers, we assure the safety and environmental friendliness of the products supplied by suppliers.

The Group expects suppliers to uphold integrity and fair treatment to employees, comply with disciplinary codes, protect environment and be in line with Ethics and corporate governance standards. We developed Supplier Code of Conduct in respect of environmental, social and ethical standards, try to have a positive impact on suppliers in environmental and social matters, with the main scope covering the compliance and legality of operation, human rights protection, employees' safety and health, social responsibility, commercial ethics, environmental protection and etc.

□ Medication

According to our medication procurement and management systems, drug procurement is based on the Basic Medication Supply Directory of the hospital. The preparation and modification of the Basic Medication Supply Directory, the review and introduction of new drugs and temporary procurement of licensed drugs shall be decided through discussion by the Pharmaceutical Administration and Drug Therapeutics Committee.

□ Medical equipment and medical consumables

According to the Administrative Measures on the Deployment and Use of Large Medical Equipment, we established equipment and consumables procurement systems, including review system for purchasing medical devices, medical equipment procurement demonstration and technical evaluation system, procurement management system for medical equipments, review and evaluation system on medical devices' conquering and prevention qualification.

□ Construction and decoration services

According to the Construction Law of the PRC, Tender Law of the PRC and the relevant laws and regulations promulgated by the state, Zhejiang province and Wenzhou city, we established the Administrative System for Infrastructure Office, and the infrastructure office completed bidding and relative cooperative matters of the construction and decoration service suppliers, under the guidance of the infrastructure leading group of the hospital.

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Respect and Care for Life

As a hospital group with the vision of becoming a world-class hospital group, we are committed to providing high-quality medical services and ensuring the safety and health of our patients. We are also committed to protecting the environment and promoting sustainable development. We are committed to respecting the rights and interests of our employees and the community. We are committed to being a responsible corporate citizen.

Patient's Interest

□ Rules protecting patients

We strictly prohibit the use of restraining or quarantine and other protective medical measures to punish patients with

Lis 'en 'o Pa 'ien 's

In order to understand as much as possible the needs and feelings of potential patients or hospitalized patients, we have put in place petition and complaint systems according to the Administrative Regulations on Medical Institutions, the Working Measures for Hygiene Petition and the Management Measures for Hospital Complaint (trial), so as to regulate compliant handling procedures and safeguard the interests of both hospital and patients.

We regularly conduct satisfaction survey on hospitalized and discharged patients, supervising and inspecting the daily service of our hospital's medical staff and the hospital's environment from the aspects of service attitude, service quality and environment facility. Through such survey, we can better understand patients' needs or dissatisfaction, thereby guiding the daily work and operations of relevant personnel better for improvement in specific issues.

Anti-corruption

As an industry first-mover with social responsibility, we are endeavored to promoting a culture of integrity, with a special focus on occupational ethics of our hospital's personnel, and also strict comply with relevant laws and regulations issued by the PRC government entities, including the Code of Conduct for the Practitioners of Medical Institutions, the Notice on Printing and Circulating of "Nine Prohibitions" for Enhancing the Construction of Medical Health Industry Style and the Provisions on the Establishment of Adverse Records of Commercial Briberies in the Medical Purchase and Sales Industry.

In addition, we have developed whistle-blowing procedures, including special hotlines and dedicated e-mail addresses, to accept reporting on corruption issues. We implement zero tolerance policy targeting any act of taking bribes by medical staff in our hospital. Any employee who is found to have violated our anti-corruption and bribery policy will be laid off. In 2016, we have no record of any corruption, bribery, fraud and money laundering and other misconducts.

Giving Back to Community

We actively fulfill social responsibility and take the fostering of psychiatric talents, the promotion of psychiatric research, the popularizing of mental health knowledge and the funding of patients with financial difficulties as our own responsibilities. We are committed to promoting the development of mental health in the PRC.

□ Cultivating psychiatric talents

During the reporting period, we established the Psychiatry School of Wenzhou Medical University (the “School”) jointly with Wenzhou Medical University to cultivate psychiatric talents for the society. We provided venues and facilities free of charge to the School and agreed to donate RMB20 million in aggregate to the School. In addition, we also provided scholarships to medical students engaged in psychiatry and we have provided scholarships of RMB2.8million in aggregate since 2014.

We are the training hospital of a number of medical schools and the standardized training base of Zhejiang resident physicians (Psychiatry). During the reporting period, we accepted 183 students for internship and carried out standardized trainings for 45 students.

□ Promoting psychiatric research

We established Kangning Mental Health Institute to conduct psychiatric research, which staffed 14 full-time researchers and constructed a mental disease model animal laboratory, an addiction behavior research room, a clinical psychiatry laboratory and a cellular biology laboratory. We invested RMB6.3 million as research funds during the reporting period.

In addition, we also organized the Kangning International Symposium on Psychiatric Psychology and other large and medium medical conferences in order to promote academic exchanges and cooperation.

□ Popularizing mental health knowledge

We took it as our own responsibility of raising public awareness of mental health and invited renowned psychotherapists and experts to hold public lectures to publicize mental health knowledge, we also invested and developed the online psychological counseling platform “Didi Psychology” and provided free mental health advisory services for the public through such platform.

In addition, we regularly organized free community clinics and free physical examinations and other activities to contribute to the communities. During the reporting period, we publicized the knowledge on healthy sleeping and provided free medical treatments to community residents on World Sleep Day, we conducted a free treatment themed “Caring Women’s Health, Enjoying Happiness in Life” on Women’s Day, and we hold 7 public welfare activities on World Mental Health Day and exempted outpatient registration fees.

□ Public donations and charity relief

We helped patients with economic difficulties by donating to the public welfare organizations and we donated RMB4.5 million to 6 charity funds during the reporting period. In addition, we also provided free treatments for poor patients with mental disorders and gave medicines free of charge.

B. Social	General Disclosures	Heading and page
B : Employment	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the	Q591 and (a) T11 on th

