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康宁

温州康宁医院股份有限公司

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

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ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2015

1. GENERAL INFORMATION

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 Reporting Period) with comparative figures for 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 SUMMARY

2.1 Financial Results

	F 2015 <i>RMB'000</i>	2014 <i>RMB'000</i>	D 2013 <i>RMB'000</i>	31, 2012 <i>RMB'000</i>
Revenue	343,674	296,296	226,363	170,813
Profit before income tax	70,170	68,567	47,576	17,964
Income tax expense	(18,548)	(17,369)	(11,383)	(4,733)
Total comprehensive income	51,622	51,198	36,193	13,231
Attributable to:				
Equity holders of the Company	55,709	51,198	36,193	13,231
Non-controlling interests	(4,087)			
		A	D	31,
	2015	2014	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	1,224,434	372,339	305,679	226,667
Total liabilities	262,205	111,249	96,818	202,601
Total equity	962,229	261,090	208,861	24,066
Equity attributable to:				
Equity holders of the Company	959,716	261,090	208,861	24,066
Non-controlling interests	2,513			

3 B E A D

3.1 B

In 2015, the Government has led the operational capabilities of the hospital network, facilitated the emergence of high-quality hospitals and improved operational efficiency. In 2015, the five hospitals led by the Government increased the number of beds by 1,760 in 2014 to 2,010 in 2015, and high utilization rate of beds, which greatly benefited the Government.

While consolidating the hospital beds, we also made strategic layout like upgrading the construction of the hospital through the asset-light model. In 2015, the Government led the development of the Ya Jia Fie Hospital of Traditional Chinese and Western Medicine* (燕郊輔仁中西醫結合醫院, YJF), the psychiatric healthcare of Chengde Renyi Hospital Co., Ltd.* (成都仁一醫院有限公司, CRH) and the establishment of the People's Republic of China (the PRC) on June 29, 2010 and it was changed to Chengde Jihong Hospital Co., Ltd.* (成都濟宏醫院有限公司) in the context of July 28, 2015) and Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司, BYH), increasing the number of the medical facilities by 150 in 2014 to 370 in 2015 and laid a good foundation for the construction of the hospital.

The Government has always believed that talent is the Government's core competitive advantage and the Government has established a scientific and effective talent system. In 2015, the Government's specialized research teams, which were established in 12, published 25 scientific papers, 5 of which were included in the Science Citation Database, and laid a project funded by the National Natural Science Foundation of the People's Republic of China. In addition to the scientific and effective research, the Government's research and development of 150 at the beginning of 2015 to 181 at the end of 2015, has had a significant initial effect on the development.

3.2 B

On January 22, 2016, the Company completed the acquisition of the Weizhou Medical University* (溫州醫科大學) in relation to the establishment of the Psychiatric School of Weizhou Medical University* (溫州醫科大學精神醫學學院); and (ii) the acquisition of the Weizhou Medical University Asset Management Co., Ltd.* (溫州醫科大學資產經營有限公司) and Weizhou Guoda Information Technology Co., Ltd.* (溫州國大信息科技有限公司) in relation to the acquisition of 51% of the equity interest in Weizhou Guoda Investment Co., Ltd.* (溫州國大投資有限公

* For identification purposes only

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

On January 28, 2016, the Company entered into a framework agreement with M. HUANG Feng and M. HUANG Cheng (collectively, the "Individuals") in relation to (i) the establishment of a target company (the "Target Company") by the Vendor; (ii) the establishment of a agreement to acquire the Target Company at Pujiang Huangfeng 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 not entered into an agreement in relation to the Proposed Transaction.

On February 22, 2016, the Company entered into a strategic agreement with Shanghai Jintong Health Service Investment Management Co., Ltd. (上海金浦健服股權投資管理有限公司), Shanghai Yicheng Asset Management Center (Limited Partnership) (上海銀驄資產管理中心(有限合夥)), Chongqing Guiding Industry Equity Investment Fund Co., Ltd. (重慶產業引導股權投資基金有限責任公司), Shandong Xinhua 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) in relation to (i) the establishment of Chongqing Jintong 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 Shanghai Jintong Health Service Investment Management Co., Ltd. entered into a strategic cooperation agreement in relation to, among 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, each contribution has been made and the Company expects to make each contribution in 2016.

* For identification purposes only

3.3 B

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 through the investment in hospitals. It is expected that Li Hai Kaigong Hospital Co., Ltd.* (臨海康寧醫院有限公司) (), Weizhou Yining Geriatric Hospital Co., Ltd.* (溫州怡寧老年醫院有限公司) (), and other subsidiaries of the Company which have established the Liaoning Medical Area in the context of the Company dated November 10, 2015 (the) and other subsidiaries provide medical services for the geriatric, clinical geriatric psychiatric (psychological treatment) will continue to contribute in the first half of 2016. At the same time, we will also expand the operation of the Pingyang Kangning 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 the total contribution in the second half of 2016.

Meanwhile, we have launched the Entrepreneurial Program of 100 People (百人創業計劃), and will continue with our staff to attract talent and integrate resources and expand the advanced healthcare facilities of the Group through various channels in 2016. In addition, the Company will continue to adhere to the belief that talent is the core competitive edge, cooperate with Weizhou Medical University to strengthen the psychiatric School of Weizhou Medical University to enhance its capabilities in scientific research and talent training, thus significantly improve the level of talent development of the Group.

4 A A E E D U C U A D A A U

4.1 F U

4.1.1 Revenue

The Group generates revenue mainly through the following ways: (i) revenue from investment in hospitals, and (ii) management fees for managing healthcare facilities.

* For identification purposes only

Contract fee income increased to RMB206.3 million, an increase of 15.4%, which is mainly due to the increase in fee income from the fitness center. The fitness center's contribution increased by 37.5% (2014: 37.5%).

Management service fee income

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

	December 31, 2015 (RMB'000)	2014 (RMB'000)
Revenue	13,561	10,294
Contract fee	7,006	2,547
Goodwill	6,555	7,747

Management service fee income for the Group amounted to RMB13.6 million, an increase of 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 established Beijing Yiyigong Hospital in 2015, which amounted to RMB1.7 million (2014: nil).

Cost for the Group of management service is mainly included in the benefit of the management staff assigned to the management facilities.

Contract fee from management service increased to RMB7.0 million, an increase of 175.1%, mainly due to the increase in fee income, mainly because in April 2015, we commenced management of Ya Jia Fei Hospital. The Group acquired 19% and 9% of the management rights of this hospital and recognized RMB93.1 million of intangible assets. RMB3.5 million was amortized for the management rights in 2015 against fee income. Accordingly, the contribution 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 decrease of 13.4%. Overall gross profit margin decreased to 37.9% (2014: 38.8%), reflecting the fact that despite the stabilizing gross profit of the Hospital, the three new healthcare facilities under strategic development in the Region of Pidda and Dade continued to be at a loss, which had a negative impact on the gross profit of the strategic and vice versa.

4.1.3 Other Income

Other income of the Group consisted of government grants and other income receivable. In 2015, the income amounted to RMB3.1 million, representing a decrease of 346.2%, mainly due to government grants.

4.1.4 Selling Expenses

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

4.1.5 Administrative Expenses

Administrative expenses of the Group mainly consisted of employee benefits, depreciation, strategic and administrative staff, expenses of the new hospital in their respective territories, depreciation, amortization and other.

In 2015, administrative expenses of the Group amounted to RMB62.5 million (2014: RMB45.6 million), representing a decrease of 37.1%, mainly due to: (i) a decrease of RMB6.2 million in employee benefits due to (1) the increase in strategic staff, each had administrative staff and (2) effective-based budget distribution of the employee benefits; (ii) a decrease of RMB3.2 million in the rental fee of Weizhuo Yiyiguo Hospital which incurred a decrease; and (iii) a decrease of RMB5.2 million in the employee-related 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 credit loss from the initial public offering of the Heng Kong Global (US\$). Higher charge rate of HK\$ against Renminbi (RMB) increased the realized exchange gain by RMB9.8 million, which offset the finance expense relating to the 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 investments accounted for using the equity method decreased to RMB6.3 million (2014: nil), which represents 49% of the investment in Beijing Yiyig Hospital, which commenced its operation in September 2015 and recorded a loss 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 effective rate of RMB70.2 million (2014: RMB68.6 million). Effective 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 net profit) amounted to RMB55.7 million, representing a year-on-year decrease of 8.8% as compared with 2014.

4.2 Financial Instruments

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 pharmaceuticals.

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 sale of medical equipment with the business group's health care facilities; and (ii) the increase in the amount of trade receivable attributable to medical insurance payment. As of December 31, 2015, 79.5% of trade receivable of the Group were either billed or settled aged within 90 days.

4.2.3 Other Receivables, Deposits and Prepayments

As of December 31, 2015, the receivable, deposit 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 the purchase of land use rights in Weizhou, Yizheng Geiatric Hospital; (ii) the increase of RMB13.0 million relating to the prepayment for the purchase of equipment from Pingyang 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) an increase of RMB12.0 million related to the deposit for the purchase of land use rights from 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 84.5% are 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 rights relating to the purchase of a piece of equipment, which is related to the purchase of a piece of equipment from Ya Jia Fei Hospital and the purchase of a piece of equipment from Chongqing Hospital, aggregated with the data of each purchase agreement. Please refer to the agenda 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 net current assets of RMB590.7 million, which is the cash flow from the initial public offering, offset by an increase in current liabilities of RMB50.0 million, mainly due to the increase in the amount of CITIC Bank, which is due to the increase in the amount of the Group's

* For identification purposes only

4.3 现金流量表

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

	2015 RMB'000	2014 RMB'000
Net cash (used in)/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 billion. We had net cash generated from operating activities before change in working capital of RMB87.0 billion, including contribution from operations of RMB70.2 billion and adjustment of depreciation, amortization and other non-cash items of RMB17.3 billion. Change in working capital resulted in cash inflow of RMB66.4 billion, including favorable change of RMB58.2 billion in trade and receivable allowance; (i) increase in trade receivable allowance; (ii) decrease in trade receivable allowance; and (iii) increase in trade receivable allowance. We had net cash inflow of RMB25.7 billion from investment activities.

4.3.2 Net Cash Used in Investing Activities

In 2015, net cash used in investing activities amounted to RMB382.4 billion, including: (i) purchase of property, plant and equipment of RMB113.6 billion, including (1) acquisition of Beijing Kaigong Hospital and (2) acquisition of Beijing Yiyigong Hospital, Li Hai Kaigong Hospital and Weizhou Yiyigong Hospital; and (ii) acquisition of investment in the amount of RMB251.3 billion.

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) net proceeds of RMB78.4 million from the issuance of capital debt capital contribution by 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 technology agreement with Ya Jia Fei Hospital in March 2015 and a license agreement in April 2015. The term of the technology agreement is from April 2015 to December 2034, extendable if both parties agree. The Group undertakes to provide a license to Ya Jia Fei Hospital and meet a predetermined schedule for all intellectual property of the license. The intellectual property of the license begins with RMB2.7 million from the effective date of April 1, 2015 to December 31, 2015, increase to RMB4.0 million from the year 2016, and be subject to increase based on the fixed rate of 4% to 10% until the year of 2034, from which the intellectual property of the license is RMB14.1 million. If Ya Jia Fei Hospital fails to meet the license, the Group will be entitled to the license. On the other hand, the Group is entitled to receive a royalty fee (based on the total amount of Ya Jia Fei Hospital with certain adjustments agreed by the parties of the technology agreement) exceeding the intellectual property of the license to Ya Jia Fei Hospital. As a result, the Group is effectively obligated to pay Ya Jia Fei Hospital a predetermined amount under the terms of the agreement. The contractual right to provide a license to the hospital is the asset. The Group recognizes the contractual right to license Ya Jia Fei Hospital and receive a license fee as an intangible asset of RMB93.1 million on the balance sheet, measured initially at the amount calculated by discounting the future cash flows of the license agreement.

As a disclosed above, the Group had significant net cash, activities in 2015.

On February 22, 2016, the Company entered into a agreement to contribute RMB50.0 million to the Internet Fund, which shall invest in healthcare and the service industry. In addition, the Internet Fund's investment in the healthcare service industry shall be no less than 80% of its total available funds. For detail, please refer to the announcement of the Company dated February 23, 2016. As of the date of this announcement, such contributions have been made and the Company expects to make such contributions in 2016.

4.3.5 Capital Expenditure

Capital expenditure of the Group is mainly used for the following: (i) research and development, land acquisition, construction, leasehold improvement, medical equipment, office and staff vehicles; (ii) land acquisition; and (iii) intangible assets. Capital expenditure of the Group in 2015 was RMB193.4 million, representing an increase of 163.1% from 2014, mainly due to the acquisition of the majority of Ya Jia Fei Hospital in 19 areas and 9 months at a cost of RMB93.1 million.

4.3.6 Use of Proceeds from Initial Public Offering

The Board of Directors used the 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 disclosed in the Prospectus. As of December 31, 2015, the Group applied the proceeds from the offering:

RMB20.0 million for the decoration of Weizhen Yiyig
Genetic Hospital; and

RMB20.0 million for contribution to the registered capital fund of the subsidiary Pigaog Kaogig Hospital, of which RMB13.0 million was used for the decoration of the site.

4.4

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 guaranteed that would have a material impact on the financial statements 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 lease agreements, lease agreements. As of December 31, 2015, the future aggregate liability of lease agreements denominated in Renminbi is RMB209.0 million.

4.4.5 *Financial Instruments*

Financial instruments of the Group consist of trade receivables, accounts payable, related parties, trade receivables, trade payables, cash and cash equivalents, bank borrowings, trade and other payables. The management manages and monitors the credit risk of the receivables and payables. The management has established a credit policy and effective

4.4.6 Exposure to Fluctuation in Exchange Rates

The Group does not use any financial derivatives, and is not exposed to the fluctuation in exchange rate of Hong Kong dollar against RMB. The Group does not use any derivatives to hedge its exposure to exchange rate risk.

The Group has not used any derivative financial instruments to hedge against its exposure to exchange rate risk. The management manages the exchange rate risk by closely monitoring the exchange rate of the Hong Kong dollar against RMB. The Group will consider hedging significant exchange rate risk where it is deemed appropriate.

4.4.7 Gearing Ratio

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

5 FINANCIAL STATEMENTS

5.1 Statement of Financial Position

The Company's financial statements were audited by the Stock Exchange of Hong Kong Limited (the "SEHK") on November 20, 2015 (the "Date of Audit"). As at December 31, 2015, the Company's net proceeds from the initial public offering amounted to approximately HK\$693.2 million (equivalent to approximately RMB580.7 million) after deducting underwriting costs and all related expenses. As of the date of this financial statement, the Company does not have any change in its financial position since the completion of the IPO.

5.2 Dividends

The final dividend distribution for the year ended December 31, 2015 (the "2015 Final Dividend") 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 who have a record date for the purpose of the Company on June 24, 2016 (the "Record Date").

The dividend payable to the Company will be cleared by May 15, 2016 on June 14, 2016, both dates inclusive, which is subject to the approval of the Shareholders. The dividend will be effected. In order to determine the identity of the Shareholders

Who are entitled to attend and vote at the AGM, all have to be duly certified and accepted by the relevant authorities to be eligible with the Company's H Share Registar, Computershare Hong Kong Investor Services Ltd. (Computershare) at Shing Mun 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (starting at 4:30 p.m. on March 13, 2016).

The amount of final dividend to 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 to be based on RMB0.25 per Share (inclusive of applicable tax). In order to qualify for the Proposed Final Dividend, the holder of H Shares must hold all shares certificate accepted by the relevant authorities with Computershare (address: Shing Mun 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) before 4:30 p.m. on June 17, 2016. For the purpose of a certain Shareholder who qualifies for the Proposed Final Dividend, the register of members of H Shares will be closed from June 19, 2016 to June 24, 2016 (both dates inclusive).

The Proposed Final Dividend will be denominated and declared in RMB. The holder of domestic Shares will be paid in RMB and the holder 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 rate of the exchange rate for 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 holder of the Shares to pay tax on behalf of the shareholder on the dividend. As H Shares registered under the name of the individual Shareholder, including HKSCC Nominees Limited, the nominee, agent, trustee, the organization, etc., shall be deemed as Shares held by the shareholder. The effect, therefore, is that the individual Shareholder will be deemed to hold the dividend payable to such Shareholder. If the holder of H Shares intends to change its Shareholder status, please refer to the relevant procedures with the agent, trustee. The Company will strictly comply with the law and the requirements of the relevant tax authorities to withhold the dividend on behalf of the Shareholder based on the register of members of H Shares as of the Record Date.

If the independent holder of H Shares are Hong Kong Macau resident
 resident of the country which had a agreed to take of 10% of the
 cash dividend to the PRC. In the event of the election agreement, the
 Company shall hold the dividend on behalf of the
 election shareholder at a rate of 10%. Should the independent holder of H
 Shares be resident of the country which had a agreed to take of less
 than 10% with the PRC. In the event of the election agreement, the Com-
 pany shall hold the dividend on behalf of the election
 shareholder at a rate of 10%. In that case, if the independent holder
 of H Shares is not the claimant, the dividend held by the
 applicant of 10% to take, the Company shall of the election agreed
 effective to take the dividend that the election shareholder be the
 effective dividend by the election agreement to the Company. The
 Company will also with the tax effect after the actual of the
 dividend. Should the independent holder of H Shares be resident of the
 country which had a agreed to take of less than 20% with
 the PRC. In the event of the election agreement, the Company shall hold the
 dividend on behalf of the election shareholder at the agreed actual rate in accordance with the
 election agreement. In the case that the independent holder of H Shares
 are resident of the country which had a agreed to take of 20% with PRC,
 which has the election agreement with PRC, then, the Company shall hold the dividend on behalf of the election shareholder at a rate of 20%.

5.3 董事、監事、高級管理人員

During the period of the Litigation Date to December 31, 2015, either the
 Company or its subsidiaries changed, led or elected any of the
 Company's listed executives.

5.4 董事 A

The Company's audit committee has reviewed the Group's annual report for
 the financial year ended December 31, 2015 and has advised that a reliable
 accounting data and disclosure have been complied with and that
 adequate disclosure 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 Fok Lai, an independent non-executive
 director 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)).

6 C O N T R I B U T I O N S T O A R T I C L E 2.7 A C E C D E

The Company complied with all conditions in Article 2.7 of the Companies Act 2008 (the Companies Act) and Article 141 of the Rules Governing the Listing of Securities (The Stock Exchange of Hong Kong Limited) of the Listing Date (December 31, 2015), and the de facto conditions in Article 2.7 which apply in relation to the de facto conditions of the Listing Date (December 31, 2015). Conditions in Article 2.7 require that the chairman hold at least a certain percentage of the issued shares (including de facto shares) with the executive directors. The Company has complied with all the conditions. The Company will continue to ensure compliance with the Companies Act 2008.

7 F I N A N C I A L I N F O R M A T I O N

7.1 F I N A N C I A L I N F O R M A T I O N

The figures in this section of the Group's report for the year ended December 31, 2015 have been agreed by the Company's external auditor, PricewaterhouseCoopers (PwC), to the audit report on the Group's audited consolidated financial statements for the year ended December 31, 2015. The work performed by PwC in this respect did not constitute a separate engagement with Hong Kong Standards Auditing, Hong Kong Standards Review Engagement or Hong Kong Standards Assurance Engagement as defined by the Hong Kong Institute of Certified Public Accountants and, as a result, has been performed by PwC in this section.

7.2 A

Compared to the latest audited financial statements of the Group, the significant changes to accounting policies.

7.3 Financial Results

7.3.1 Consolidated Statement of Comprehensive Income

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

7.3.2 Consolidated Balance Sheets

	A D 2015 RMB'000	31, 2014 RMB'000
A E		
-		
Prepaid expenses	233,200	160,799
Land lease right	20,738	21,210
Intangible assets	90,581	1,229
Intangible assets	8,422	
Deferred income taxes	10,071	4,641
Debt due to related parties	48,324	13,904
	<u>411,336</u>	<u>201,783</u>
C		
Inventory	7,506	7,911
Trade receivables	123,067	84,532
Other receivables, due to and from related parties	42,690	27,340
Assets of related parties	20,044	13,502
Term deposits	251,334	
Cash and cash equivalents	368,457	37,271
	<u>813,098</u>	<u>170,556</u>
	<u>1,224,434</u>	<u>372,339</u>
E		
E		
C		
Share capital	73,040	50,000
Capital reserve	797,510	159,153
Surplus reserve	11,342	5,708
Retained earnings	77,824	46,229
	<u>959,716</u>	<u>261,090</u>
Non-current liabilities	2,513	
	<u>962,229</u>	<u>261,090</u>

	A D 2015 RMB'000	31, 2014 RMB'000
LIABILITIES		
-		
Deferred government	14,284	14,156
Long-term payable	<u>98,821</u>	<u>12,688</u>
	<u>113,105</u>	<u>26,844</u>
C		
Trade payable	19,976	23,829
Accrual and other payable	63,209	47,340
Contractual liabilities	11,559	13,236
Bank borrowing	50,000	
Contractual long-term payable	<u>4,356</u>	
	<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 Information

7.4.1 General Information

The Company was established as a joint stock company in the People's Republic of China (PRC) on February 7, 1996, in the form of Wenzhou Kangning Mental Rehabilitation Hospital (溫州市康寧精神康復醫院) in the PRC. 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 into a joint stock limited company named Wenzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司).

The Company is engaged in psychiatric hospital in the PRC.

The Company had its initial public offering on the Stock Exchange of Hong Kong on November 20, 2015.

The consolidated financial statements are prepared in RMB and presented in the English and Chinese languages. The Chinese version prevails in the event of any discrepancy.

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 amended standards have been adopted by the Group for the financial year beginning after January 1, 2015:

Amended IAS 19 'Contributions to defined benefit plans'.

Amended 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'.

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

Amended IAS 27 'Earnings per share of a financial instrument'.

The directors of the Company noted that the adoption of the amended IFRS had no material impact on the Group's earnings and financial position.

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

In addition, the effect of Part 9 Accounting and Audit of the new Hong Kong Companies Ordinance (Cap. 622) came into effect during the financial year, as a result, the exchange of the related disclosures of certain information in the consolidated financial statements.

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

As a result of the adoption of the new standards and interpretations, the Group has adopted the following standards and interpretations that are effective for the financial year beginning on January 1, 2015 and have not been applied in the consolidated financial statements. None of the new standards and interpretations 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 Group has reviewed the IFRS and IFRIC interpretations that are expected to be effective that should be expected to have a material impact on the Group.

7.4.3 Trade Receivables

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

The carrying amount of the Group's trade receivable as determined in RMB, and a detailed breakdown of their fair value is as follows:

As of December 31, 2014 and 2015, the aging analysis of the trade receivable is as follows:

	As of December 31, 2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Aging analysis based on the billing date:		
Billed	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 payable immediately.

As of December 31, 2014 and 2015, the Group's trade receivable attributable to its subsidiaries were RMB73,442,000 and RMB113,297,000, respectively. The same is related to the amount to be claimed for local sales in accordance with the bill of exchange set out in which are receivable from the subsidiaries of medical equipment manufacturer which have received bills of exchange.

The management considers that based on its assessment, the amount can be recovered in full. The aging analysis of the trade receivable is as follows:

	As of December 31, 2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Let's see	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 recognized, respectively. The amount of the provision for doubtful accounts 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 year	3,935	2,275
1-2 years	2,275	2,305
2-3 years	1,284	1,541
Over 3 years	367	47
	<u>7,861</u>	<u>6,168</u>

Measurement of the Group's provision for trade receivable is as follows:

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

The provision for receivable is calculated based on the aging method. The credit period of the receivable is 30 days. The provision for doubtful accounts is calculated based on the aging method. The provision for doubtful accounts is calculated based on the aging method.

The amount of credit risk of the trade receivable is as follows. 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 ^(a)	14,337	1,408
Deposit ^(b)	17,268	16,823
Amount due by third party ^(c)	12,304	
Prepayment	30,007	16,686
Prepayment for purchase of equipment ^(d)	13,000	
Prepayment for construction of engineering	2,594	1,216
Prepayment for goods and services	2,539	1,511
Prepayment for IPO fees		3,477
Other	43	123
Less: impairment of the receivable	<u>(1,078)</u>	
Total	<u>91,014</u>	<u>41,244</u>
Current	42,690	27,340
Non-current	<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 denominated in RMB and are stated at their fair value.

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

(b) Included in deposit as of December 31, 2014 and 2015 was an advance of RMB12,688,000 to the contractor of the hospital construction work under the guarantee of 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 Hengji Pharmaceutical Co., Ltd. (the "Company"), a subsidiary of the Company, in March 2015 and entered into a certain business agreement with Sichuan Hengji. The Company placed a deposit of RMB12,000,000 to Sichuan Hengji as a partial contribution. Subsequently, the agreement was cancelled and the Company entered into an agreement with Sichuan Hengji, Chengde Jihong Hospital Co., Ltd. (the "Company"), a wholly-owned subsidiary

f Sichuan Hengji) and the Company on June 29, 2015. Pursuant to the above letter agreement, the three parties agreed to abandon the bilateral and the debt should be repaid by Chengde Jihong to the Group within 12 months starting from June 29, 2015, bearing an interest 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 Real Estate Company Limited.

(d) The Company entered into an agreement with Pigangmia Specialized Fund Creation (), a limited liability company, in October 2015 to change its name to Pigangmia. The total consideration of the investment is RMB18,000,000. As of December 31, 2015, RMB13,000,000 was paid to Pigangmia.

7.4.5 Accruals and Other Payables

	A D 2015 RMB'000	31, 2014 RMB'000
Accrued employee benefit	18,637	17,939
Receivable	3,194	3,416
Rental payable	3,004	3,362
Guarantee deposits received from contractual contracts ^(a)	12,688	12,688
Other payable for settlement, liquidation and settlement	20,831	19,916
Other tax payable	412	641
Advance received from associated companies of shareholders ^(b)	3,110	1,500
Long-term payable for contractual rights to be repaid according to the agreement	90,489	
Accrued litigation fees	11,606	
Other	2,415	566
	<u>166,386</u>	<u>60,028</u>
Current	63,209	47,340
Current long-term payable for contractual rights to be repaid according to the agreement	4,356	
Non-current	98,821	12,688
	<u>166,386</u>	<u>60,028</u>

The carrying amount of accumulated depreciation is RMB. The carrying amount is at their fair value at their respective dates.

- (a) The amount provided by the contract of the hospital construction is to be paid to the contractor. The amount will be paid to the contractor after it discharges all its obligations under the contract, including but not limited to full settlement of construction costs and other charges.
- (b) It is expected that a certain percentage of the total revenue of the Group will be derived from the construction of hospitals.

7.4.6 Revenue

	2015 RMB'000	2014 RMB'000
Treatment and general healthcare services	240,103	206,790
Pharmaceutical sales	87,740	77,384
Accommodation services	2,270	1,828
Management services fee	13,561	10,294
	<u>343,674</u>	<u>296,296</u>

7.4.7 Expenses by Nature

	D 2015 <i>RMB'000</i>	31, 2014 <i>RMB'000</i>
Employee benefits expense	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 franchisee health care facilities	7,388	6,612
Cash expense	11,280	8,404
Utilities expense	5,820	5,381
Executive and consulting fee	3,388	3,900
Profit sharing benefit expense	4,907	2,610
Profit sharing benefit expense	1,078	
Travel expense	2,481	3,086
Printing and advertising	1,970	2,092
Donation and charity	1,814	1,834
Charitable contribution	345	1,147
Litigation expense	5,177	
Administrative expense		
Administrative	1,532	315
Non-administrative		
Other	<u>13,859</u>	<u>10,344</u>
	<u><u>277,779</u></u>	<u><u>229,016</u></u>

7.4.8 Income Tax Expense

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

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

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

	2015 RMB'000	2014 RMB'000
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	(1,335)	
	<u>18,548</u>	<u>17,369</u>

PRC corporate income tax

The income tax liability of the Group is expected to be paid in the PRC has been calculated at the tax rate of 25% on the estimated assessable profit of the year, based on the existing legislation, interpretations and practices in effect on the relevant effective tax rate is applicable.

7.4.9 Earnings per Share

Basic earnings per share

The calculation of basic earnings per share is based on the attributable profit held by 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 at the end of each reporting period, calculated as follows:

Weighted average number of ordinary shares

	December 31, 2015	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 share	<u>4,253,370</u>	<u> </u>
Weighted average number of shares held at the end of each period	<u><u>54,253,370</u></u>	<u><u>50,000,000</u></u>

The Company executed its capital increase 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 at the beginning of the period and the share issue at 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 dividend is 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 ended December 31, 2016.

	December 31, 2015 <i>RMB'000</i>	December 31, 2014 <i>RMB'000</i>
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

	December 31, 2015 <i>RMB'000</i>	December 31, 2014 <i>RMB'000</i>
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 has lease contracts for office buildings and other real estate - cancellable operating lease agreements.

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

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

Investment in subsidiaries

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

7.4.12 Principal Subsidiaries

The following table summarizes the principal subsidiaries of the Company as at December 31, 2015:

						(%)	(%)	(%)
Ca ng Ka g g Hospital C., Ltd. (蒼南康寧醫院有限公司)	The PRC, Limited liability company	Private PRC	Paid-in capital RMB1,000,000	100%	100%			
Qing Ka g g Hospital C., Ltd. (青田康寧醫院有限公司)	The PRC, Limited liability company	Private PRC	Paid-in capital RMB1,000,000	100%	100%			
Yong Ka g g Hospital C., Ltd. (永嘉康寧醫院有限公司)	The PRC, Limited liability company	Private PRC	Paid-in capital RMB1,000,000	100%	100%			
Yeqing Ka g g Hospital C., Ltd. (樂清康寧醫院有限公司)	The PRC, Limited liability company	Private PRC	Paid-in capital RMB1,000,000	100%	100%			
Shenzhen Yi g Hospital C., Ltd. (深圳市怡寧醫院有限公司)	The PRC, Limited liability company	Private PRC	Paid-in capital RMB16,600,000		52%		48%	
Wezhou Kangning Judicial Forensic Center (溫州康寧 司法鑒定所)	The PRC, Sole proprietorship	Private PRC	Paid-in capital RMB500,000	100%	100%			
Linhai Kangning Hospital C., Ltd. (臨海康寧醫院有限公司)	The PRC, Limited liability company	Private PRC	Paid-in capital RMB2,000,000	80%	80%		20%	
Wezhou Yigehui Hospital C., Ltd. (溫州怡寧老年醫院有限公司) ^(a)	The PRC, Limited liability company	Private PRC	Paid-in capital RMB10,000,000	100%	100%			
Pingyang Kangning Hospital C., Ltd. (平陽康寧醫院有限公司) ^(b)	The PRC, Limited liability company	Private PRC	Paid-in capital RMB6,000,000	100%	100%			
Shenzhen Yigehui Medical Investment C., Ltd. (深圳 怡寧醫療投資有限公司) ^(c)	The PRC, Limited liability company	Private PRC	Nil	100%	100%			
Quzhou Yigehui Hospital C., Ltd. (衢州怡寧醫院有限公司) ^(d)	The PRC, Limited liability company	Private PRC	Nil	60%	60%		40%	
Hangzhou Honglan Information Technology C., Ltd. (杭州宏瀾信息科 技有限公司) ^(e)	The PRC, Limited liability company	Private PRC	Nil	100%	100%			
Lanfang Yigehui Hospital Management C., Ltd. (廊 坊市怡寧醫院管理有限公 司) ^(f)	The PRC, Limited liability company	Private PRC	Nil	100%	100%			

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

- (a) Zhejiang Yiyi Genetic Hospital Co., Ltd. was established on 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) Pingan Kangji Hospital Co., Ltd. was established on 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) Shezhen Yiyi Medical Institute Co., Ltd. was established on 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) Qizhen Yiyi Hospital Co., Ltd. was established on 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 Hengli Intelligent Technology Co., Ltd. was established on 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 Yiyi Hospital Management Co., Ltd. was established on 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 Weili
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.