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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)

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

1. INTRODUCTION

1.1 The board of directors (the **Board**) of Wenzhou Kangning Hospital Co., Ltd. (the **Company**) is pleased to announce the consolidated financial statements of the Company and its subsidiaries (collectively, the **Group**, **we**, **our**) for the financial year ended December 31, 2015 (the **Reporting Period**) which comprise 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**s).

2 FINANCIAL SUMMARY

2.1 Principal Financial Data and Indicators

	For the year ended December 31,			
	2015	2014	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<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				
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)			

	As of December 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 BUSINESS REVIEW

3.1 Business Review

In 2015, the Group continued to enhance its operational capabilities through the acquisition of new facilities and the engagement of new members. In addition, the Group achieved operational efficiencies through the consolidation of its facilities, which increased the number of beds from 1,760 in 2014 to 2,010 in 2015, and high utilization of the beds, which generated additional revenue for the Group.

While continuing to expand its hospital base, the Group also made strategic investments in the healthcare sector and decided to make the Group's high healthcare-lighter management model. In 2015, the Group added the management of Yanjiaofu Hospital of Traditional Chinese and Western Medicine* (燕郊輔仁中西醫結合醫院, **Yanjiao Fu Ren Hospital**), the Chuanjiang Chengde Hospital of Traditional Chinese Medicine* (成都仁一醫院有限公司, **Chengde Hospital of Traditional Chinese Medicine**) and the People's Republic of China (the PRC, **China**) on July 29, 2010 and its name was changed from Chengde Jihong Hospital of Traditional Chinese Medicine* (成都濟宏醫院有限公司) to Chengde Jihong Hospital of Traditional Chinese Medicine* (成都濟宏醫院有限公司) on July 28, 2015) and Beijing Yining Hospital of Traditional Chinese Medicine, Ltd. (北京怡寧醫院有限公司, **Beijing Yining Hospital**), which increased the number of medical facilities and management from 150 in 2014 to 370 in 2015 and largely improved the quality of the services provided.

The Group has always believed that the Group's core competitiveness and the Group's increased management efficiency are each other's complement. In 2015, the Group's specialized teams, through the acquisition of 12, established 25, and the five, 5 of which were established in the Science and Technology Databank, and launched a project funded by the National Natural Science Foundation of China. Additionally, the Group's core competitiveness, through the acquisition of the Group's core competitiveness from 150 to the beginning of 2015 to 181 at the end of 2015, has significantly improved the overall quality.

3.2 Business Highlights

On January 22, 2016, the Group acquired (i) the famous Wenzhou Medical University* (溫州醫科大學) and established the Wenzhou Medical University* (溫州醫科大學精神醫學學院); and (ii) the member of the 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) and established the Wenzhou Guoda Investment Company Limited* (溫州國大投資有限公

* For identification purposes only

司) b he C m a f m We h Medical U i e i A e Ma ageme C m a Limi ed h gh blic bidd g, bjec he e e k g k f ele a f mal ag eeme (). F de ail , lea e efe he C m a ' a a a ceme da ed Ja a 22, 2016. The P chia Sch l f We h Medical U i e i e abli hed a Ma ch 20, 2016. A f he da e f hi a a a ceme , he C m a ha a ac i ed a e i k e e k We h G da k e me C m a .

O Ja a 28, 2016, he C m a e e ed k a f ame k ag eeme h M . HUANG Fe g a d M . HUANG Che (c llec i el , he endo s) k elai a (i) he ed e abli hme f a a ge c m a (he a et **Company**) b he Ve d ; (ii) he ed i i a f ma ageme a d c a l a c e ice b he Ta ge C m a P jia g H a g fe g P chia S ecial H i al* (浦江黃鋒精神專科醫院) a d Ch a ' a H a g fe g Ka g ' e H i al* (淳安黃鋒康恩醫院); a d (iii) he ed ac i i i a f 26% e i k e e a d b e e ca ial k c ea e k he Ta ge C m a b he C m a (he **P oposed ansa ion**). U a he c m lei a f he P ed T a ac i a , i i e ec ed ha he C m a h ld 51% e i k e e k he Ta ge C m a . F de ail , lea e efe he C m a ' a a a ceme da ed Ja a 28, 2016. The Ta ge C m a e abli hed a Feb a 5, 2016. A f he da e f hi a a a ceme , he C m a ha a e e ed k a ag eeme k elai a he P ed T a ac i a .

O Feb a 22, 2016, he C m a e e ed k a a a e hi ag eeme h Sha ghai Jk Jia f E i k e me Ma ageme C ., L d. (上海金浦健服股權投資管理有限公司, **inppv jianfw**), Sha ghai Yk che g A e Ma ageme Ce e L.P. (上海銀驄資產管理中心 (有限合夥)), Ch a g k g k d G ida ce a d E i k e me F a d C ., L d. (重慶產業引導股權投資基金有限責任公司), Shk a Medical k me C ., L d. (山東新華醫療器械股份有限公司), Jia g Shag a g G C ., L d. (江蘇沙鋼集團有限公司) a d USUM k e me G C ., L d. (渝商投資集團股份有限公司) k elai a (i) he e abli hme f Ch a g k g Jk Heal ca e Se ice k d ial E i k e me F a d 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) (he **Investment Fvnd**)); a d (ii) he C m a ' c a ib i a f RMB50.0 milli a f he b c i i a he k e me F a d. O he ame da e, he C m a a d Jk Jia f , he ma ag k g a a e f he k e me F a d, e e ed k a a egic c e a i a ag eeme k elai a , am a g he , ce a k igh f he C m a a a limi ed a a e f he k e me F a d. F de ail , lea e efe he C m a ' a a a ceme da ed Feb a 23, 2016. The k e me F a d e abli hed k he PRC a Ma ch 22, 2016. A f he da e f hi a a a ceme , ch c a ib i a ha a bee made a d he C m a e ec make ch c a ib i a k 2016.

* For identification purposes only

Revenue from operating the Group's owned hospitals

Revenue from operating the Group's owned hospitals consists of fee charged for the provision of inpatient and outpatient services, ambulatory care, clinical diagnosis and general healthcare services, pharmaceuticals and ancillary hospital services. The table below sets forth a breakdown of revenue from operating the Group's owned hospitals for the period indicated:

	For the year ended	
	December 31,	
	2015	2014
	(RMB'000)	(RMB'000)
Treatment and general healthcare services	240,103	206,790
Pharmaceutical sales	87,740	77,384
Ancillary hospital services	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 hospitals amounted to RMB330.1 million, an 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 owned hospitals and the average inpatient length of stay. Patients received inpatient services at the Group's owned hospitals increased by 129,355 (2014: 119,425) and inpatient bed-days by 689,244 (2014: 615,242). Average length of stay increased to RMB486 (2014: average RMB482), and the average length of stay per bed-day increased to RMB384 (2014: RMB369), a 1% increase. The average medical service charges at 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) were March 1, 2015 and January 1, 2015, respectively.

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

Cost of revenue of the owned hospitals of the Group is mainly incurred for pharmaceuticals and consumables used, employee benefits and depreciation and amortization, etc.

Cost of services rendered increased RMB206.3 million, or 15.4%, which is due to the increase of the cost of the G... financial services (2014: 37.5%).

Management service fee income

The Group's management service fee income is mainly derived from the health care facilities. The attributable financial management service fee income is as follows:

	For the year ended	
	December 31,	
	2015	2014
	(RMB'000)	(RMB'000)
Revenue	13,561	10,294
Cost of services	7,006	2,547
Financial	6,555	7,747

Management service fee income of the Group amounted to RMB13.6 million, or 31.7% and increased by 3.9% from the total of the Group for 2015, due to the contribution of the management fee related to the... Beijing Y... H... in 2015 which amounted to RMB1.7 million (2014: nil).

Cost of the Group's health management service is mainly derived from the management staff assigned to the... financial management...

Cost of services management increased RMB7.0 million, or 175.1%, mainly because of the... in 2015, the... of Y... Financial. The Group acquired 19... and 9... of the... financial... RMB93.1 million of... RMB3.5 million... in 2015... financial management service. Accordingly, financial services decreased 48.3% (2014: 75.3%).

4.1.2 Gross Profit and Gross Profit Margin

Total gross profit for the Group amounted to RMB130.4 million, representing a year-on-year increase of 13.4%. Overall gross profit margin decreased to 37.9% (2014: 38.8%), reflecting the fact that due to the ability of the Group to manage its joint venture, the health care facilities and management of its joint venture, the Reig Peidadae e be ma e, which had a significant impact on the gross profit for the management and the business.

4.1.3 Other Income

Other income for the Group consisted of gains and losses from the disposal of assets. In 2015, the other income amounted to RMB3.1 million, representing a year-on-year increase of 346.2%, mainly due to gains and losses from the disposal of assets.

4.1.4 Selling Expenses

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

4.1.5 Administrative Expenses

Administrative expenses for the Group mainly consisted of depreciation, amortization, management and administrative fees, and other expenses related to the business, including the cost of the joint venture, depreciation, amortization and the cost of the joint venture.

In 2015, administrative expenses for 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 the cost of depreciation, amortization and administrative fees; (ii) an increase of RMB3.2 million in the cost of depreciation, amortization and administrative fees; and (iii) an increase of RMB5.2 million in the cost of depreciation, amortization and administrative fees.

4.1.6 Finance Income

In 2015, finance income decreased RMB7.6 million, or decreased year-over-year by 917.8%, mainly because the proceeds from the initial public offering of the Company in Hong Kong and the United States (US\$). Higher exchange rate of HK\$ against RMB (RMB) decreased the realized exchange gain by RMB9.8 million, which offset the finance income related to the long-term investment of RMB4.0 million.

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

In 2015, the share of loss accounted for using the equity method amounted to RMB6.3 million (2014: nil), which represents 49% of the loss of Beijing Yitong Holdings, which commenced its operations in September 2015 and recorded a loss of RMB12.8 million.

4.1.8 Income Tax Expense

In 2015, income tax expense decreased RMB18.5 million, or decreased year-over-year by 6.8%, mainly due to the higher effective rate of RMB70.2 million (2014: RMB68.6 million). On effective rate basis, 2015 and 2014 were 26.4% and 25.3%, respectively.

4.1.9 Net Profit

In 2015, the attributable net profit of the Company (the **ha eho des**) amounted to RMB55.7 million, or decreased year-over-year by 8.8% as compared with 2014.

4.2 Financial Position

4.2.1 Inventory

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

4.2.2 Trade Receivables

As of December 31, 2015, the balance of trade receivables decreased to RMB123.1 million (as of December 31, 2014: RMB84.5 million), mainly due to: (i) the decrease in the amount of the receivables from the sale of the real estate; and (ii) the increase in the amount of trade receivables from the medical insurance company. As a result, 79.5% of trade receivables from the Group are aged within 90 days.

4.2.3 Other Receivables, Deposits and Prepayments

As of December 31, 2015, the receivables, deposits and prepayments decreased to RMB91.0 million (as of December 31, 2014: RMB41.2 million), mainly due to: (i) the decrease of RMB25.8 million in the amount of the receivables from the sale of the real estate, including the receivables from the Geiaic Hospital; (ii) the decrease of RMB13.0 million in the amount of the receivables from the sale of the shares of Pingyang Kangning Hospital Co., Ltd.* (平陽康寧醫院有限公司) (Pingyang Kangning Hospital), a wholly-owned subsidiary of the Company; and (iii) a decrease of RMB12.0 million in the amount of the receivables from the sale of the shares of Chongqing Red Cross Hospital Co., Ltd. Limited by the Company.

4.2.4 Trade Payables

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

4.2.5 Accruals and Other Payables

As of December 31, 2015, accruals and other payables decreased to RMB166.4 million (as of December 31, 2014: RMB60.0 million), mainly due to RMB90.5 million of the fulfillment of the contractual obligations, including the increase in the amount of the accruals and other payables from the sale of the shares of Yajia Fuxi Hospital and the increase in the amount of the accruals and other payables from the sale of the shares of Chongqing Red Cross Hospital Co., Ltd. Limited by the Company. Please refer to section 4.3.4 below for more details.

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 the decrease in the amount of the trade receivables of RMB590.7 million, which are the cash flow from the operations, offset by the increase in the amount of the trade payables of RMB50.0 million and the increase in the amount of the other payables of RMB50.0 million from the sale of the shares of CITIC Bank, which is due to the sale of the shares.

* For identification purposes only

4.3 Liquidity and Capital Resources

The table below sets forth the information presented in condensed financial statements of the Group for the periods indicated:

	Year ended 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 operating 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 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, mainly due to increase in prepayments of RMB70.2 million and adjustment of depreciation expense, less decrease in net assets of RMB17.3 million. Change in working capital led to net cash flow of RMB66.4 million, mainly due to increase in net assets of RMB58.2 million and decrease in receivable assets of: (i) decrease in net assets of receivable assets of RMB17.3 million and (ii) decrease in net assets of receivable assets of RMB25.7 million and decrease in net assets of receivable assets of RMB25.7 million.

4.3.2 Net Cash Used in Investing Activities

In 2015, net cash used in operating activities amounted to RMB382.4 million, mainly due to: (i) decrease in net assets of RMB113.6 million, due to (1) amount of RMB113.6 million and (2) amount of RMB113.6 million; and (ii) amount of RMB251.3 million.

4.4 Indebtedness

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. The Group has no or does not 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 financial lease agreements. As of December 31, 2015, the financial lease agreements amount to denominated in Renminbi lease agreements of RMB209.0 million.

4.4.5 Financial Instruments

Financial instruments of the Group consist of trade receivables, amounts due from related parties, trade receivables, deposits, cash and cash equivalents, bank borrowings, and trade payables. The management manages and monitors the exposure to credit risk arising from the financial instruments and the effect of market risk.

4.4.6 Exposure to Fluctuation in Exchange Rates

The Group derives its financial assets and liabilities, and is mainly exposed to the fluctuation in exchange rate of Hong Kong dollar against RMB. The Group has effectively hedged the exchange risk.

The Group has entered into derivative financial instruments to hedge against its exposure to exchange risk. The management manages the exchange risk by using derivative instruments to hedge the exchange risk. All currency derivatives are held on a net basis.

4.4.7 Gearing Ratio

As at December 31, 2015, the Group's gearing ratio (total debt-bearing liabilities divided by total assets) was 11.8% (2014: 7.1%).

5 FINANCIAL STATEMENTS

5.1 Issuance of Shares and Distribution

The Company's Shares (the Shares) were listed on The Stock Exchange of Hong Kong Limited (the **to: E Chan**) on November 20, 2015 (the **Distribution Date**). 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 the underwriting commission and all related expenses. As of the date of this report, the Company does not have any share repurchase program. The net proceeds are used for the purposes of the Company's general operations.

5.2 Dividend

The final dividend distribution for the year ended December 31, 2015 (the **Proposed Final Dividend**) was approved at the shareholders' meeting of the Board of Directors of the Company on November 14, 2015. The Proposed Final Dividend of the Shareholders of the Company for the year 2015 (the **Annual General Meeting**) will be held on July 14, 2016. The Proposed Final Dividend will be distributed on July 14, 2016. The Shareholders who are registered as members of the Company on July 24, 2016 (the **Record Date**).

The registered members of the Company will be entitled from March 15, 2016 to July 14, 2016, to receive the dividend which is payable to the Shareholders who are registered as members of the Company on July 24, 2016.

It has been decided at the AGM, all have agreed to
accept the proposed amendments to the Memorandum and
Articles of Association, to be known as the "H Share
Company" (H Share Reg. Co., Limited) (the "Company")
at the AGM on 17/12/2015, 17/F, Hellen Centre,
183 Queen's Road East, Wanchai, Hong Kong (the "AGM")
at 4:30 p.m. on 13/12/2016.

The amount of final dividend to be calculated based on
the balance sheet of the Company (the "Balance Sheet")
as at 31/12/2015 and the final dividend to be based on
RMB0.25 per Share (the "Dividend"). In accordance with
the Proposed Final Dividend, the holders of H Shares
will be entitled to receive the Dividend (address: Sh.
1712-1716, 17/F, Hellen Centre, 183 Queen's Road East,
Wanchai, Hong Kong) before 4:30 p.m. on 17/12/2016. For
the avoidance of doubt, the Proposed Final Dividend,
the eligibility of members of H Shares will be decided on 19/12/2016
and 24/12/2016 (both dates inclusive).

The Proposed Final Dividend will be deemed and declared in RMB. The
holders of domestic Shares will be paid in RMB and the holders of H Shares
will be paid in Hong Kong dollars. The exchange rate of the Proposed Final
Dividend to be paid in Hong Kong dollars will be the market rate of the
exchange of Hong Kong dollars to RMB as at the close of the People's Bank of
China's foreign exchange business on the date of the 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 to withhold and pay the enterprise income tax at the rate of 10% on
behalf of the non-resident shareholders. The amount of the enterprise income tax
to be paid by the members of H Shares will be determined by the Company.
As H Shares are eligible to be deemed as shares held by
the HKSCC Nominees Limited, the members, agents, etc.,
of the Company, shall be deemed as shares held by
non-resident shareholders. The effect, however, of the enterprise
income tax shall be deemed as if the shares held by
the holders of H Shares are deemed as shares held by
non-resident shareholders. The Company will
withhold and pay the enterprise income tax on behalf
of the shareholders based on the eligibility of members of H Shares
of the Record Date.

7.3 Financial statements

7.3.1 Consolidated Statement of Comprehensive Income

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

7.3.2 Consolidated Balance Sheets

	As of December 31,	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS		
Non-current assets		
Property, land and equipment	233,200	160,799
Land use right	20,738	21,210
Intangible assets	90,581	1,229
Financial investments	8,422	
Deferred income taxes	10,071	4,641
Debt investments	48,324	13,904
	<u>411,336</u>	<u>201,783</u>
Current assets		
Inventory	7,506	7,911
Trade receivable	123,067	84,532
Other receivable, deposits and prepayments	42,690	27,340
Amounts due from 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>
Total assets	<u><u>1,224,434</u></u>	<u><u>372,339</u></u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	73,040	50,000
Capital reserve	797,510	159,153
Surplus reserve	11,342	5,708
Reservable contingencies	77,824	46,229
	<u>959,716</u>	<u>261,090</u>
Non-current liabilities	2,513	
Total equity	<u><u>962,229</u></u>	<u><u>261,090</u></u>

	As of December 31,	
	2015	2014
	RMB'000	RMB'000
LIABILITIES		
non-current liabilities		
Deferred government grants	14,284	14,156
Long-term payable	98,821	12,688
	<u>113,105</u>	<u>26,844</u>
Current liabilities		
Trade payable	19,976	23,829
Accounts payable	63,209	47,340
Contract liabilities	11,559	13,236
Bank borrowings	50,000	
Contract liabilities - 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 Notes to the Financial Statements

7.4.1 General Information

The Company was established as a joint stock company in the People's Republic of China (溫州市康寧精神康復醫院) in the PRC on February 7, 1996. The address of the Company's registered office is at Shengji Road, Hangzhou Residential District, Hangzhou, Zhejiang, the PRC.

On October 15, 2014, the Company was converted to a joint stock limited company and named as Wenzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司).

The Company is engaged in the pharmaceutical business in the PRC.

The Company had issued a notice to the Stock Exchange on November 20, 2015.

The consolidated financial statements are prepared in RMB and presented in the Chinese language, which shall prevail 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 amendments adopted have been adopted by the Group from the effective date of the financial reporting period ended 31 January 2015:

Amendment IAS 19 'Contributions to defined benefit plans'.

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

Amendment of transitional amendments IFRS 2011-2013 Cycle, and IFRS 3, 'Business combinations', IFRS 13, 'Fair value measurement'.

Amendment IAS 27 'Earnings per share - financial statements'.

The directors of the Company noted that the adoption of the revised IFRS had no material impact on the Group's consolidated 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 annual charge on the directors and discharges of the directors of the consolidated financial statements.

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

As a result of the adoption of amendments to the IASB's *International Financial Reporting Standards* (IFRS) effective from January 1, 2015 and have been applied to the accounting records of the financial statements. The effective date of the adoption of the financial statements is the date of the financial statements.

IFRS 9, 'Financial Instruments'

IFRS 15, 'Revenue from Contracts with Customers'

IFRS 16, 'Leases'

The effective date of the IFRS and IFRIC amendments has a significant effect on the financial statements of the Group.

7.4.3 Trade Receivables

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

The carrying amount of the Group's trade receivable at the end of the reporting period is RMB, and the impairment loss is RMB.

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

	As of December 31,	
	2015	2014
	RMB'000	RMB'000
Aggregate liability based on the billings due:		
Bill receivable	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
	130,738	89,537
	130,738	89,537

According to the Group's management, all bill receivable are collectible.

As of December 31, 2014 and 2015, the Group's trade receivable and debt impairment are RMB73,442,000 and RMB113,297,000, respectively. The allowance related to the amount to be claimed from local insurance companies and similar government departments which are collectible for the reimbursement of medical expenses for a large number of employees' medical insurance scheme.

The management considers that a reasonable estimate has been made for the amount to be received for the above items. The aggregate liability for the above receivable is as follows:

	As of December 31,	
	2015	2014
	RMB'000	RMB'000
Leasehold	110,355	71,136
1-2 years	2,800	2,269
2-3 years	142	3
Over 3 years	-	34
	113,297	73,442
	113,297	73,442

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

	As of December 31,	
	2015	2014
	RMB'000	RMB'000
Level 1	3,935	2,275
1-2	2,275	2,305
2-3	1,284	1,541
Over 3	367	47
	<u>7,861</u>	<u>6,168</u>

Members of the Group's liability elimination of receivable are as follows:

	As of December 31,	
	2015	2014
	RMB'000	RMB'000
Accounts	5,005	3,699
Prepaid receivable	4,907	2,957
Receivable from affiliated companies	(2,241)	(1,304)
Write-back recorded	-	(347)
As December 31,	<u>7,671</u>	<u>5,005</u>

The liability receivable elimination has been included in administrative expenses in the consolidated statement of comprehensive income. Amounts are given all from the respective accounting records.

The management is committed to the cash and receivable. The Group does not have any other receivable.

7.4.4 Other Receivables, Deposits and Prepayments

	As of December 31,	
	2015	2014
	RMB'000	RMB'000
Other receivable ^(a)	14,337	1,408
Deposit ^(b)	17,268	16,823
Amounts due to related parties ^(c)	12,304	
Prepayments for expenses	30,007	16,686
Prepayments for change fees ^(d)	13,000	
Prepayments for consulting fees	2,594	1,216
Prepayments for goods and services	2,539	1,511
Prepayments for IPO expenses	-	3,477
Other	43	123
Less: impairment allowance for other receivable	(1,078)	
Total	<u>91,014</u>	<u>41,244</u>
Current	42,690	27,340
Non-current	48,324	13,904
Total	<u>91,014</u>	<u>41,244</u>

The carrying amount of the Group's other receivable, deposit and prepayments are denominated in RMB and are primarily in the local currency.

(a) Included in other receivable as of December 31, 2015 are advance payments amounting to RMB9,210,000 from Yajia Financial Services. The advance will be repaid by Yajia Financial Services and a cash flow will be generated in the future.

(b) Included in deposit as of December 31, 2014 and 2015 are deposits of RMB12,688,000 held in the name of the Group's subsidiary, Chongqing Huiji, for the purpose of fulfilling obligations to the Group's directors. The deposit will be repaid by the Group's subsidiary in full and all Group's obligations have been discharged.

(c) The Company entered into an agreement with Sichuan Huiji Pharmaceutical Company Limited ("Shivan Yonji", a subsidiary of the Company) in March 2015 and entered into a loan agreement with Sichuan Huiji. The Company placed a deposit of RMB12,000,000 with Sichuan Huiji as a collateral for the loan. Subsequently, the agreement was cancelled and a loan agreement was entered into with Sichuan Huiji, Chongqing Huiji Financial Company Limited ("Chen du yin", a wholly-owned subsidiary

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7.4.5 Accruals and Other Payables

	As of Decembe 31,	
	2015	2014
	RMB'000	RMB'000
Acc ed em l ee b� efi	18,637	17,939
Recei � ad � ce	3,194	3,416
R� al a able	3,004	3,362
G a � ee de i ecei ed f m c � c i � c � ac ^(a)	12,688	12,688
O he a able f � e � l� � d e i m�	20,831	19,916
O he a e a able	412	641
Ad � ce ecei ed f m a � � -c � ll � g ha eh lde ^(b)	3,110	1,500
L � g- e m a able f c � ac al igh ide m� agem� e ice	90,489	
Acc ed li � g e � e	11,606	
O he	2,415	566
ota	166,386	60,028
C �	63,209	47,340
C � i � fl � g- e m a able f c � ac al igh ide m� agem� e ice	4,356	
N � -c �	98,821	12,688
ota	166,386	60,028

The carrying amount of accounts payable is denominated in RMB. The carrying amount is primarily denominated in Renminbi.

- (a) The amount provided by the contract for the purchase of the Group's products will be used to settle the contract, and the amount of the liability is limited to the amount of the contract. The amount of the liability is denominated in Renminbi.
- (b) The estimated liability for the Group's products is denominated in Renminbi.

7.4.6 Revenue

	Year ended December 31,	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Tenants and general household services	240,103	206,790
Pharmaceutical sales	87,740	77,384
Accidental household 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

	Year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Employee benefits expense	99,988	82,750
Provisional and controllable	86,483	75,419
Depreciation and amortization	21,706	15,067
Quota bonus expense	8,563	10,055
Quota bonus expense - expense aid for employee healthcare facilities	7,388	6,612
Car expense	11,280	8,404
Utilities expense	5,820	5,381
Entertainment and dining fee	3,388	3,900
Provision for impairment of receivable	4,907	2,610
Provision for impairment of receivable	1,078	
Travel expense	2,481	3,086
Printing and mailing	1,970	2,092
Dining charges	1,814	1,834
Commission and agency	345	1,147
Liability expense	5,177	
Administrative expense		
Administrative	1,532	315
Non-administrative	-	
Other	13,859	10,344
	277,779	229,016

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:

	Year ended December 31,	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
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 amount of the Group's provision for income tax differs from the theoretical amount that would be determined by applying the PRC, the financial jurisdiction of the Group's operations, as follows:

	Year ended December 31,	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Provision for income tax	70,170	68,567
Calculated at the rate of 25%	17,543	17,142
Excess of deductible	2,507	227
Income tax objection	(167)	
Other adjustments	(1,335)	
	<u>18,548</u>	<u>17,369</u>

PRC corporate income tax

The income tax liability of the Group is calculated on the basis of the PRC has been calculated at the rate of 25% of the estimated taxable profit for the year, based on the existing legislation, the relevant tax authorities have not yet issued any official assessment of the tax liability.

7.4.9 Earnings per Share

Basic earnings per share

The calculation of basic earnings per share is based on the following data: the Company's net profit attributable to ordinary shareholders for the periods ended December 31, 2014 and 2015, respectively, and the weighted average number of shares outstanding for each period, calculated as follows:

Weighted average number of ordinary shares

	Period ended 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 issuance	<u>4,253,370</u>	<u> </u>
Weighted average number of shares outstanding for the period	<u><u>54,253,370</u></u>	<u><u>50,000,000</u></u>

The Company's net profit attributable to ordinary shareholders for the period ended October 15, 2014. The calculation of earnings per share for the period ended December 31, 2014 is based on 50,000,000 shares outstanding for the period. The calculation of earnings per share for the period ended December 31, 2015 is based on 54,253,370 shares outstanding for the period.

Diluted earnings per Share

The Company did not have any potential dilutive shares outstanding for 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 paid to the shareholders in cash on July 1, 2015 and the Company paid 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 in the consolidated statement of financial position as of December 31, 2016.

	Year ended December 31,	
	2015	2014
	RMB'000	RMB'000
Paid final dividend of RMB0.25 (2014: RMB0.35) to the Shareholders	18,260	18,480

7.4.11 Commitments

Capital commitments

	As of December 31,	
	2015	2014
	RMB'000	RMB'000
Contracted but not provided for		
construction	36,635	86,130
leasehold improvements	60,529	1,784
other, less advance payments	10,935	794
	108,099	88,708

Operating lease commitments

The Group lease certain office buildings and residential properties on a non-cancellable long-term lease agreement.

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

	As of December 31,	
	2015	2014
	RMB'000	RMB'000
Non-cancellable operating leases	28,593	26,654
Operating leases with terms in excess of 12 months	74,546	80,867
Operating leases with terms less than 12 months	105,831	129,116
	<u>208,970</u>	<u>236,637</u>

Investment in subsidiaries

	As of December 31,	
	2015	2014
	RMB'000	RMB'000
Investment in subsidiaries	43,000	8,600
Investment in subsidiaries with terms in excess of 12 months	15,600	2,400
Investment in subsidiaries with terms less than 12 months	58,600	11,000
	<u>58,600</u>	<u>11,000</u>

7.4.12 Principal Subsidiaries

The following table provides a summary of the principal subsidiaries of the Company as at December 31, 2015:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Proportion of shares held by parent (%)	Proportion of shares held by the company (%)	Proportion of shares held by non-controlling interests (%)
Cāngnán Kāngníng Yīyuàn Yǒuxiǎn Gōngsī (蒼南康寧醫院有限公司)	The PRC, Limited liability company	Private hospital in PRC	Paid-up capital of RMB1,000,000	100%	100%	
Qīngtián Kāngníng Yīyuàn Yǒuxiǎn Gōngsī (青田康寧醫院有限公司)	The PRC, Limited liability company	Private hospital in PRC	Paid-up capital of RMB1,000,000	100%	100%	
Yǒngjiā Kāngníng Yīyuàn Yǒuxiǎn Gōngsī (永嘉康寧醫院有限公司)	The PRC, Limited liability company	Private hospital in PRC	Paid-up capital of RMB1,000,000	100%	100%	
Yèqīng Kāngníng Yīyuàn Yǒuxiǎn Gōngsī (樂清康寧醫院有限公司)	The PRC, Limited liability company	Private hospital in PRC	Paid-up capital of RMB1,000,000	100%	100%	
Shēnhé Yíqīng Yīyuàn Yǒuxiǎn Gōngsī (深圳市怡寧醫院有限公司)	The PRC, Limited liability company	Private hospital in PRC	Paid-up capital of RMB16,600,000		52%	48%
Wēnhé Kāngníng Fǎyī Cēsùsuǒ (溫州康寧司法鑒定所)	The PRC, Sole proprietorship enterprise	Forensic private hospital in PRC	Paid-up capital of RMB500,000	100%	100%	
Línghǎi Kāngníng Yīyuàn Yǒuxiǎn Gōngsī (臨海康寧醫院有限公司)	The PRC, Limited liability company	Private hospital in PRC	Paid-up capital of RMB2,000,000	80%	80%	20%
Wēnhé Yíqīng Gèniǎn Yīyuàn Yǒuxiǎn Gōngsī (溫州怡寧老年醫院有限公司) ^(a)	The PRC, Limited liability company	Private hospital in PRC	Paid-up capital of RMB10,000,000	100%	100%	
Píngyáng Kāngníng Yīyuàn Yǒuxiǎn Gōngsī (平陽康寧醫院有限公司) ^(b)	The PRC, Limited liability company	Private hospital in PRC	Paid-up capital of RMB6,000,000	100%	100%	
Shēnhé Yíqīng Yīyù Yīyào Tóuzī Yǒuxiǎn Gōngsī (深圳怡寧醫療投資有限公司) ^(c)	The PRC, Limited liability company	Investment holding in PRC	Nil	100%	100%	
Qūzhōu Yíqīng Yīyuàn Yǒuxiǎn Gōngsī (衢州怡寧醫院有限公司) ^(d)	The PRC, Limited liability company	Private hospital in PRC	Nil	60%	60%	40%
Hángzhōu Hónglàn Xìnxī Kējì Yǒuxiǎn Gōngsī (杭州宏瀾信息科技有限公司) ^(e)	The PRC, Limited liability company	Online medical consulting in PRC	Nil	100%	100%	
Lǎofāng Yíqīng Yīyuàn Guǎnlǐ Yǒuxiǎn Gōngsī (廊坊市怡寧醫院管理有限公司) ^(f)	The PRC, Limited liability company	Hospital management in PRC	Nil	100%	100%	

All the subsidiaries are established in the PRC as limited liability companies in the People's Republic of China, which are listed as follows:

- (a) Weihai Yideg Genetic Hospital Co., Ltd. was established on November 2, 2015 with a registered capital of RMB10,000,000. Its paid-up capital is RMB10,000,000 as of December 31, 2015.
- (b) Pingfang Kangde Hospital Co., Ltd. was established on November 2, 2015 with a registered capital of RMB6,000,000. Its paid-up capital is RMB6,000,000 as of December 31, 2015.
- (c) Shehe Yideg Medical Equipment Co., Ltd. was established on September 23, 2015 with a registered capital of RMB10,000,000. Its paid-up capital is RMB10,000,000 as of December 31, 2015.
- (d) Qihai Yideg Hospital Co., Ltd. was established on November 20, 2015 with a registered capital of RMB30,000,000. Its paid-up capital is RMB30,000,000 as of December 31, 2015.
- (e) Hangzhou Hengliang Information Technology Co., Ltd. was established on November 20, 2015 with a registered capital of RMB5,000,000. Its paid-up capital is RMB5,000,000 as of December 31, 2015.
- (f) Langfang Yideg Hospital Management Co., Ltd. was established on December 2, 2015 with a registered capital of RMB10,000,000. Its paid-up capital is RMB10,000,000 as of December 31, 2015.

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A **ei i**
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.