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康宁

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 with limited liability)*

( )

ANNUAL REPORT ANNUAL GENERAL MEETING DECEMBER 31, 2015

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1.1 The board of directors (the Board) of Wenzhou Kangning Hospital Co., Ltd. (the Company) is pleased to announce the consolidated annual report of the Company and its subsidiaries (collectively, the Group) for the financial year ended December 31, 2015 (the Report) with comparative figures of the preceding financial year ended December 31, 2014.

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 IFRS).

## 2 FINANCIAL POSITION

### 2.1 Financial Position

	2015	2014	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<b>343,674</b>	296,296	226,363	170,813
Profit before income tax	<b>70,170</b>	68,567	47,576	17,964
Income tax expense	<b>(18,548)</b>	(17,369)	(11,383)	(4,733)
Total comprehensive income	<b>51,622</b>	51,198	36,193	13,231
Attributable to:				
Equity holders of the Company	<b>55,709</b>	51,198	36,193	13,231
Non-controlling interests	<b>(4,087)</b>			
	<b>2015</b>	2014	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	<b>1,224,434</b>	372,339	305,679	226,667
Total liabilities	<b>262,205</b>	111,249	96,818	202,601
Total equity	<b>962,229</b>	261,090	208,861	24,066
Equity attributable to:				
Equity holders of the Company	<b>959,716</b>	261,090	208,861	24,066
Non-controlling interests	<b>2,513</b>			

### 3 B E E A D

#### 3.1 B

In 2015, the Group continued to enhance the operational capabilities of its hospitals and clinics, facilitated the strategic merger of its member hospitals and improved operational efficiency via satellite medical. In 2015, the five hospitals owned by the Group enjoyed a 10% increase in beds and a 10% increase in the number of beds, which increased from 1,760 beds in 2014 to 2,010 in 2015, and high utilization rate of beds, which generated stable revenue for the Group.

While consolidating the hospital business, we also made strategic layout like acquiring the contracted and tenanted market in the region. Although the asset-light business management model. In 2015, the Group started to take the management of Ya Jia Fu Hospital of Traditional Chinese and Western Medicine\* (燕郊輔仁中西醫結合醫院, Yanjiafu Hospital), the psychiatric healthcare department of Chengde Renyi Hospital Company Limited\* (成都仁一醫院有限公司, Chengde Renyi Hospital Company Limited) established in the People's Republic of China (the PRC) on June 29, 2010 and its name was changed from Chengde Jihong Hospital Company Limited\* (成都濟宏醫院有限公司) to the current name on July 28, 2015) and Beijing Yining Hospital Company, Ltd. (北京怡寧醫院有限公司, Beijing Yining Hospital Company, Ltd.), increasing the number of the medical facilities under management from 150 in 2014 to 370 in 2015 and largely improved the quality of the contracted beds.

The Group has always believed that talent is the Group's core competitiveness and the Group has established a scientific research and talent development system. In 2015, the Group's specialized research team, which has increased to 12, published 25 papers of different types, 5 of which were cited in the Science Citation Database, and launched a project funded by the National Natural Science Foundation for the first time. Additionally, to enhance the scientific research, the number of the Group's doctor increased from 150 at the beginning of 2015 to 181 at the end of 2015, having a significant initial effect on talent accumulation.

#### 3.2 B

On January 22, 2016, the Company entered into (i) a framework agreement with Wenzhou Medical University\* (溫州醫科大學) relating to the establishment and operation of the Psychiatric School of Wenzhou Medical University\* (溫州醫科大學精神醫學學院); and (ii) a memorandum of understanding with Wenzhou Medical University Asset Management Company Limited\* (溫州醫科大學資產經營有限公司) and Wenzhou Guoda Information Technology Company Limited\* (溫州國大信息科技有限公司) relating to the acquisition of 51% of the equity interest in Wenzhou Guoda Investment Company\* (溫州國大投資有限公

\* For identification purposes only

司) by the Company from Wenzhou Medical University Asset Management Company Limited through public bidding, subject to the entitlement of relevant formal agreement(s). For detail, please refer to the Company's annual report dated January 22, 2016. The Puchiat School of Wenzhou Medical University was established on March 20, 2016. As of the date of this annual report, the Company has not acquired any interest in Wenzhou Guda Investment Company.

On January 28, 2016, the Company entered into a framework agreement with Mr. HUANG Feng and Mr. HUANG Chen (collectively, the "Partners") relating to (i) the establishment of a target company (the "Target Company") by the Vendor; (ii) the establishment of management and controlling interests by the Target Company to Pujiang Huangfeng Specialized Hospital\* (浦江黃鋒精神專科醫院) and Chuan'an Huangfeng Kang'en Hospital\* (淳安黃鋒康恩醫院); and (iii) the acquisition of 26% equity interest and become a controlling shareholder of the Target Company by the Company (the "Acquisition"). Under the completion of the Proposed Transaction, it is expected that the Company will hold 51% equity interest in the Target Company. For detail, please refer to the Company's annual report dated January 28, 2016. The Target Company was established on February 5, 2016. As of the date of this annual report, the Company has entered into an agreement relating to the Proposed Transaction.

On February 22, 2016, the Company entered into a alliance agreement with Shanghai Jinpu Health Service Investment Management Co., Ltd. (上海金浦健服股權投資管理有限公司), Shanghai Yintong Asset Management Center (Limited Partnership), Chongqing Industry Guidance Equity Investment Fund Co., Ltd. (重慶產業引導股權投資基金有限責任公司), Shina Medical Instrument Co., Ltd. (山東新華醫療器械股份有限公司), Jiangsu Shagang Group Co., Ltd. (江蘇沙鋼集團有限公司) and USUM Investment Group Co., Ltd. (渝商投資集團股份有限公司) relating to (i) the establishment of Chongqing Health Service Industrial Equity Investment Fund L.P.\* (重慶金浦醫療健康服務產業股權投資基金合夥企業 (有限合夥)) (the "Fund"); and (ii) the Company's contribution of RMB50.0 million of the subscription to the Investment Fund. On the same date, the Company and Jinpu Health Service, the managing partner of the Investment Fund, entered into a strategic cooperation agreement relating to, among the other things, certain rights of the Company as a limited partner of the Investment Fund. For detail, please refer to the Company's annual report dated February 23, 2016. The Investment Fund was established in the PRC on March 22, 2016. As of the date of this annual report, subscription has not been made and the Company expects to make subscription in 2016.

\* For identification purposes only

### 3.3 Business

Looking into the future, the Company will fully leverage the favorable government policies in China which encourage the public to establish medical facilities and expand advanced healthcare facilities even though the government reduced hospital in 2016. It is expected that Lihai Kaogong Hospital Co., Ltd.\* (臨海康寧醫院有限公司) ( ) and Weizhou Yining Geriatric Hospital Co., Ltd.\* (溫州怡寧老年醫院有限公司) ( ) will be established in the Republic of China which will cooperate with the Liaoning Medical Area in the context of the Company dated November 10, 2015 (the ) and the official business to provide medical service for the geriatric, including geriatric psychiatric (psychological treatment) illness management and in the first half of 2016. At the same time, we will also expand the operation of the Pingyang Kaogong Hospital\* (平陽康寧醫院), Quzhou Yining Hospital\* (衢州怡寧醫院) and Shenzhen Yining Hospital\* (深圳怡寧醫院), aiming for them to commence operation in the second half of 2016.

Meanwhile, we have launched the Entrepreneurial Program for 100 People (百人創業計劃), and will cooperate with the government to attract talent and integrate resources and funds for the establishment of the healthcare facilities even though the government reduced hospital in 2016. In addition, the Company will continue to adhere to the belief that talent is the core competitiveness, cooperate with Weizhou Medical University to enhance the psychiatric School of Weizhou Medical University to enhance its capabilities in scientific research and talent training, thus to gain a full talent for the long-term development of the Group.

## 4 FINANCIAL DATA

### 4.1 Financial

#### 4.1.1 Revenue

The Group generates revenue mainly through the following two ways: (i) revenue from management of hospital, and (ii) management fee from managing healthcare facilities.

\* For identification purposes only

*Revenue from operating the Group's owned hospitals*

Revenue from operating the Group's owned hospital consists of fee charged for the treatment of inpatient and the inpatient service at its ambulatory hospital, inpatient treatment and general healthcare service, pharmaceutical sale and ambulatory hospital service. The table below sets forth a breakdown of revenue from operating the Group's owned hospital for the periods indicated:

	F i n a n c i a l D a t e 2015 (RMB'000)	31, 2014 (RMB'000)
Treatment and general healthcare service	240,103	206,790
Pharmaceutical sale	87,740	77,384
Ambulatory hospital service	2,270	1,828
Total revenue	330,113	286,002
Cost of revenue	206,283	178,766
Contribution	123,830	107,236

Revenue from the Group's owned hospital amounted to RMB330.1 million, representing a year-on-year increase of 15.4%, accounting for 96.1% of the total revenue of the Group for the Reporting Period, due to the increase in the overall effective service capacity of the owned hospital and a average inpatient and day care bed. Patient inpatient received by the five of the Group's owned hospital hit a record, with inpatient inpatient facility 129,355 (2014: a facility 119,425) and inpatient bed-days of 689,244 (2014: 615,242). Average day care inpatient inpatient increased to RMB486 (2014: a facility RMB482), and total average inpatient and day care bed increased to RMB384 (2014: RMB369), and due to higher price for certain medical service charged by Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司) and Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司) since March 1, 2015 and January 1, 2015, respectively.

Revenue from treatment and general healthcare service accounted for 72.7% of revenue from operating owned hospital (2014: 72.3%), and revenue from pharmaceutical sale accounted for 26.6% of revenue from operating owned hospital (2014: 27.1%).

Cost of revenue of the owned hospital of the Group mainly consisted of pharmaceutical and consumable used, employee benefit and expense, lease expense, depreciation and amortization, and other related operating fee.

Cost fee decreased from historical recorded RMB206.3 million, decreased year-over-year recorded 15.4%, which was in line with the recorded fee. Growth margin the effected a 37.5% (2014: 37.5%).

*Management service fee income*

The Group's management service fee income is mainly derived from the management service fee of the health care facilities. The table below sets forth the breakdown of management service fee income and cost of the fee indicated:

	<b>F i n a n c i a l</b>	
	<b>D e c e m b e r</b>	<b>31,</b>
	<b>2015</b>	<b>2014</b>
	<b>(RMB'000)</b>	<b>(RMB'000)</b>
Revenue	<b>13,561</b>	10,294
Cost fee	<b>7,006</b>	2,547
Growth	<b>6,555</b>	7,747

Management service fee income of the Group amounted to RMB13.6 million, decreased year-over-year recorded 31.7% and accounting for 3.9% of the total revenue of the Group for 2015, due to the contribution of the management fee related to the newly started Beijing Yijiang Hospital 2015 which amounted to RMB1.7 million (2014: Nil).

Cost of the Group for the management service is mainly included benefit and expense of management staff assigned and amortization of the related right acquired from Beijing management right.

Cost fee of management service recorded RMB7.0 million, decreased year-over-year recorded 175.1%, reflecting the recorded fee, mainly because in April 2015, we commenced management of Yajia Fei Hospital. The Group acquired 19 shares and 9 million of the right of this hospital and recognized RMB93.1 million of intangible asset. RMB3.5 million was amortized for the related right in 2015 against the management service. Accordingly, growth margin decreased to 48.3% (2014: 75.3%).

#### 4.1.2 Gross Profit and Gross Profit Margin

Total gross profit of the Group amounted to RMB130.4 million, representing a year-on-year increase of 13.4%. Overall gross margin decreased to 37.9% (2014: 38.8%), reflecting the fact that despite the stable gross profit margin of the Red Hill, the three new healthcare facilities under management jointly contributed to the overall decrease in the Red Hill period as expected, which had a negative impact on the gross profit margin of the management and service business.

#### 4.1.3 Other Income

Other income of the Group consisted of government grants and interest income from accounts receivable. In 2015, the income amounted to RMB3.1 million, representing a year-on-year increase of 346.2%, mainly due to government grants and subsidies.

#### 4.1.4 Selling Expenses

In 2015, the selling expense of the Group amounted to RMB2.0 million, representing a year-on-year decrease of 5.8%, accounting for 0.6% of the total expense (2014: 0.7%).

#### 4.1.5 Administrative Expenses

Administrative expense of the Group mainly consisted of depreciation and amortization of management and administrative staff, expense of the Red Hill hospital and their common cement fee, depreciation, amortization and the like.

In 2015, administrative expense of the Group amounted to RMB62.5 million (2014: RMB45.6 million), representing a year-on-year increase of 37.1%, mainly due to: (i) an increase of RMB6.2 million in employee benefit expense as a result of (1) the increase in management, each added administrative staff and (2) employee-based benefits distributed to the employees of their subsidiaries through the group; (ii) an increase of RMB3.2 million in the rental fee of Weizhou Yiling Genetic Hospital which is a common cement fee; and (iii) an increase of RMB5.2 million in the employee fringe expense related to the initial public offering.

#### **4.1.6 Finance Income**

In 2015, finance income decreased to RMB7.6 million, representing a year-on-year decrease of 917.8%, mainly because the proceeds from the initial public offering were deposited in Hong Kong dollars (HK\$). Higher exchange rate of HK\$ against Renminbi (RMB) decreased the realized exchange gain by RMB9.8 million, which offset the finance expense relating to long-term payable of RMB4.0 million.

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

In 2015, share of loss of investment accounted for using the equity method amounted to RMB6.3 million (2014: nil), which represents 49% equity interest in Beijing Yiling Hospital, which commenced its operations in September 2015 and decided to liquidate of RMB12.8 million.

#### **4.1.8 Income Tax Expense**

In 2015, income tax expense decreased to RMB18.5 million, representing a year-on-year decrease of 6.8%, mainly due to the higher profit before tax of RMB70.2 million (2014: RMB68.6 million). Overall effective tax rate in 2015 and 2014 were 26.4% and 25.3%, respectively.

#### **4.1.9 Net Profit**

In 2015, profit attributable to the shareholders of the Company (the ) amounted to RMB55.7 million, representing a year-on-year decrease of 8.8% as compared with 2014.

### **4.2 Financial**

#### **4.2.1 Inventory**

As of December 31, 2015, inventory balance decreased to RMB7.5 million (as of December 31, 2014: RMB7.9 million), mainly due to the decrease in pharmaceutical inventory.

#### 4.2.2 Trade Receivables

As of December 31, 2015, the balance of trade receivable increased to RMB123.1 million (as of December 31, 2014: RMB84.5 million), mainly due to: (i) the increase in revenue from the same period with the beginning of health care facilities; and (ii) the increase in the amount of trade receivable attributable to medical insurance payment. Approximately 79.5% of trade receivable of the Group were either billed or dated aged within 90 days.

#### 4.2.3 Other Receivables, Deposits and Prepayments

As of December 31, 2015, the receivable, deposits and prepayment increased to RMB91.0 million (as of December 31, 2014: RMB41.2 million), mainly due to: (i) the increase of RMB25.8 million in prepayment for rental fee relating to Weizhou Yikang Geiatric Hospital; (ii) the increase of RMB13.0 million relating to the prepayment for the purchase of Piyang Kangning Hospital Co., Ltd.\* (平陽康寧醫院有限公司) (平陽康寧醫院有限公司), a wholly-owned subsidiary of the Company; and (iii) a total of RMB12.0 million related to the deposit of Chengde Renshi Hospital Co., Ltd. Limited by the Company.

#### 4.2.4 Trade Payables

As of December 31, 2015, trade payable decreased to RMB20.0 million (as of December 31, 2014: RMB23.8 million), of which approximately 84.5% aged within 90 days.

#### 4.2.5 Accruals and Other Payables

As of December 31, 2015, accrual and other payable increased to RMB166.4 million (as of December 31, 2014: RMB60.0 million), mainly due to RMB90.5 million of long-term payable for contractual right relating to the investment management fee, which were due to the annual management fee contract of Yajia Fei Hospital and other management agreement with hospital, aggregated with the data of each management agreement. Please refer to paragraph 4.3.4 below for more detail.

#### 4.2.6 Net Current Assets

As of December 31, 2015, net current assets of the Group amounted to RMB664.0 million (as of December 31, 2014: RMB86.2 million), mainly due to an increase in current assets in the amount of RMB590.7 million, which are the cash flow from the initial public offering, offset by an increase in current liabilities in the amount of RMB50.0 million as a result of a dividend payment from China CITIC Bank which is due within the year.

\* For identification purposes only

### 4.3 Cash Flow

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

	December 31,	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash (used)/from operating activities	(5,063)	33,328
Net cash used in investing activities	(382,367)	(60,663)
Net cash from/(used) in financing activities	708,785	(2,977)
Net increase/(decrease) in cash and cash equivalents	321,355	(30,312)

#### 4.3.1 Net Cash from Operating Activities

In 2015, net cash inflow from operating activities amounted to RMB5.1 million. We had net cash generated from operating activities before change in working capital of RMB87.0 million, including contribution before tax of RMB70.2 million and adjustment for depreciation, amortization and depletion of RMB17.3 million. Change in working capital resulted in cash inflow of RMB66.4 million, including contribution for decrease of RMB58.2 million in trade and receivable allowance; (i) increase in trade receivable allowance; and (ii) decrease in allowance for doubtful accounts. We had net cash inflow of RMB25.7 million attributable to non-current assets.

#### 4.3.2 Net Cash Used in Investing Activities

In 2015, net cash used in investing activities amounted to RMB382.4 million, including: (i) purchase of property, plant and equipment of RMB113.6 million, including (1) amount paid to acquire and upgrade Wenzhou Kangning Hospital and (2) amount paid to acquire Beijing Yiling Hospital, Lihai Kangning Hospital and Wenzhou Yiling Geriatric Hospital in the first half; and (ii) a term deposit with initial term of three months of RMB251.3 million.

### 4.3.3 Net Cash from Financing Activities

In 2015, net cash from financing activities amounted to RMB708.8 million, mainly due to: (i) net proceeds from the initial public offering of RMB590.7 million; (ii) proceeds of RMB78.4 million from issuance of new capital debt capital contribution by the company to the initial public offering; and (iii) a loan of RMB50.0 million from China CITIC Bank.

### 4.3.4 Significant Investment, Acquisition and Disposal

The Group entered into a joint investment agreement with Yajia Fei Hospital in March 2015 and a supplemental agreement in April 2015. The term of the joint investment agreement is from April 2015 to December 2034, extendable if both parties agree therewith in the future. During the term of the agreement, the Group undertakes to provide management services to Yajia Fei Hospital and meet a predetermined schedule of financial commitments to the hospital. The minimum investment commitment begins with RMB2.7 million from the period from April 1, 2015 to December 31, 2015, increases to RMB4.0 million from the year 2016, and thereafter increases by a predetermined fixed amount with the range of 4% to 10% until the year of 2034, for which the minimum investment is RMB14.1 million. If Yajia Fei Hospital fails to meet such target, the Group is entitled to contribute the shortfall. On the other hand, the Group is entitled to receive a royalty fee (based on total accounts of Yajia Fei Hospital with certain adjustments agreed by both parties) for the joint investment agreement exceeding the investment target amount management income from Yajia Fei Hospital. As a result, the Group is effectively obligated to assist Yajia Fei Hospital and meet a predetermined amount over the term of the agreement to be charged for the contractual right to provide management services to the hospital in the same period. The Group recognizes such contractual right to manage Yajia Fei Hospital and receive management service fee as an intangible asset of RMB93.1 million on the balance sheet, measured initially at the amount calculated by discounting the future financial commitment to the investment agreement.

Since a dividend is declared, the Group had a significant increase in its activities during 2015.

On February 22, 2016, the Company entered into an agreement to contribute RMB50.0 million to the Health Care Fund, which shall be used to fund the medical services provided to the employees. The Health Care Fund shall be used to fund the health care services and shall be less than 80% of the total amount available for the fund. For detail, please refer to the annual report of the Company dated February 23, 2016. As of the date of this annual report, such contribution has not been made and the Company expects to make such contribution in 2016.

#### 4.3.5 Capital Expenditure

Capital expenditure of the Group mainly included the following: (i) land and buildings, construction, leasehold improvement, medical equipment, furniture and office equipment and motor vehicle; (ii) land lease right; and (iii) intangible asset. Capital expenditure of the Group in 2015 was RMB193.4 million, an increase of 163.1% from 2014, mainly due to the acquisition of the lease right of Ya Jia Feng Hospital for 19 years and 9 months at a consideration of RMB93.1 million.

#### 4.3.6 Use of Proceeds from Initial Public Offering

The Board has monitored the use of proceeds from the initial public offering with effect to the extent disclosed in the Prospectus and confirmed that the actual material change in the use of proceeds is in line with the disclosed Prospectus. As of December 31, 2015, the Group applied the proceeds from the offering:

RMB20.0 million for the decoration of Weizhen Yiyang Geiatric Hospital; and

RMB20.0 million for contribution to the registered capital fund of Shanghai Falun Pinggan Kangyiyang Hospital, of which RMB13.0 million was used for the decoration of the site.

## 4.4 Notes

### 4.4.1 Bank Borrowings

As of December 31, 2015, the balance of bank borrowings of the Group amounted to RMB50.0 million (as of December 31, 2014: nil), all denominated in Renminbi.

### 4.4.2 Contingent Liabilities

As of December 31, 2015, the Group had no contingent liabilities requiring a guarantee that would have a material impact on the financial position of the Group.

### 4.4.3 Asset Pledge

As of December 31, 2015, none of the Group's assets had been pledged.

### 4.4.4 Contractual Obligations

The contractual obligations of the Group include commitments for lease agreements and commitments for bank borrowings. As of December 31, 2015, the future aggregate minimum lease payments for non-cancellable lease agreements were RMB209.0 million.

### 4.4.5 Financial Instruments

Financial instruments of the Group consist of trade receivables, amounts due from related parties, trade receivables, trade payables, cash and cash equivalents, bank borrowings, trade and other payables. The management manages and monitors the exposure to these financial instruments and takes appropriate measures to ensure that the Group is able to meet its financial obligations in a timely and effective manner.

#### 4.4.6 Exposure to Fluctuation in Exchange Rates

The Group does not use any financial instruments to hedge against the fluctuation in the exchange rate of Hong Kong dollar against RMB. The Group does not use any financial instruments to hedge against the fluctuation in the exchange rate of the Hong Kong dollar against the US dollar.

The Group has not used any derivative financial instruments to hedge against the fluctuation in the exchange rate of the Hong Kong dollar against the US dollar. The management manages the currency risk by closely monitoring the movement of the exchange rate and will consider hedging significant foreign currency exposure held in the future.

#### 4.4.7 Gearing Ratio

As of December 31, 2015, the Group's gearing ratio (total interest-bearing liabilities divided by total assets) was 11.8% (2014: 11.5%).

### 5 FINANCIAL STATEMENTS

#### 5.1 Statement of Financial Position

The Company's financial statements were prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Accounting Standards Board ("HKASB") and the related interpretations. The financial statements were prepared on a going concern basis. As of December 31, 2015, the Company's net assets were HK\$693.2 million (equivalent to approximately RMB580.7 million) after deducting the provision for doubtful debts and all related expenses. As of the date of this financial statement, the Company does not have any contingent liabilities.

#### 5.2 Dividends

The final dividend distribution for the year ended December 31, 2015 (the "2015 Financial Statements") was approved at the 11th 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 2015 (the "AGM") to be held on June 14, 2016, the Proposed Final Dividend will be distributed on or about July 14, 2016 to the Shareholders whose names appear on the register of members of the Company on June 24, 2016 (the "Record Date").

The register of members of the Company will be closed from May 15, 2016 to June 14, 2016, both dates inclusive, during which period no transfer of the Shares will be effected. The date to determine the identity of the Shareholders

When a shareholder attends a dividend meeting at the AGM, all shares held by the shareholder shall be deemed to be lodged with the Company's Hong Kong Registered Office Ltd. (Company) at Room 1712-1716, 17th Floor, Hongwell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on May 13, 2016.

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, 2015 and the final cash dividend distribution shall be based on RMB0.25 per Share (inclusive of applicable tax). In addition to the Proposed Final Dividend, the holder of Hong Kong registered shares shall be deemed to be lodged with the Company (address: Room 1712-1716, 17/F, Hongwell Centre, 183 Queen's Road East, Wanchai, Hong Kong) before 4:30 p.m. on June 17, 2016. For the purpose of a cash dividend, the Proposed Final Dividend shall be paid to the registered members of Hong Kong Shares on June 19, 2016 to June 24, 2016 (both dates inclusive).

The Proposed Final Dividend shall be deemed and declared in RMB. The holder of domestic Shares shall be paid in RMB and the holder of Hong Kong Shares shall be paid in Hong Kong dollars. The exchange rate of the Proposed Final Dividend to be paid in Hong Kong dollars shall be the mean of the exchange rate of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days immediately preceding the date of declaration of the Proposed Final Dividend.

In accordance with the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) and its implementing regulations which came into effect on January 1, 2008, the Company is entitled with the dividend income tax at the rate of 10% on behalf of the VIE Shareholder. The holder of the VIE Shares shall be deemed to be the shareholder of the Company for the purpose of distribution of the cash dividend. As Hong Kong is not a tax resident of the VIE Shareholder, the VIE Shareholder, including HKSCC Nominees Limited, the nominee, agent, trustee, the organization, shall be deemed a Shareholder of the VIE Shareholder. The effect of this arrangement is that the income tax shall be withheld from dividend payable to the VIE Shareholder. If the holder of Hong Kong Shares is a tax resident of the VIE Shareholder, the holder of Hong Kong Shares shall be deemed to be the shareholder of the VIE Shareholder for the purpose of distribution of the cash dividend. The Company shall comply with the law of the VIE Shareholder on behalf of the VIE Shareholder based on the request of the holder of Hong Kong Shares of the Record Date.

If the independent holders of H Shares are Hong Kong or Macau residents, the independent holders of the Company which had agreed to vote for 10% of the cash dividend to them with the PRC under the election agreement, the Company shall hold a general meeting on behalf of the independent shareholders at a rate of 10%. Should the independent holders of H Shares be independent holders of the Company which had agreed to vote for the 10% with the PRC under the election agreement, the Company shall hold a general meeting on behalf of the independent shareholders at a rate of 10%. In that case, if the independent holders of H Shares wish to reclaim the entire amount held in respect of the allocation of 10% to vote, the Company shall follow the election agreement effective at that time provided that the independent shareholders submit the evidence required by the notice of the general meeting to the Company. The Company will abide with the agreement after the approval of the general meeting. Should the independent holders of H Shares be independent holders of the Company which had agreed to vote for the 10% but less than 20% with the PRC under the election agreement, the Company shall hold a general meeting on behalf of the independent shareholders at the agreed actual rate according to the election agreement. In the case that the independent holders of H Shares are independent holders of the Company which had agreed to vote for 20% with PRC, which have entered into an agreement with PRC, then, in the case, the Company shall hold a general meeting on behalf of the independent shareholders at a rate of 20%.

### 5.3 **General Meeting**

During the period from the Listing Date to December 31, 2015, neither the Company nor its subsidiaries changed, or redeemed any of the Company's listed securities.

### 5.4 **Accountants**

The Company's audit committee has reviewed the Group's annual report for the financial year ended December 31, 2015 and has concluded that a reliable accounting statement has been compiled and that adequate disclosures have been made by the Company.

The Company's audit committee consists of independent non-executive directors of the Company, M. HUANG Zhi (the chairman of the audit committee) and M. WONG Raymond Frank Lam, and two non-executive directors of the Company, M. HE Xi. Among them, M. HUANG Zhi has the appropriate professional qualification (a certified public accountant accredited by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會)).



## 7.3 Financial Statements

### 7.3.1 Consolidated Statement of Comprehensive Income

	D 2015 RMB'000	31, 2014 RMB'000
Revenue	343,674	296,296
Cost of revenue	<u>(213,289)</u>	<u>(181,313)</u>
	<b>130,385</b>	<b>114,983</b>
Other income	3,074	689
Other loss	(144)	(151)
Selling expense	(1,970)	(2,092)
Administrative expense	<u>(62,520)</u>	<u>(45,611)</u>
	<b>68,825</b>	<b>67,818</b>
Finance income	11,625	749
Finance expense	<u>(4,002)</u>	<u></u>
	<b>7,623</b>	<b>749</b>
Share of profit of investment accounted for using the equity method	<u>(6,278)</u>	<u></u>
	<b>70,170</b>	<b>68,567</b>
Income tax expense	<u>(18,548)</u>	<u>(17,369)</u>
	<b>51,622</b>	<b>51,198</b>
Other comprehensive income	<u></u>	<u></u>
	<b>51,622</b>	<b>51,198</b>
Attributable to:		
Equity holders of the Company	<b>55,709</b>	51,198
Non-controlling interests	<u>(4,087)</u>	<u></u>
Earnings per share		
Basic and diluted (in RMB)	<b>1.03</b>	<b>1.02</b>

### 7.3.2 Consolidated Balance Sheets

	A D 2015 RMB'000	31, 2014 RMB'000
<b>A E</b>		
- t t		
P e t , l à t à d e i m à t	233,200	160,799
L à d e i g h t	20,738	21,210
l à g i b l e a e t	90,581	1,229
l e t m e t i k à a c i a t e	8,422	
D e f e e d i c m e t a a e t	10,071	4,641
D e i t à d e a m e t	48,324	13,904
	<u>411,336</u>	<u>201,783</u>
<b>C t t</b>		
l à t i e	7,506	7,911
T a d e e c e i a b l e	123,067	84,532
O t h e e c e i a b l e , d e i t à d e a m e t	42,690	27,340
A m t d e f m e l a t e d a t i e	20,044	13,502
T e m d e i t	251,334	
C a h à d c a h e i a l e t	368,457	37,271
	<u>813,098</u>	<u>170,556</u>
	<u>1,224,434</u>	<u>372,339</u>
<b>E q t t t t</b>		
t C		
S h a e c a i t a l	73,040	50,000
C a i t a l e e e	797,510	159,153
S l e e e	11,342	5,708
R e t a i n e d e a l i g	77,824	46,229
	<u>959,716</u>	<u>261,090</u>
N - c t l i g t e e t	2,513	
	<u>962,229</u>	<u>261,090</u>

	A D 2015 RMB'000	31, 2014 RMB'000
<b>LIABILITIES</b>		
Deferred government grants	14,284	14,156
Long-term payable	98,821	12,688
	<u>113,105</u>	<u>26,844</u>
Trade payable	19,976	23,829
Accrual and other payable	63,209	47,340
Contractual liabilities	11,559	13,236
Bank borrowings	50,000	
Contractual financial long-term payable	4,356	
	<u>149,100</u>	<u>84,405</u>
	<u>262,205</u>	<u>111,249</u>
	<u>1,224,434</u>	<u>372,339</u>

## 7.4 **Financial Instruments**

### 7.4.1 **General Information**

The Company was established as a joint stock company in the name of Wenzhou Kangning Mental Rehabilitation Hospital (温州市康宁精神康复医院) in the PRC on February 7, 1996. The address of the Company's registered office is at Shengji Road, Hangzhou Residential District, Wenzhou, Zhejiang, the PRC.

On October 15, 2014, the Company was converted to a joint stock limited company and named a Wenzhou Kangning Hospital Co., Ltd. (温州康宁医院股份有限公司).

The Company is engaged in psychiatric hospital in the PRC.

The Company had its initial listing on the Stock Exchange of New York on November 20, 2015.

The consolidated financial statements are prepared in RMB and presented in the local currency, unless otherwise stated.

## 7.4.2 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with the IFRS. The consolidated financial statements have been prepared on the historical cost basis.

### (a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning after January 1, 2015:

Amendment to IAS 19 'Contributions of members to defined benefit plans'.

Amendment of financial instruments IFRS 2010-2012 Cycle, IFRS 8, 'Operating segments', IAS 16, 'Property, plant and equipment', IAS 38, 'Intangible assets' and IAS 24, 'Related party disclosures'.

Amendment of financial instruments IFRS 2011-2013 Cycle, IFRS 3, 'Business combinations', IFRS 13, 'Fair value measurement'.

Amendment to IAS 27 'Earnings method for separate financial statements'.

The directors of the Company noted that the adoption of the newly adopted IFRS had no material impact on the Group's overall financial position.

### (b) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the enactment of Part 9 Accounts and Audit of the new Hong Kong Companies Ordinance (Cap. 622) came into effect during the financial year, as a result, the effective transition provisions and disclosure of certain information in the consolidated financial statements.

(c) *New standards and interpretations not yet adopted*

All amendments to standards and interpretations issued by the IASB that are effective for annual periods beginning after January 1, 2015 and have not been applied in preparing the consolidated financial statements. None of these amendments is expected to have a significant effect on the consolidated financial statements of the Group, except the following:

IFRS 9, 'Financial Instruments'

IFRS 15, 'Revenue from Contracts with Customers'

IFRS 16, 'Leases'

The Board of the IFRS Interpretations Committee stated that it is expected that these amendments would be expected to have a material impact on the Group.

**7.4.3 Trade Receivables**

	<b>A D 2015 RMB'000</b>	<b>31, 2014 RMB'000</b>
Trade receivable	<b>130,738</b>	89,537
Less: provision for impairment of trade receivable	<b>(7,671)</b>	(5,005)
Trade receivable net	<b><u>123,067</u></b>	<b><u>84,532</u></b>

The carrying amount of the Group's trade receivable as determined in RMB, and a summary of their fair value.

As of December 31, 2014 and 2015, the aggregate liability of the trade receivable is as follows:

	As of December 31, 2015 RMB'000	31, 2014 RMB'000
Aggregate liability based on the billing date:		
Bill due within:	9,580	9,927
1-3 months	74,718	45,694
4-6 months	19,635	13,082
7-12 months	19,937	14,635
1-2 years	5,075	4,574
2-3 years	1,426	1,544
Over 3 years	367	81
	<u>130,738</u>	<u>89,537</u>

According to the Group's terms of business, all bills are due within 12 months.

As of December 31, 2014 and 2015, the Group's trade receivable is aged as follows: RMB73,442,000 and RMB113,297,000, respectively. The ageing is related to the amount to be claimed for medical services and similar elements of medical services which are eligible for reimbursement of medical services and pharmaceuticals.

The management considers that based on historical experience the amount can be recovered within a reasonable time. The aggregate liability of the trade receivable is as follows:

	As of December 31, 2015 RMB'000	31, 2014 RMB'000
Less than 1 year	110,355	71,136
1-2 years	2,800	2,269
2-3 years	142	3
Over 3 years		34
	<u>113,297</u>	<u>73,442</u>

As of December 31, 2014 and 2015, trade receivable of RMB6,168,000 and RMB7,861,000 were impaired, respectively. The amount of the impairment was RMB5,005,000 and RMB7,671,000 as of December 31, 2014 and 2015, respectively. The aging of the trade receivable is as follows:

	A D 2015 <i>RMB'000</i>	31, 2014 <i>RMB'000</i>
Less than 1 ea	3,935	2,275
1-2 ea	2,275	2,305
2-3 ea	1,284	1,541
Over 3 ea	367	47
	<u>7,861</u>	<u>6,168</u>

Management of the Group has analyzed impairment of trade receivable as follows:

	A D 2015 <i>RMB'000</i>	31, 2014 <i>RMB'000</i>
At January 1,	5,005	3,699
Provision of receivable	4,907	2,957
Receivable written off as collectible	(2,241)	(1,304)
Write-back received		(347)
At December 31,	<u>7,671</u>	<u>5,005</u>

The provision of receivable impairment has been included in administrative expenses in the consolidated statement of comprehensive income. Amounts are generally written off when the expected recovery is negligible.

The maximum net credit risk of the trade receivable is the carrying amount of trade receivable. The Group does not hold collateral as security.

#### 7.4.4 Other Receivables, Deposits and Prepayments

	A D 2015 RMB'000	31, 2014 RMB'000
Other receivable <sup>(a)</sup>	14,337	1,408
Deposit <sup>(b)</sup>	17,268	16,823
Amount due by third party <sup>(c)</sup>	12,304	
Prepayment fee	30,007	16,686
Prepayment for purchase fee	13,000	
Prepayment for construction fee	2,594	1,216
Prepayment for goods	2,539	1,511
Prepayment for IPO fee		3,477
Other	43	123
Less: provision for impairment of the receivable	<u>(1,078)</u>	
Total	<u>91,014</u>	<u>41,244</u>
Contract	42,690	27,340
Non-Contract	<u>48,324</u>	<u>13,904</u>
Total	<u>91,014</u>	<u>41,244</u>

The carrying amount of the Group's other receivable, deposit and prepayment are demonstrated in RMB and a summary of their fair value.

(a) Included in the receivable as of December 31, 2015 is an advance payment amounting to RMB9,210,000 to Yajia Fei & Hui. Such advance will be repaid to the Group by Yajia Fei & Hui when the audit is completed.

(b) Included in deposit as of December 31, 2014 and 2015 is a deposit of RMB12,688,000 to the contractor of the Huihui Construction. The contractor is responsible for the fulfillment of obligations of the Group under the construction contract. The deposit will be repaid to the Group after the construction is completed and all Group's obligations have been discharged.

(c) The Company entered into an agreement with Sichuan Huiji Pharmaceutical Company Limited (Sichuan Huiji Pharmaceutical Company Limited), a subsidiary of the Company, in March 2015 and entered into a certain business agreement with Sichuan Huiji. The Company placed a deposit of RMB12,000,000 to Sichuan Huiji as the capital contribution. Subsequently, the agreement was cancelled and a settlement agreement was entered into between Sichuan Huiji, Chengde Jihong Huiji Pharmaceutical Company Limited (Chengde Jihong Huiji Pharmaceutical Company Limited), a wholly-owned subsidiary

of Sichuan Hengji) and the Company on July 29, 2015. Pursuant to the supplemental agreement, the three parties agreed to abandon the bank guarantee and the debt should be repaid by Chengde Jihong to the Group within 12 months commencing from July 29, 2015, bearing a late rate of 5% per annum. The amount is guaranteed by the shareholders of Sichuan Hengji.

On July 28, 2015, Chengde Jihong changed its name to Chengde Ronghi Industrial Company Limited.

- (d) The Company entered into an agreement with Ping'an Guangming Specialized Fund Co., Ltd. (平安资产管理, a subsidiary of Ping'an) in October 2015 to purchase a total of 1 million Ping'an Guangming Specialized Fund units for a total cost of RMB18,000,000. As of December 31, 2015, RMB13,000,000 was paid to Ping'an Guangming.

#### 7.4.5 Accruals and Other Payables

	A D 2015 RMB'000	31, 2014 RMB'000
Accrued employee benefit	18,637	17,939
Receivable advance	3,194	3,416
Retainable	3,004	3,362
Guarantee deposit received from contractual contract <sup>(a)</sup>	12,688	12,688
Other payable for settlement, liquidation expense	20,831	19,916
Other payable	412	641
Advance received from non-current shareholder <sup>(b)</sup>	3,110	1,500
Long-term payable for contractual right to management fee	90,489	
Accrued liability expense	11,606	
Other	2,415	566
<b>Total</b>	<b>166,386</b>	<b>60,028</b>
Current	63,209	47,340
Current liability for long-term payable for contractual right to management fee	4,356	
Non-current	98,821	12,688
<b>Total</b>	<b>166,386</b>	<b>60,028</b>

The carrying amount of accounts receivable and the payable are determined in RMB. The carrying amount is a fair estimate of their fair value at the reporting date.

- (a) The amount is provided by the contract of the hospital contract with the Government. The amount will be received by the contract after it discharges all its obligations under the contract, including but not limited to fulfillment of contractual obligations and liabilities.
- (b) It is expected to be received from a government-owned hospital of the Government's subsidiary.

#### 7.4.6 Revenue

	<b>D</b>	<b>31,</b>
	<b>2015</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Treatment and general healthcare service	<b>240,103</b>	206,790
Pharmaceutical sale	<b>87,740</b>	77,384
Accidental hospital service	<b>2,270</b>	1,828
Management service fee	<b>13,561</b>	10,294
	<b><u>343,674</u></b>	<b><u>296,296</u></b>

### 7.4.7 Expenses by Nature

	D 2015 <i>RMB'000</i>	31, 2014 <i>RMB'000</i>
Empl ee benefit e	99,988	82,750
Pharmaceutical and consumable	86,483	75,419
Depreciation and amortization	21,706	15,067
Operating lease expense	8,563	10,055
Operating lease expense related to office and healthcare facilities	7,388	6,612
Catering	11,280	8,404
Utilities	5,820	5,381
Embassy and telegram fee	3,388	3,900
Provision for impairment of receivable	4,907	2,610
Provision for impairment of the receivable	1,078	
Traveling expense	2,481	3,086
Promotion and marketing	1,970	2,092
Donation and charity	1,814	1,834
Commission and agent	345	1,147
Litigation	5,177	
Administrative		
Administrative	1,532	315
Non-administrative		
Other	13,859	10,344
	<u>277,779</u>	<u>229,016</u>

## 7.4.8 Income Tax Expense

The income tax expense of the Group for the years ended December 31, 2014 and 2015 is analyzed as follows:

	D 2015 <i>RMB'000</i>	31, 2014 <i>RMB'000</i>
Current income tax:		
PRC current income tax	23,978	19,054
Deferred income tax	<u>(5,430)</u>	<u>(1,685)</u>
	<u><b>18,548</b></u>	<u><b>17,369</b></u>

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

	D 2015 <i>RMB'000</i>	31, 2014 <i>RMB'000</i>
Profit before income tax	70,170	68,567
Calculated at the tax rate of 25%	17,543	17,142
Excess tax deductible	2,507	227
Income tax subject to	(167)	
One-off interest expense	<u>(1,335)</u>	
	<u><b>18,548</b></u>	<u><b>17,369</b></u>

### *PRC corporate income tax*

The income tax liability of the Group is the effect of operations in the PRC has been calculated at the tax rate of 25% and the estimated available profit for the year, based on the existing legislation, the statutory and practice effect the effective preferential tax rate is applicable.

## 7.4.9 Earnings per Share

### Basic earnings per share

The calculation of basic earnings per share is based on profit attributable to ordinary shareholders of the Company of RMB51,198,000 and RMB55,709,000 for the ended December 31, 2014 and 2015, respectively, and the weighted average number of shares in issue as at the end of each reporting period, calculated as follows:

### Weighted average number of ordinary shares

	D 2015	31, 2014
	<i>No. of shares</i>	<i>No. of shares</i>
Ordinary shares issued at beginning of the period	50,000,000	50,000,000
Effect of increase of shares	<u>4,253,370</u>	<u>                    </u>
Weighted average number of shares in issue at the end of each period	<u><u>54,253,370</u></u>	<u><u>50,000,000</u></u>

The Company was incorporated in the People's Republic of China on October 15, 2014. The calculation of earnings per share for the ended December 31, 2014 is based on 50,000,000 ordinary shares in issue for the entire period since the shares were issued from the beginning of the period. The calculation of earnings per share for the ended December 31, 2015 is based on 54,253,370 ordinary shares.

### Diluted earnings per Share

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

#### 7.4.10 Final Dividends

On March 11, 2015, the Board declared a final dividend of RMB18,480,000 for the year ended December 31, 2014. The dividend was approved by the Shareholders' meeting on June 1, 2015 and the Company paid out the dividend on July 23, 2015.

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 declared dividend is not reflected as a dividend payable in the consolidated financial statements as of December 31, 2015, and will be reflected as a liability of retained earnings for the year ending December 31, 2016.

	<b>D 2015 RMB'000</b>	<b>31, 2014 RMB'000</b>
Paid final dividend of RMB0.25 (2014: RMB0.35) on each Share	<u><u>18,260</u></u>	<u><u>18,480</u></u>

#### 7.4.11 Commitments

##### *Capital commitments*

	<b>A D 2015 RMB'000</b>	<b>31, 2014 RMB'000</b>
Contracted but not provided for construction buildings	36,635	86,130
Leasehold improvements	60,529	1,784
Other, largely deposits	<u>10,935</u>	<u>794</u>
	<u><u>108,099</u></u>	<u><u>88,708</u></u>

##### *Operating lease commitments*

The Group leases certain office buildings and historical buildings on non-cancellable lease agreements.

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

	<b>A</b>	<b>D</b>	<b>31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Not later than 1 year	<b>28,593</b>		26,654
Late than 1 year and not later than 5 years	<b>74,546</b>		80,867
Late than 5 years	<b>105,831</b>		129,116
	<b>208,970</b>		236,637

*Investment in subsidiaries*

	<b>A</b>	<b>D</b>	<b>31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Not later than 1 year	<b>43,000</b>		8,600
Late than 1 year and not later than 5 years	<b>15,600</b>		2,400
	<b>58,600</b>		11,000



All the subsidiaries are established in the PRC as limited liability companies in Zhejiang. Kangyig Judicial Finance Co., which is a listed company.

- (a) Zhejiang Yiyig Genetic Hospital Co., Ltd. was established in November 2, 2015 with a registered capital of RMB10,000,000. Its paid-up capital was RMB10,000,000 as of December 31, 2015.
- (b) Pingyig Kangyig Hospital Co., Ltd. was established in November 2, 2015 with a registered capital of RMB6,000,000. Its paid-up capital was RMB6,000,000 as of December 31, 2015.
- (c) Shenzhe Yiyig Medical Investment Co., Ltd. was established in September 23, 2015 with a registered capital of RMB10,000,000. Its paid-up capital was RMB10,000,000 as of December 31, 2015.
- (d) Qizhe Yiyig Hospital Co., Ltd. was established in November 20, 2015 with a registered capital of RMB30,000,000. Its paid-up capital was RMB30,000,000 as of December 31, 2015.
- (e) Hangzhou Huiyig Information Technology Co., Ltd. was established in November 20, 2015 with a registered capital of RMB5,000,000. Its paid-up capital was RMB5,000,000 as of December 31, 2015.
- (f) Langfang Yiyig Hospital Management Co., Ltd. was established in December 2, 2015 with a registered capital of RMB10,000,000. Its paid-up capital was RMB10,000,000 as of December 31, 2015.

Board of Directors  
WANG Hongyue  
Chairman

Zhejiang, the PRC  
March 29, 2016

*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. WONG Raymond Fook Lam.*