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Wenzhou Kangning Hospital Co., Ltd.

溫州康寧醫院股份有限公司

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

(Stock Code: 2120)

**ANNUAL RESULTS ANNOUNCEMENT FOR
THE YEAR ENDED DECEMBER 31, 2016**

1 INTRODUCTION

- 1.1 The board of directors (the “**Board**”) of Wenzhou Kangning Hospital Co., Ltd. (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”, “**we**” or “**our**”) for the financial year ended December 31, 2016 (the “**Reporting Period**”) with comparative figures for the preceding financial year ended December 31, 2015.
- 1.2 The financial statements of the Group for the Reporting Period (the “**Financial Statements**”) are prepared in accordance with the International Financial Reporting Standards (the “**IFRSs**”).

2 FINANCIAL HIGHLIGHTS

2.1 Principal Financial Data and Indicators

	For the year ended December 31,				
	2016	2015	2014	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	415,408	343,674	296,296	226,363	170,813
Profit before income tax	92,139	70,170	68,567	47,576	17,964
Income tax expense	(26,588)	(18,548)	(17,369)	(11,383)	(4,733)
Total comprehensive income	65,551	51,622	51,198	36,193	13,231
Attributable to:					
Equity holders of the Company	68,832	55,709	51,198	36,193	13,231
Non-controlling interests	(3,281)	(4,087)	—	—	—
	As of December 31,				
	2016	2015	2014	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	1,603,382	1,224,434	372,339	305,679	226,667
Total liability	562,012	262,205	111,249	96,818	202,601
Total equity	1,041,370	962,229	261,090	208,861	24,066
Equity attributable to:					
Owners of the Company	1,008,383	959,716	261,090	208,861	24,066
Non-controlling interests	32,987	2,513	—	—	—

3 BUSINESS REVIEW AND OUTLOOK

3.1 Business Review

The year 2016 was the first full year after the Group's listing. It was also our "Year of Strategic Layouts" during which we have implemented a number of medium- and long-term development strategies, laying the foundation for the Group's long-term development. Specific progress has been made as follows:

In 2016, the Group's own hospital business continued to develop. Linhai Kangning Hospital Co., Ltd. ("**Linhai Kangning Hospital**") and Wenzhou Yining Geriatric Hospital Co., Ltd. ("**Wenzhou Yining Geriatric Hospital**") commenced operation in the first half of 2016 and achieved rapid enhancement in bed utilization rates. Qingtian Kangning Hospital Co., Ltd. and Yueqing Kangning Hospital Co., Ltd. recorded relatively fast growth in service volume, while Wenzhou Kangning Hospital, Cangnan Kangning Hospital Co., Ltd. and Yongjia Kangning Hospital Co., Ltd. slowed down in bed growth due to limited space for bed expansion, and Quzhou Yining Hospital Co., Ltd. has also obtained medical practice license at the end of the year 2016 and began operation of 67 beds in phase I. As of December 31, 2016, the number of Group's owned hospitals increased to 8 (December 31, 2015: 5) and number of beds under operation increased to 2,577 (December 31, 2015: 2,010), representing an increase of 28.2% as compared with 2015.

In 2016, the Group's business of managing healthcare facilities achieved mixed performance. On the one hand, the Group secured new entrustment management of Pujiang Huangfeng Psychiatric Specialty Hospital ("**Pujiang Hospital**") and Chun'an Huangfeng Kang'en Hospital ("**Chun'an Hospital**") through agreement, and entered into the framework agreement with the People Government of Yiwu in relation to the provision of entrustment management services to Yiwu Psychiatric Health Center, while the psychiatric specialty care business in Yanjiao Furen Hospital of Traditional Chinese and Western Medicine ("**Yanjiao Furen Hospital**") and Pingyang Changgeng Hospital Co., Ltd. which previously under our management, also achieved stable development. On the other hand, the bed utilization rate of Beijing Yining Hospital Co., Ltd. ("**Beijing Yining Hospital**") under management of the Group was still relatively low, while the psychiatric specialty business of Chengdu Renyi Hospital Co., Ltd. ("**Chengdu Renyi Hospital**") was not developed due to the change in equity of the cooperative hospital. As of December 31, 2016, the healthcare facilities managed by the Group increased to 6 (December 31, 2015: 4) and the number of beds under management increased to 790 (December 31, 2015: 370), representing an increase of 113.5% as compared with 2015.

While steadily developing existing owned hospitals, the Group is also accelerating network layout through self-construction, investment as a minority shareholder and other methods. As of the date of this results announcement, Pingyang Kangning Hospital Co., Ltd. ("**Pingyang Kangning Hospital**") has obtained the medical practice license; while Shenzhen Yining Hospital Co., Ltd. is applying for the medical practice license; and Hangzhou Yining Hospital Co., Ltd., Sihui Kangning Hospital Co., Ltd. and Langfang Yining Hospital Management Co., Ltd. have

obtained the license for setting up healthcare facilities and is under renovation. Furthermore, as a minority shareholder, the Group has also invested in Chongqing Hechuan Kangning Hospital Co., Ltd. (a psychiatric specialty hospital located in Hechuan District, Chongqing) and Shandong Yining Hospital Co., Ltd. and Hanzhou Honglan Information Technology Co., Ltd. (“**Hanzhou Honglan Information**”) (an operator of online psychological health consultation platform).

The Group continued to increase investment in scientific research and talent forging. In 2016, the Group founded the Psychiatry School of Wenzhou Medical University jointly with Wenzhou Medical University and recruited 90 undergraduates and 6 graduate students, laying the talent foundation for the Group’s long-term development. Meanwhile, we have engaged Dr. Daolong Zhang, the famous psychiatrist in the United States, as the chief medical officer of the Group, to provide all the Group’s doctors with standardized trainings in biological, psychological and sociological models according to American standards, so as to enhance the healthcare services quality of the Group. Kangning Mental Health Institute has established the Zebrafish Simulation Animal Room Laboratory with international standard, and published 68 articles of various types throughout the year, representing greater enhancement as compared with 2015.

3.2 Business Highlights

On December 7, 2016, the Group entered into a framework agreement with the People’s Government of Yiwu in relation to the Company’s proposed provision of entrustment management services to Yiwu Psychiatric Health Center through Yiwu Kangning Hospital Management Company Limited, a subsidiary of the Company, and charge the Yiwu Psychiatric Health Center brand fees and management service fees in return. For details, please refer to the announcement of the Group dated December 7, 2016. Yiwu Kangning Hospital Management Company Limited was incorporated on January 22, 2017.

To further enhance the Group’s brand influence in China so as to secure more business opportunities, the Board of the Company has proposed to apply for A share offering. On December 23, 2016, the application materials in respect of the Company’s proposed A share offering was accepted by the China Securities Regulatory Commission (“**CSRC**”). On December 27, 2016, a copy of the A share prospectus of the Company has been made available on the CSRC’s website for preliminary publication. For details, please refer to the announcements of the Company dated December 23, 2016 and December 27, 2016, respectively.

3.3 Business Outlook

The Group's financial position and operating results are mainly subject to the following risks:

- (i) Risk relating to high reimbursement amount from public medical insurance. From 2014 to 2016, reimbursement amount from public medical insurance accounted for 50.0%, 56.6% and 52.6% of the total cash received from sales of goods and rendering of service for the respective years, respectively. If the Group's medical institutions are unable to maintain the qualification of designated medical insurance institutions in the future, or there are adverse changes on the national public medical insurance policy in respect of treatment of mental illness, the Group's operating results will be affected adversely.
- (ii) Risk relating to loss of professional medical talents. Under the laws and regulations of the PRC, it requires medical institutions shall maintain a certain number of medical staff. With the increase in the number of medical institutions of the Group, if we are unable to recruit or maintain adequate medical staff, we will face difficulty to provide patients with the desirable medical services, which in return will adversely affect our operating results.
- (iii) Risk relating to failure to renew qualifications and licenses required for our operations. Medical institutions are required to obtain the Medical Practice License before carrying out their businesses, which usually have valid period and requires regular inspection by the regulatory authorities. If the medical institutions of the Group are unable to renew their licenses in the future due to poor management or non-compliance, our operating results will be affected adversely.

Looking into the future, the Group will leverage on the favorable environment in China during the year 2017 which encourage the social capital to establish medical facilities to implement and improve a number of medium- and long-term strategic layouts, accelerate the network layout of healthcare facilities while using distance education system to strengthen the training of talents to enhance the quality of the Group's healthcare services. Meanwhile, our Group will respond to policies that call for seeking opportunities to cooperate with public hospitals, including but not limited to involving in the management of public hospitals in various forms to confront with the uncertainties brought to the Group by control of medical insurance fees, so as to maintain the steady and rapid development of the Group.

4 MANAGEMENT DISCUSSION AND ANALYSIS

4.1 Financial Review

The Group achieved revenue of RMB415.4 million for 2016, representing an increase of 20.9% as compared with 2015. The revenue from operating the Group's owned hospitals and the management service fees from managing healthcare facilities both increased. Because of lower utilization rate of new facilities, the gross profit margin of our owned hospitals decreased to 33.1%, and the gross profit margin of healthcare facilities management business was 49.6%. As such, the overall gross profit margin of the Group for 2016 decreased to 34.2% (2015: 37.9%). For the year 2016, net profit attributable to shareholders of the Company amounted to RMB68.8 million, representing an increase of 23.6% as compared with 2015.

4.1.1 Revenue and cost of revenue

The Group generates revenue mainly through the following three ways: (i) revenue from operating its owned hospitals, (ii) management service fees from managing healthcare facilities, and (iii) other revenue.

The table below sets forth a breakdown of total revenue for the periods indicated:

	For the year ended	
	December 31,	
	2016	2015
	(RMB'000)	(RMB'000)
Revenue from operating the owned hospitals	391,505	327,843
Management service fee income	18,943	13,561
Other revenue	4,961	2,270
Total revenue	415,409	343,674

Note: In the 2015 Annual Results Announcement, the revenue of the judicial forensic services was categorized into the revenue of the ancillary hospital services of operating the Group's owned hospitals, which is categorized into other revenue of the Group from 2016.

During the Reporting Period, total revenue of the Group amounted to RMB415.4 million, representing a year-on-year increase of 20.9%, primarily due to (i) the increase of revenue from operating the owned hospitals by 19.4%, (ii) the increase of management service fee income by 39.7% and (iii) the increase of revenue from other business by RMB2.7 million. Revenue from operating the owned hospitals accounted for 94.2% of total revenue (2015: 95.4%) and management service fee income accounted for 4.6% of total revenue (2015: 3.9%).

Revenue and cost of revenue from operating the owned hospitals

Revenue from operating the owned hospitals consists of fees charged for the outpatient visits and the inpatient services at the Group's various hospitals, including treatment and general healthcare services and pharmaceutical sales. The table below sets forth a breakdown of our revenue, cost of revenue and gross profit for the owned hospitals for the periods indicated:

	For the year ended	
	December 31,	
	2016	2015
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Treatment and general healthcare services		
Revenue	285,599	240,103
Cost of revenue	174,853	133,627
Gross profit	110,746	106,476
Pharmaceutical sales		
Revenue	105,906	87,740
Cost of revenue	86,970	71,023
Gross profit	18,936	16,717
Owned hospitals		
Revenue	391,505	327,843
Cost of revenue	261,823	204,650
Gross profit	129,682	123,193

During the Reporting Period, revenue from the Group's owned hospitals amounted to RMB391.5 million, representing an increase of 19.4% as compared with 2015.

The table below sets forth a breakdown of revenue of the Group's owned hospital by inpatients and outpatients for the periods indicated, with relevant operating data:

	For the year ended	
	December 31,	
	2016	2015
Inpatients		
Inpatient bed as at period end	2,577	2,010
Effective inpatient service bed-day capacity	943,182	733,650
Utilization rate (%)	86.5%	93.9%
Number of inpatient bed-days	815,883	689,244
Treatment and general healthcare services revenue attributable to inpatients (<i>RMB'000</i>)	268,555	225,244
Average inpatient spending per bed-day on treatment and general healthcare services (<i>RMB</i>)	329	327
Pharmaceutical sales revenue attributable to inpatients (<i>RMB'000</i>)	48,262	39,764
Average inpatient spending per bed-day on pharmaceutical sales (<i>RMB</i>)	59	58
Total inpatient revenue (<i>RMB'000</i>)	316,816	265,008
Total average inpatient spending per bed-day (<i>RMB</i>)	388	384
Outpatients		
Number of outpatient visits	145,696	129,355
Treatment and general healthcare services revenue attributable to outpatients (<i>RMB'000</i>)	17,044	14,859
Average outpatient spending per visit on treatment and general healthcare services (<i>RMB</i>)	117	115
Pharmaceutical sales revenue attributable to outpatients (<i>RMB'000</i>)	57,644	47,976
Average outpatient spending per visit on pharmaceutical sales (<i>RMB</i>)	396	371
Total outpatient revenue (<i>RMB'000</i>)	74,688	62,835
Total average outpatient spending per visit (<i>RMB</i>)	513	486
Total treatment and general healthcare services revenue (<i>RMB'000</i>)	285,599	240,103
Total pharmaceutical sales revenue (<i>RMB'000</i>)	105,906	87,740

During the Reporting Period, inpatient revenue amounted to RMB316.8 million, representing an increase of 19.5% as compared with 2015, primarily due to (i) the increase of inpatient days by 18.4% and (ii) the increase of average inpatient spending per bed-day by 1.0%. Inpatient revenue accounted for 80.9% of our revenue from operating our owned hospitals (2015: 80.8%).

During the Reporting Period, outpatient revenue amounted to RMB74.7 million, representing an increase of 18.9% as compared with 2015, primarily due to (i) the increase of outpatient visits by 12.6% and (ii) the increase of average outpatient spending per visit by 5.5%. Outpatient revenue accounted for 19.1% of our revenue from operating our owned hospitals (2015: 19.2%).

During the Reporting Period, due to the increase of both inpatient and outpatient business, revenue from treatment and general healthcare services increased by 18.9% as compared with 2015, accounting for 72.9% of our revenue from operating our owned hospitals (2015: 73.2%); and revenue from pharmaceutical sales increased by 20.7% as compared with that of 2015, accounting for 27.1% of our revenue from operating our owned hospitals (2015: 26.8%).

Cost of revenue of the Group's owned hospitals primarily consisted of pharmaceuticals and consumables used, employee benefits and expenses, leasing expenses, depreciation and amortization, canteen expenses, testing fees and outsourcing fee. The table below sets forth a breakdown of cost of revenue for operating the Group's owned hospitals for the periods indicated:

	For the year ended	
	December 31,	
	2016	2015
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Pharmaceuticals and consumables used	103,972	85,496
Employee benefits and expenses	87,060	73,317
Leasing expenses	12,830	8,006
Depreciation and amortization	17,697	12,068
Canteen expenses	14,018	11,280
Testing fees	6,062	3,388
Outsourcing fee	5,900	-
Others	14,284	11,095
Cost of revenue	261,823	204,650

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB261.8 million, representing an increase of 27.9% as compared with that of the same period of 2015, which was higher than the increase of revenue. It was mainly due to: (i) the increase of 21.6% in pharmaceutical expenses relating to increase in revenue from pharmaceutical sales; (ii) the increase of 26.8% in employee benefits and expenses and outsourcing fee arising from the increase in beds in operation of our owned hospitals; (iii) newly added leasing expenses and depreciation and amortization of RMB4.3 million of Linhai Kangning Hospital and Wenzhou Yining Geriatric Hospital which were newly put into operation in 2016.

From the cost structure perspective, pharmaceutical and consumables used is still the main part of cost of revenue of the owned hospitals, accounting for 39.7% (2015: 41.8%). The second part is employee benefits and expenses and outsourcing fee, which accounted for 35.5% of cost of revenue of the owned hospitals (2015: 35.8%). Leasing expenses, together with depreciation and amortization, accounted for 11.7% of cost of revenue of owned hospitals (2015: 9.8%).

Management service fee income

The Group's management service fee income is primarily derived from rendering management services to other healthcare facilities. The table below sets forth the breakdown of our management service fee income, cost of revenue and gross profit for the periods indicated:

	For the year ended	
	December 31,	
	2016	2015
	(RMB'000)	(RMB'000)
Revenue	18,943	13,561
Cost of revenue	9,554	7,006
Gross profit	9,389	6,555

In 2016, management service fee income of the Group amounted to RMB18.9 million, representing an increase of 39.7% as compared with that of 2015 and accounting for 4.6% of the total revenue of the Group in 2016 (2015: 3.9%), due to the contribution of the management service fee in relation to the newly-entrusted Pujiang Hospital and Chun'an Hospital starting from April 1, 2016.

Cost of the Group for rendering management services primarily include benefits and expenses for management staff assigned and amortization of operation rights acquired for obtaining management rights.

During the Reporting Period, cost of revenue of management services of the Group increased to RMB9.6 million, representing an increase of 36.4% as compared with that of 2015, which is lower than the increase of revenue, mainly because in April 2016, the Group has acquired the operation rights of Pujiang Hospital and Chun'an Hospital for 30 years, where both hospitals achieved higher efficiency under the Group's management. Accordingly, gross profit margin of the management service business increased to 49.6% (2015: 48.3%).

Other Revenue

Other revenue of the Group includes judicial forensic service income, property leasing income and others. In 2016, revenue from other businesses increased to RMB5.0 million, representing an increase of RMB2.7 million as compared to that of 2015, mainly because the Group had acquired Wenzhou Guoda Investment Co., Ltd. (“**Wenzhou Guoda Investment**”) in August 2016. Part of the properties held by Wenzhou Guoda Investment were leased out and rental income of RMB2.0 million was obtained during the period from August to December of 2016.

4.1.2 Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB0.277 billion (2015: RMB0.443 billion).

4.1.4 Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB3.1 million (2015: RMB2.0 million), representing an increase of 59.6% as compared with that of 2015 and accounting for 0.8% of the total revenue of 2016 (2015: 0.6%), mainly due to the sales commission paid for the sales of Phase II of Business Center of Wenzhou Higher Education Mega Center by Wenzhou Guoda Investment.

4.1.5 Administrative Expenses

During the Reporting Period, administrative expenses of the Group primarily consist of benefits and expenses for the management and administrative staff, leasing expenses of the hospitals pr0n407 0 Td(p)Tj0.459 0 Td(n)Tj

4.1.6 Finance Income - Net

Our finance income includes interest income from bank deposits and the gains on foreign exchange, and the finance expenses include the interest expenses on bank loans and the financial expense in relation to long-term payables. The table below sets forth a breakdown of our financial income and expense for the periods indicated:

	For the year ended	
	December 31,	
	2016	2015
	(RMB'000)	(RMB'000)
Interest income	929	1,140
Exchange gain	25,139	10,485
Finance income	26,068	11,625
Finance expenses	(5,745)	(4,002)
Finance income — net	20,323	7,623

During the Reporting Period, the net finance income of the Group increased to RMB20.3 million, primarily attributable to the increase in the exchange gains of RMB14.7 million arising from the higher exchange rate of HKD against RMB due to the fact that the proceeds from the initial public offering were deposited in Hong Kong dollars. Finance expenses mainly comprised the finance expenses of RMB5.7 million measured at the effective interest rate from the long-term payables in relation to the entrusted management of Yanjiao Furen Hospital, representing an increase of 43.6% as compared with the same period of 2015, primarily because we started to undertake the entrustment of Yanjiao Furen Hospital in April 2015 and the same period of 2015 only includes nine months of interest calculation accordingly.

4.1.7 Share of Loss of Investments Accounted for Using the Equity Method

During the Reporting Period, share of losses of investment accounted for using the equity method amounted to RMB6.2 million (2015: RMB6.3 million), mainly representing our 49% equity interests losses in Beijing Yining Hospital and 35% equity interests losses in Hangzhou Honglan Information. Beijing Yining Hospital commenced operation in September 2015 and recorded losses after tax of RMB9.2 million in 2016.

4.1.8 Income Tax Expense

During the Reporting Period, income tax expense increased to RMB26.6 million, representing an increase of 43.3% as compared with 2015. In 2016 and 2015, our actual tax rates were 28.9% and 26.4%, respectively. The increase in actual tax rates for 2016 was mainly due to the increase in tax losses for which no deferred tax assets were recognised.

4.1.9 Total Comprehensive Income

In 2016, total comprehensive income attributable to owners of the Company amounted to RMB68.8 million, representing an increase of 23.6% as compared with 2015, primarily due to the following reasons:

- (i) exchange gain of RMB14.7 million generated by the appreciation of HKD;
- (ii) a decrease of RMB5.2 million in listing fee; and
- (iii) offset the decrease in gross profit margin due to the commencement of operation of the new facilities.

4.2 Financial Position

4.2.1 Inventory

As of December 31, 2016, inventory balances amounted to RMB9.3 million (as of December 31, 2015: RMB7.5 million), mainly due to the increase of the medicine inventory resulting from the development of our medical business.

4.2.2 Properties Under Development

As of December 31, 2016, the balance of the properties under development was RMB153.5 million (as of December 31, 2015: Nil), primarily representing the properties under development held by Wenzhou Guoda Investment as of December 31, 2016, a company acquired by the Group during the year. The table below sets forth the details of properties under development held by us during the Reporting Period:

Properties under development	Phase II Works of Business Center of Wenzhou Higher Education Mega Center
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Lot number	Guo Yong (2012) No. 3-289403
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (m.)	30,557.34
Usage	Commercial, office, hotel
Stage	Application for completion acceptance
Expected completion date	June 30, 2017

4.2.3 Trade Receivables

As of December 31, 2016, the balance of trade receivables increased to RMB142.9 million (as of December 31, 2015: RMB123.1 million), primarily due to the increase in our revenue over the same period in line with the business growth of our healthcare institutions. In 2016, the trade receivables turnover days are 117 days (2015: 116 days).

4.2.4 Other Receivables, Deposits and Prepayments

As of December 31, 2016, other receivables, deposits and prepayments increased to RMB109.2 million (as of December 31, 2015: RMB91.0 million), primarily due to the deposit of RMB5.0 million paid for the judicial auction for the property of Cangnan Kangning Hospital relocation project.

4.2.5 Investment Properties

As of December 31, 2016, the balance of investment properties increased by RMB72.2 million, mainly due to part of the properties held by Wenzhou Guoda Investment which we have acquired were leased out. The following table sets out the details of our investment properties during the Reporting Period:

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F)
Address	Southeao

4.2.8 Advanced proceeds received from the customers

As of December 31, 2016, advanced proceeds received from the customers increased to RMB67.4 million (as of December 31, 2015: Nil), mainly due to a number of properties of Wenzhou Guoda Investment, Phase II of business center of Wenzhou Higher Education Mega Center, have been sold, and the receipts in advance from the customers is RMB67.4 million. Because the properties have not been delivered, the receipts in advance have not been settled yet.

4.2.9 Accruals and Other Payables

As of December 31, 2016, accruals and other payables increased to RMB172.9 million (as of December 31, 2015: RMB166.4 million).

4.3 Liquidity and Capital Resources

The table below sets forth the information as extracted from the consolidated cash flow statements of the Group for the periods indicated:

	For the year ended	
	December 31,	
	2016	2015
	(RMB'000)	(RMB'000)
Net cash generated from/(used in) operating activities	49,867	(5,063)
Net cash (used in) investing activities	(92,788)	(382,367)
Net cash generated from financing activities	69,080	708,785
Net increase in cash and cash equivalents	26,159	321,355

4.3.1 Net Cash from Operating Activities

In 2016, net cash from operating activities amounted to RMB49.9 million. We had net cash of RMB106.7 million generated from operating activities before changes in working capital, primarily consisting of profit before tax of RMB92.1 million and adjustments for depreciation of property, plant and equipment of RMB24.8 million. Changes in working capital resulted in cash outflow of RMB40.2 million. We had cash outflow of RMB16.7 million attributable to our income tax paid.

4.3.2 Net Cash Used in Investing Activities

In 2016, net cash used in investing activities amounted to RMB92.8 million, primarily due to purchase of property, plant and equipment of RMB175.7 million, consisting of (i) amounts paid and prepaid to renovate and upgrade Wenzhou Kangning Hospital; (ii) amounts paid to renovate Wenzhou Yining Geriatric Hospital; (iii) amounts for purchasing properties by Pingyang Kangning Hospital; and (iv) RMB50.0 million for contribution to the investment fund.

4.3.3 Net Cash from Financing Activities

In 2016, net cash generated from financing activities amounted to RMB69.1 million, primarily due to a loan of RMB160.0 million from a bank, which offset repayment of the loan of RMB67.5 million from a bank and cash dividend of RMB18.3 million.

4.3.4 Significant Investment, Acquisition and Disposal

On February 22, 2016, the Company entered into a strategic cooperation agreement to contribute RMB50.0 million to an investment fund, which shall invest in healthcare and other modern services industries. In principle, the investment in the hospital and healthcare service industry shall be no less than 80% of its total amount available for investment of the investment fund. Please refer to the announcement of the Company dated February 23, 2016 for details. As of December 31, 2016, the investment fund had completed several investment projects.

On June 2, 2016, the Company entered into an agreement with Wenzhou Medical University Asset Management Company Limited (the “Vendor”) and Wenzhou Medical University in relation to (i) the acquisition of 51% of the equity interests in Wenzhou Guoda Investment by the Company from the Vendor and (ii) the acquisition by the Company of Wenzhou Medical University’s creditor’s rights in relation to certain sums owed to it by Wenzhou Guoda Investment. The Company shall pay the equity consideration of approximately RMB17.5 million and pay the consideration for the acquisition of creditor’s rights of approximately RMB20.1 million. Please refer to the announcement of the Company dated June 2, 2016 for details.

Save as disclosed above, the Group had no other significant investment, acquisition or disposal in 2016. The Group had no plan of significant investment or purchase of assets in the next one year.

4.3.5 Capital Expenditure

Capital expenditure of the Group primarily consisted of expenditures on: (i) property, plant and equipment, comprising buildings and construction, leasehold improvements, medical equipment (RMB10.5 million)

4.3.6 Use of Proceeds from Initial Public Offering

The Board closely monitored the use of proceeds from the initial public offering with reference to those as disclosed in the prospectus of the Company dated November 10, 2015 (the “**Prospectus**”) and confirmed that there was no material change in the proposed use as previously disclosed in the Prospectus. As of December 31, 2016, the Group applied the net proceeds in the followings:

RMB254.3 million for expanding and ramping up our healthcare institutions network and operating capacity;

RMB36.8 million for renovation and upgrades for Wenzhou Kangning Hospital;

RMB17.5 million for research, teaching and personnel training purposes;

RMB5.0 million to develop online platform for medical consultation and upgrade IT infrastructure; and

RMB8.6 million for working capital and other general corporate purposes.

4.4 Indebtedness

4.4.1 Bank Borrowings

As of December 31, 2016, the balance of bank borrowings of the Group amounted to RMB216.7 million (as of December 31, 2015: RMB50.0 million), primarily attributable to the additional borrowings of RMB130.0 million designated for construction purposes and borrowings of RMB56.7 million for development of Phase II properties by Wenzhou Guoda Investment in 2016. Bank borrowings due within one year amounted to RMB66.7 million, whilst bank borrowings due over one year amounted to RMB150.0 million, of which borrowings made at fixed interests rates amounted to RMB180.0 million (as of December 31, 2015: RMB50.0 million).

4.4.2 Contingent Liabilities

As of December 31, 2016, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

4.4.3 Asset Pledge

Wenzhou Guoda Investment, a subsidiary of our Group, had pledged its properties under development, Phase II of Business Center of Wenzhou Higher Education Mega Center, in favor of the Wenzhou Branch of China Minsheng Bank for bank loan and as of December 31, 2016, the balance of the borrowing amounted to RMB20 million. Wenzhou Guoda Investment had pledged its properties, Phase I of Business Center of Wenzhou Higher Education Mega Center, in favour of China Zheshang Bank for bank loan and as of December 31, 2016, the balance of the borrowing amounted to RMB36.7 million.

4.4.4 Contractual Obligations

The contractual obligation of the Group primarily consists of operating lease arrangements. As of December 31, 2016, the future aggregate minimum lease payments under non-cancellable lease agreements were RMB189.4 million.

4.4.5 Financial Instruments

Financial instruments of the Group consist of trade receivables, available-for-sale financial assets, amounts due from related parties, other receivables, term deposits, cash and cash equivalents, bank borrowings, trade and other payables. The Company's management manages and monitors these exposures to ensure effective measures are implemented on a timely manner.

4.4.6 Exposure to Fluctuation in Exchange Rates

The Group deposits certain of its financial assets in foreign currencies, which mainly involve risks of fluctuations in the exchange rate of HKD against RMB. The Group is exposed to foreign exchange risks accordingly.

The Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

4.4.7

5 SIGNIFICANT EVENTS

5.1 Application for A Shares public offering and Listing was accepted by CSRC

On December 23, 2016, the application materials in respect of the Company's proposed A share offering was accepted by CSRC. On December 27, 2016, a copy of the A share prospectus of the Company has been made available on the CSRC's website for preliminary publication. For details, please refer to the announcements of the Company dated December 23, 2016 and December 27, 2016 respectively.

5.2 Dividend

The final dividend distribution plan for the year ended December 31, 2016 (the "**Proposed Final Dividend**") was approved at the fifteenth meeting of the First Session of the Board. Subject to the approval of the Proposed Final Dividend by the Shareholders at the annual general meeting of the Company for the year 2016 (the "**AGM**") to be held on June 14, 2017, the Proposed Final Dividend will be distributed on or about July 14, 2017 to the Shareholders whose names appear on the register of members of the Company on June 25, 2017 (the "**Record Date**").

The register of members of the Company will be closed from May 15, 2017 to June 14, 2017, both days inclusive, during which period no transfer of the Shares will be effected. In order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited. ("**Computershare**") at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on May 12, 2017.

The amount of final dividend distribution shall be calculated based on the total number of shares of the Company (the "**Shares**") in issue as of December 31, 2016 and the final cash dividend distribution shall be based on RMB0.25 per Share (inclusive of applicable tax). In order to qualify for the Proposed Final Dividend, the holders of H Shares must lodge all share certificates accompanied by the transfer documents with Computershare (address: Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong) before 4:30 p.m. on June 19, 2017. For the purpose of ascertaining Shareholders who qualify for the Proposed Final Dividend, the register of members for H Shares will be closed from June 20, 2017 to June 25, 2017 (both days inclusive).

The Proposed Final Dividend will be denominated and declared in RMB. The holders of domestic Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the Proposed Final Dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days prior to the date of declaration of the Proposed Final Dividend.

In accordance with the Enterprise Income Tax Law of the People's Republic of China and its implementation regulations which came into effect on January 1, 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise Shareholders whose names appear on the register of members for H Shares when distributing the cash dividends. Any H Shares not registered under the name of an individual Shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organizations or groups, shall be deemed as Shares held by non-resident enterprise Shareholders. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such Shareholders. If holders of H Shares intend to change its Shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant Shareholders based on the register of members for H Shares as of the Record Date.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for the cash dividends to them with the PRC under the relevant tax agreement, the Company should withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of less than 10% with the PRC under the relevant tax agreement, the Company shall withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. In that case, if the relevant individual holders of H Shares wish to reclaim the extra amount withheld due to the application of 10% tax rate, the Company can apply for the relevant agreed preferential tax treatment provided that the relevant Shareholders submit the evidence required by the notice of the tax agreement to Computershare. The Company will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of over 10% but less than 20% with the PRC under the tax agreement, the Company shall withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of H Shares are residents of the countries which had an agreed tax rate of 20% with PRC, or which has not entered into any tax agreement with PRC, or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

5.3 Purchase, Sale and Redemption of Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

5.4 Review of Annual Results

The Company's audit committee has reviewed the Group's annual results for the financial year ended December 31, 2016 and has opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

The Company's audit committee consists of two independent non-executive directors of the Company, Mr. HUANG Zhi (the chairman of the audit committee) and Mr. GOT Chong Key Clevin, and one non-executive director of the Company, Ms. HE Xin. Among them, Mr. HUANG Zhi has the appropriate professional qualifications (a certified public accountant accredited by the Chinese Institute of Certified Public Accountants).

6 COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company complied with all code provisions in the Corporate Governance Code (the "**Corporate Governance Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**") during the Reporting Period. The Company will continue to review and enhance its corporate governance to ensure that it will continue to meet the requirements of the Corporate Governance Code.

7 COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix 10 to the Hong Kong Listing Rules as a code of conduct of the Company for its directors' and supervisors' securities transactions. Having made specific enquiry of all directors and supervisors of the Company, the directors and the supervisors of the Company have complied with the required standard set out in the Model Code during the Reporting Period.

8 IMPORTANT EVENTS AFTER THE REPORTING PERIOD

There is no important events after the Reporting Period to the date of this announcement.

9 FINANCIAL REPORT

9.1 Scope of work of PricewaterhouseCoopers

The figures in respect of this announcement of the Group's results for the year ended December 31, 2016 have been agreed by the Company's external auditor, PricewaterhouseCoopers ("PwC"), to the amounts set out in the Group's audited consolidated financial statements for the year ended December 31, 2016. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by PwC on this announcement.

9.2 Accounting policies

Compared to the last audited financial statements of the Group, there are no significant changes to accounting policies.

9.3 Financial Statements

9.3.1 Consolidated Statement of Comprehensive Income

	Year ended December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	415,408	343,674
Cost of revenue	<u>(273,240)</u>	<u>(213,289)</u>
Gross profit	142,168	130,385
Other income	13,304	3,074
Other gain/losses	4,220	(144)
Selling expenses	(3,144)	(1,970)
Administrative expenses	<u>(78,531)</u>	<u>(62,520)</u>
Operating profit	78,017	68,825
Finance income	26,068	11,625
Finance expenses	<u>(5,745)</u>	<u>(4,002)</u>
Finance income - net	20,323	7,623
Share of loss of investments accounted for using the equity method	<u>(6,201)</u>	<u>(6,278)</u>
Profit before income tax	92,139	70,170
Income tax expense	<u>(26,588)</u>	<u>(18,548)</u>
Net profit	65,551	51,622
Profit attributable to:		
— Equity holders of the Company	68,832	55,709
— Non-controlling interests	<u>(3,281)</u>	<u>(4,087)</u>
	65,551	51,622
Earnings per share		
Basic and diluted (in RMB)	<u>0.94</u>	<u>1.03</u>

9.3.2 Consolidated Balance Sheets

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS		
Non-current assets		
Property, plant and equipment	384,597	233,200
Investment properties	72,192	—
Land use rights	20,266	20,738
Intangible assets	114,132	90,581
Investment in associates	22,429	8,422
Deferred income tax assets	20,300	10,071
Available-for-sale financial assets	50,000	—
Deposits and prepayments	27,437	48,324
Total non-current assets	711,353	411,336
Current assets		
Properties under development	153,523	—
Inventories	9,305	7,506
Trade receivables	142,93	

	As of December 31,	
	2016	2015
	RMB'000	RMB'000
Liabilities		
Non-current liabilities		
Borrowings	149,950	—
Deferred government grants	10,633	14,284
Long-term payables	86,739	98,821
Deferred tax liabilities	16,420	—
	<hr/>	<hr/>
Total non-current liabilities	263,742	113,105
	<hr/>	<hr/>
Current liabilities		
Advanced proceeds received from customer	67,376	—
Trade payables	43,271	19,976
Accruals and other payables	68,708	63,209
Current income tax liabilities	27,735	11,559
Borrowings	73,700	50,000
Current portion of long-term payables	17,480	4,356
	<hr/>	<hr/>
Total current liabilities	298,270	149,100
	<hr/>	<hr/>
Total liabilities	562,012	262,205
	<hr/>	<hr/>
Total equity and liabilities	1,603,382	1,224,434
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9.4 Notes to the Financial Statements

9.4.1 General Information

The Company was established as a joint stock cooperative enterprise under the name of Wenzhou Kangning Mental Convalescent Hospital in the PRC on February 7, 1996. The address of the Company's registered office is at Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, the PRC.

On October 15, 2014, the Company was converted into a joint stock limited company and renamed as Wenzhou Kangning Hospital Co., Ltd..

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9.4.2 Basis of Preparation

The principal accounting policies applied in the preparation of the consolidated financial statements which ar

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the financial assets currently held by the Group rather than receivables mainly include equity instruments currently classified as available-for-sale (AFS) for which a fair value through other comprehensive income (“FVOCI”) election is available, accordingly the Group does not expect the new guidance to have a significant impact on its financial statements.

There will be no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the management’s risk management practices. The Group had no hedging instruments as of December 31, 2016 nor anticipate any such transaction in foreseeable future. Accordingly, the Group does not expect a significant impact from this new rule.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It would apply mainly to the Group’s financial assets classified at amortised cost, such as trade receivable and other receivable. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, the Group expects that it will adopt the simplified approach granted by IFRS 9 and currently do not believe there would be any material impact to the Group.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after January 1, 2018. The Group does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15, ‘Revenue from contracts with customers’

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and not yet able to estimate the detailed impact of the new rules on the Group's financial statements. However the Group currently does not expect any material changes in revenue recognition model for its healthcare segment. The property investment and development segment is more likely to be affected. The Group will make more detailed assessment during the next twelve months.

IFRS 15 is mandatory for financial years commencing on or after January 1, 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

IFRS 16, 'Leases', which will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for Group's operating leases as a lessee. The accounting for lessors will not significantly change. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB189,430,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after January 1, 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

9.4.3 Trade Receivables

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	151,043	130,738
Less: provision for impairment of trade receivables	(8,105)	(7,671)
	<hr/>	<hr/>
Trade receivables - net	<u>142,938</u>	<u>123,067</u>

The carrying amounts of the Group's trade receivables are denominated in RMB and approximate to their fair values.

As of December 31, 2015 and 2016, the aging analysis of the trade receivables was as follows:

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Aging analysis based on the billing date:		
Bills not presented	13,165	9,580
1 - 3 months	80,159	74,718
4 - 6 months	19,481	19,635
7 - 12 months	24,748	19,937
1 - 2 years	10,836	5,075
2 - 3 years	2,211	1,426
Over 3 years	443	367
	<hr/>	<hr/>
	<u>151,043</u>	<u>130,738</u>

According to the Group's terms of business, all bills are payable upon presentation.

As of December 31, 2015 and 2016, the Group's trade receivables past due but not impaired were RMB113,297,000 and RMB128,826,000, respectively. These were mainly related to the amounts to be claimed from local social insurance bureau and similar government departments who were responsible for the reimbursement of medical expenses for patients who were covered by government medical insurance schemes.

Management considered that based on past payment history those amounts could be recovered in reasonable time. The aging analysis of these trade receivables was as follows:

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	119,860	110,355
1 - 2 years	6,901	2,800
2 - 3 years	2,065	142
	<u>128,826</u>	<u>113,297</u>

As of December 31, 2015 and 2016, trade receivables of RMB7,861,000 and RMB9,052,000 were impaired. The amounts of the provision were RMB7,671,000 and RMB8,105,000 as of December 31, 2015 and 2016, respectively. The aging of these trade receivables is as follows:

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	4,528	3,935
1 - 2 years	3,935	2,275
2 - 3 years	589	1,284
Over 3 years	—	367
	<u>9,052</u>	<u>7,861</u>

Movements of the Group's provision for impairment of trade receivables are as follows:

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
At January 1,	7,671	5,005
Provision for receivables	3,770	4,907
Receivables written off as uncollectible	(3,336)	(2,241)
At December 31,	<u>8,105</u>	<u>7,671</u>

The provision for receivables impairment has been included in “administrative expenses” in the consolidated statements of comprehensive income. Amounts are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk as of the year end is the carrying amount of trade receivables. The Group does not hold any collateral as security.

9.4.4 Other Receivables, Deposits and Prepayments

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables (a)	14,940	14,337
Deposits (b)	24,854	17,268
Amount due by third parties (c)	20,935	12,304
Prepayments for rental	32,873	30,007
Prepayments for purchase of property	—	13,000
Prepayments for construction in progress	8,610	2,594
Prepayments for goods and services	217	2,539
Prepayments for A share IPO expenses	3,796	—
Prepayments for land appreciation tax	3,864	—
Others	363	43
Less: provision for impairment of other receivables	(1,210)	(1,078)
	<hr/>	<hr/>
Total	109,242	91,014
	<hr/> <hr/>	<hr/> <hr/>
Current	81,805	42,690
Non-Current	27,437	48,324
	<hr/>	<hr/>
Total	109,242	91,014
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts of the Group’s other receivables, deposits and prepayments are denominated in RMB and approximate to their fair values.

(a) Included in other receivables as of December 31, 2016 was an advance payment amounting to RMB2,960,000 (As of December 31, 2015: RMB9,210,000) to Yanjiao Furen Hospital. Such advances will be repaid to the Group by Yanjiao Furen Hospital when and as its cash flow allows as agreed by both parties.

- (b) Included in deposits as of December 31, 2015 and 2016 was a deposit of RMB 12,688,000 to the contractor of the new hospital construction work as the guarantee for fulfillment of obligation of the Group under the construction contract. The deposit will be repaid to the Group after the construction is completed and all Group's obligation has been discharged.
- (c) The Company entered into an agreement with Sichuan Hongji Pharmaceutical Company Limited ("**Sichuan Hongji**", an independent third party) in March 2015 and planned to develop certain business with Sichuan Hongji. The Company placed a deposit of RMB12,000,000 to Sichuan Hongji as future capital contribution. Subsequently, the agreement was cancelled and a supplemental agreement was entered into by Sichuan Hongji, Chengdu Jihong Hospital Company Limited ("**Chengdu Jihong**", a wholly owned subsidiary of Sichuan Hongji, which changed its name to Chengdu Renyi Hospital Company Limited), and the Company on June 29, 2015. Pursuant to the supplemental agreement, the three parties agreed to abandon the business plan and the deposit should be repaid by Chengdu Jihong to the Group within 12 months commencing from June 29, 2015, bearing an interest rate of 5% per annum. The amount is guaranteed by the shareholders of Sichuan Hongji.

The Company entered into an instalment payment agreement with Chengdu Renyi Hospital on December 10, 2016. Pursuant to the agreement, both parties agreed to expand the repayments period of the principal and interest to November 25, 2017, and the repayments are separated into 12 instalments, starting from December 25, 2016. The amount is guaranteed by the spouse of shareholders of Sichuan Hongji. As of March 24, 2017, the Company has received RMB3,225,000 as scheduled.

9.4.5 Accruals and Other Payables

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Accrued employee benefits	19,422	18,637
Receipts in advance	4,370	3,194
Rental payables	2,113	3,004
Guarantee deposit received from construction contractor (a)	12,688	12,688
Other payables for property, plant and equipment	14,573	20,831
Other taxes payable	13,461	412
Advance received from a non-controlling shareholder (b)	3,110	3,110
Long-term payables for contractual rights to provide management services	91,530	90,489
Deposits	5,476	—
Accrued listing expenses	1,040	11,606
Others	5,144	2,415
	<hr/>	<hr/>
Total	172,927	166,386
	<hr/> <hr/>	<hr/> <hr/>
Current	68,708	63,209
Current portion of long-term payables for contractual rights to provide management services	17,480	4,356
Non-current	86,739	98,821
	<hr/>	<hr/>
Total	172,927	166,386
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts of accruals and other payables are denominated in RMB. The carrying amounts approximate their fair values due to their short-term maturities.

- (a) The amount was provided by the contractor of the new hospital construction work to the Group. The amount will be repaid to the contractor after it discharges all its obligations under the contract, including but not limited to full settlement of construction workers' wages and salaries.
- (b) It represented advance received from a non-controlling shareholder of one of the Group's subsidiaries.

9.4.6 Revenue

	Year ended December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Treatments and general healthcare services	285,599	240,103
Pharmaceutical sales	105,906	87,740
Management service fee	1(r)Tj(v)Tj6.0195 Tm(8)Tj(7)0j()Tj(s	

9.4.7 Expenses by Nature

	Year ended December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses	121,778	99,988
Pharmaceutical and consumables used	106,617	86,483
Depreciation and amortization	31,085	21,706
Operating lease rental expenses	13,475	8,563
Operating lease rental expenses prepaid for pipeline healthcare facilities	12,887	7,388
Canteen expenses	14,018	11,280
Utilities expenses	7,561	5,820
Examination and testing fees	6,062	3,388
Provision for impairment of trade receivables	3,770	4,907
Provision for impairment of other receivables	132	1,078
Travelling expenses	3,789	2,481
Promotion and marketing	3,144	1,970
Donation to charities	4,479	1,814
Outsourcing fee	6,125	—
Compensation paid to patients	74	345
Listing expenses	—	5,177
Auditor's remuneration		
– Audit services	1,824	1,532
– Non-audit services	—	—
Others	18,095	13,859
	<u>354,915</u>	<u>277,779</u>

9.4.8 Income Tax Expense

The income tax expense of the Group for the years ended December 31, 2015 and 2016 is analysed as follows:

	Year ended December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax:		
– PRC corporate income tax	32,875	23,978
Deferred income tax	(6,287)	(5,430)
	<u>26,588</u>	<u>18,548</u>

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of the PRC, the principal place of the Group's operations, as follows:

	Year ended December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	92,139	70,170
Calculated at the tax rate of 25%	23,035	17,543
Expenses not tax deductible	2,394	2,507
Income not subject to tax	—	(167)
Over-provision in prior years	(320)	(1,335)
Tax losses for which no deferred income tax asset was recognised	1,479	—
	<u>26,588</u>	<u>18,548</u>

PRC Corporate Income Tax ("CIT")

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits for the year, based on the existing legislation, interpretations and practices in respect thereof, unless preferential tax rates were applicable.

9.4.9 Earnings per Share

Basic earnings per share

The calculation of basic earnings per share is based on profit attributable to ordinary equity shareholders of the Company of RMB55,709,000 and RMB68,832,000 for the years ended December 31, 2015 and 2016 respectively and the weighted average number of ordinary shares in issue as at the end of each reporting period, is calculated as follows:

Weighted average number of ordinary shares

	Year ended December 31,	
	2016	2015
	No. of shares	No. of shares
Ordinary shares issued at beginning of the period	73,040,000	50,000,000
Effect of issuance of shares	—	4,253,370
Weighted average number of ordinary shares at the end of year	<u>73,040,000</u>	<u>54,253,370</u>

The Company was converted into a joint stock limited company on October 15, 2014. The calculation of earnings per share for the year ended December 31, 2015 is based on 54,253,370 ordinary shares of the Company in issue upon the conversion as if those shares were outstanding from the beginning of the year. The calculation of earnings per share for the year ended December 31, 2016 is based on 73,040,000 ordinary shares.

Diluted earnings per Share

The Company did not have any potential dilutive shares throughout the year. Accordingly, diluted earnings per share are the same as the basic earnings per share.

9.4.10 Final Dividends

On March 24, 2016, the Board declared a final dividend of RMB18,260,000 for the year ended December 31, 2015 which is calculated based on 73,040,000 issued Shares as of December 31, 2015. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements as of December 31, 2015, and will be reflected as an appropriation of retained earnings for the year ending December 31, 2016.

On March 24, 2017, the Board declared a final dividend of RMB18,260,000 for the year ended December 31, 2016 which

Operating lease commitments

The Group leases certain office buildings and hospitals under non-cancellable operating lease agreements.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Not later than 1 year	27,197	28,593
Later than 1 year and not later than 5 years	86,649	74,546
Later than 5 years	75,584	105,831
	<u>189,430</u>	<u>208,970</u>

Investment in subsidiaries

	As of December 31,	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Not later than 1 year	35,100	43,000
Later than 1 year and not later than 5 years	7,650	15,600
Over 5 years	17,200	—
	<u>59,950</u>	<u>58,600</u>

9.4.12 Principal Subsidiaries

The following is a list of the principal subsidiaries of the Company as of December 31, 2016:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB1,000,000	100%	100%	—
Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB1,000,000	100%	100%	—
Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB1,000,000	100%	100%	—
Yueqing Kangning Hospital Co., Ltd. (樂清康寧醫院)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB1,000,000	100%	100%	—
Shenzhen Yining Hospital Co., Ltd. (深圳怡寧醫院有限公司)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB34,200,000	—	52%	48%
Wenzhou Kangning Judicial Forensic Center (溫州康寧司法鑒定所)	The PRC, sole proprietorship enterprise	Forensic psychiatric identification in PRC	Paid-in capital of RMB500,000	100%	100%	—
Linhai Kangning Hospital Co., Ltd. (臨海康寧醫院有限公司)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB2,000,000	80%	80%	20%
Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司) (a)	The PRC, Limited liability company	Geriatric hospital in PRC	Paid-in capital of RMB10,000,000	—	100%	—
Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司) (b)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB6,000,000	—	100%	—
Shenzhen Yining Medical Investment Co., Ltd. (深圳怡寧醫療投資有限公司) (c)	The PRC, limited liability company	Investment holdings in PRC	Paid-in capital of RMB10,000,000	100%	100%	—

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the group (%)	Proportion of ordinary shares held by non-controlling interests (%)
Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司) (d)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB8,000,000	—	60%	40%
Langfang Yining Hospital Management Co., Ltd. (廊坊市怡寧醫院管理有限公司) (e)	The PRC, Limited liability company	Hospital management consulting in PRC	Paid-in capital of RMB10,000,000	100%	100%	—
Zhejiang Huangfeng Hospital Management Co., Ltd. (浙江黃鋒醫院管理有限公司) (f)	The PRC, Limited liability company	Hospital management consulting in PRC	Paid-in capital of RMB10,500,000	51.22%	51.22%	48.78%
Zhejiang Kangning Hospital Management Co., Ltd. (浙江康寧醫院管理有限公司) (g)	The PRC, Limited liability company	Hospital management consulting in PRC	Paid-in capital of RMB50,000,000	100.0%	100.00%	—
Hangzhou Yining Hospital Co., Ltd. (杭州怡寧醫院有限公司) (h)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB10,000,000	—	100.00%	—
Nanchang Kangning Hospital Co., Ltd. (南昌康寧醫院有限公司) (i)	The PRC, Limited liability company	Psychiatric hospital in PRC	Nil	51%	51%	49%
Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司) (j)	The PRC, Limited liability company	Real estate sale in PRC	Paid-in capital of RMB21,560,000	—	75%	25%
Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司) (k)	The PRC, Limited liability company	Psychiatric hospital in PRC	Nil	—	51%	49%
Sihui Kangning Hospital Co., Ltd. (四會康寧醫院有限公司) (l)	The PRC, Limited liability company	Psychiatric hospital in PRC	Paid-in capital of RMB2,550,000	—	51%	49%
Taizhou Luqiao Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司) (m)	The PRC, Limited liability company	Psychiatric hospital in PRC	Nil	—	51%	49%

All the subsidiaries are established in the PRC as limited liability company except Wenzhou Kangning Judicial Forensic Center, which is a sole proprietorship enterprise.

- (a) Wenzhou Yining Geriatric Hospital Co., Ltd. was set up on November 2, 2015 with a registered capital of RMB10,000,000. Its paid in capital was RMB10,000,000 as of December 31, 2016.
- (b) Pingyang Kangning Hospital Co.,Ltd. was set up on November 2, 2015 with a registered capital of RMB6,000,000. Its paid in capital was RMB6,000,000 as of December 31, 2016.
- (c) Shenzhen Yining Medical Investment Co., Ltd. was set up on September 23, 2015 with a registered capital of RMB10,000,000. Its paid in capital was RMB10,000,000 as of December 31, 2016.
- (d) Quzhou Yining Hospital Co., Ltd. was set up on November 20, 2015 with a registered capital of RMB30,000,000. Its paid in capital was RMB8,000,000 as of December 31, 2016.
- (e) Langfang Yining Hospital Management Co., Ltd. was set up on December 2, 2015 with a registered capital of RMB10,000,000. Its paid in capital was RMB10,000,000 as of December 31, 2016.
- (f) Zhejiang Huangfeng Hospital Management Co., Ltd. was set up on February 5, 2016 with a registered capital of RMB20,500,000. Its paid in capital was RMB10,500,000 as of December 31, 2016,
- (g) Zhejiang Kangning Hospital Management Co., Ltd. was set up on July 1, 2016 with a registered capital of RMB50,000,000. Its paid in capital was RMB50,000,000 as of December 31, 2016.
- (h) Hangzhou Yining Hospital Co., Ltd. was set up on August 25, 2016 with a registered capital of RMB10,000,000. Its paid in capital was RMB10,000,000 as of December 31, 2016.
- (i) Nanchang Kangning Hospital Co., Ltd. was set up on April 7, 2016 with a registered capital of RMB20,000,000. Its paid in capital was nil as of December 31, 2016.
- (j) Wenzhou Guoda Investment Co., Ltd. was set up on February 9, 2002 with a registered capital of RMB11,000,000. Its paid in capital was RMB21,560,000 as of December 31, 2016.
- (k) Taizhou Kangning Hospital Co., Ltd. was set up on June 30, 2016 with a registered capital of RMB10,000,000. Its paid in capital was nil as of December 31, 2016.

- (l) Sihui Kangning Hospital Co., Ltd. was set up on August 19, 2016 with a registered capital of RMB10,000,000. Its paid in capital was RMB2,550,000 as of December 31, 2016.
- (m) Taizhou Luqiao Yining Hospital Co., Ltd. was set up on December 12, 2016 with a registered capital of RMB10,000,000. Its paid in capital was nil as of December 31, 2016.

By order of the Board
Wenzhou Kangning Hospital Co., Ltd.
GUAN Weili
Chairman

Zhejiang, the PRC
March 27, 2017

As of the date of this announcement, the Company's executive directors are Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue; the non-executive directors are Mr. YANG Yang and Ms. HE Xin; and the independent non-executive directors are Mr. CHONG Yat Keung, Mr. HUANG Zhi and Mr. GOT Chong Key Clevin.