溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.
(A joint stock limited liability company incorporated in the People's Republic of China)
Stock code: 2120

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

1 INTRODUCTION

1.1 The board of directors (the "**Board**") of Wenzhou Kangning Hospital Co., Ltd. (the "**Company**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**", "**we**" or "**our**") for the financial year ended December 31, 2017 (the "**Reporting Period**") with comparative figures for the preceding financial year ended December 31, 2016.

1.2 The financial report of the Group for the Reporting Period (the "**Financial Report**") is prepared in accordance with China Accounting Standards for Business Enterprises, the comparative figures for year ended December 31, 2016 has been re-presented under China Accounting Standards for Business Enterprises.

2 FINANCIAL HIGHLIGHTS

2.1 Principal Financial Data and Indicators

	For the year ended December 31, 2017 (RMB'000)	2016 (RMB'000)
Revenue	**666,436**	415,409
Profit before income tax	**69,863**	92,139
Income tax expense	**(22,027)**	(26,588)
Net profit	**47,836**	65,551
Net profit attributable to equity holders of the Company	**49,071**	68,832
Non-controlling interests	**(1,235)**	(3,281)

	As of December 31, 2017 (RMB'000)	As of December 31, 2016 (RMB'000)
Total assets	**1,690,401**	1,603,382
Total liabilities	**579,904**	562,012
Total equity	**1,110,497**	1,041,370
Equity attributable to equity holders of the Company	**1,051,835**	1,008,383
Non-controlling interests	**58,662**	32,987

3 BUSINESS REVIEW AND OUTLOOK

3.1 Business Review

2017 was a year with steady development after the Group's listing. With enhancing mental health services capability and expanding business areas, the Group's business managed to maintain rapid growth. Details of the progress achieved are set out as follows:

In 2017, the Group's owned hospital business developed steadily. Pingyang Kangning Hospital and Shenzhen Yining Hospital commenced operation in March 2017 in succession and achieved rapid improvement in bed utilization rates. The business of Linhai Kangning Hospital, Geriatric Hospital and Quzhou Yining Hospital, which were newly opened in 2016, entered a phase of rapid growth, among which Linhai Kangning Hospital and Quzhou Yining Hospital turned loss into profits in 2017. Wenzhou Kangning Hospital had relocated to the new building in September 2017 and the maximum number of beds available increased to 1,400. Qingtian Kangning Hospital and Yueqing Kangning Hospital also increased considerably in service volume comparing to 2016, while Cangnan Kangning Hospital and Yongjia Kangning Hospital slowed down in business growth due to the limited space for expansion. As of December 31, 2017, the number of the Group's owned hospitals increased to 10 (December 31, 2016: 8) and the number of beds under operation increased to 3,420 (December 31, 2016: 2,577).

In 2017, the business of the healthcare facilities managed by the Group developed stably. First of all, the Group secured entrustment management of Yiwu Psychiatric Health Center and Wenzhou Cining Hospital through formal agreement and the number of beds under management increased by 300. Secondly, Beijing Yining Hospital, which previously endured considerable losses, achieved rapid enhancement in bed utilization rates through introducing the professional operation teams. The businesses in Yanjiao Furen Hospital, Pujiang Hospital, Chun'an Hospital and Pingyang Changgeng Ward which were previously under our management, also achieved stable development. Only the business of Chengdu Yining Ward was not developed due to the change in shareholders of the cooperative hospital. As of December 31, 2017, the healthcare facilities managed by the Group increased to 8 (December 31, 2016: 6) and the number of beds under management increased to 1,130 (December 31, 2016: 790).

In 2017, while steadily developing our existing owned hospitals, the Group continued to accelerate network layout through self-construction, investment as a minority shareholder and other methods. As for the self-construction hospitals, Hangzhou Yining Hospital, Hangzhou Cining Hospital and Nanchang Kangning Hospital have been put into operation before the date of this announcement. Luqiao Yning Hospital, Taizhou Kangning Hospital, Langfang Yining Hospital and Sihui Kangning Hospital were under intense construction work. As for investment as a minority shareholder, Chongqing Hechuan Kangning Hosptial, Chengdu Yining Hosptial and Guanxian Yining Hospital Co., Ltd. invested by the Group have been put into operation, Shanxi Shanda Hospital Management Consulting Co., Ltd. has been operating Shanyang Shengquan Rehabilitation Hospital and Shangshan Rehabilitation Hospital, Heze Yining Hospital Co., Ltd. was under intense construction work.

3.2 Business Highlights

In September 2017, the new building of Wenzhou Kangning Hospital, the Group's flagship hospital, was put in use, and the maximum number of beds available increased to 1,400.

3.3 Business Outlook

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

(i) Risk relating to high reimbursement amount from public medical insurance. From 2015 to 2017, reimbursement amount from public medical insurance accounted for 56.6%, 52.6% and 53.8% of the total cash received from sales of goods and rendering of service for the respective years, respectively. If the Group's medical institutions are unable to maintain the qualification of designated medical insurance institutions in the future, or there are adverse changes on the national public medical insurance policy in respect of treatment of mental illness, the Group's operating results will be affected adversely;

(ii) Risk relating to shortage of professional medical talents. Under the laws and regulations of the PRC, it requires medical institutions shall maintain a certain number of medical staff. With the increase in the number of medical institutions of the Group, if we are unable to recruit or maintain adequate medical staff, we will face difficulty to provide patients with the desirable medical services, which in return will adversely affect our operating results; and

(iii) Risk relating to failure to renew qualifications and licenses required for our operations. Medical institutions are required to obtain the Medical Practice License before carrying out their businesses, which usually have valid period and requires regular inspection by the regulatory authorities. If the medical institutions of the Group are unable to renew their licenses in the future due to poor management or non-compliance, our operating results will be affected adversely.

Looking into the future, the Group will leverage on the favorable environment in China which encourage the social capital to establish medical facilities to implement and improve a number of medium- and long-term strategic layouts. While continuing to expand the network of medical institutions and strengthen the Group's market position, the Group will strengthen scientific research, personnel training and information construction, with a view to improving its service level of medical institutions.

4 MANAGEMENT DISCUSSION AND ANALYSIS

4.1 Financial Review

The Group recorded revenue of RMB666.4 million for the Reporting Period, representing an increase of 60.4% as compared with 2016, after excluding the revenue of RMB119.9 million for real estate and other business, the revenue of healthcare business amounted to RMB546.5 million, representing an increase of 33.2% as compared with 2016. The revenue from operating the Group's owned hospitals and the management service fees from managing healthcare facilities both increased. With the upgrading of the bed utilization rate of hospital newly put into operation in 2016, the gross profit margin of our owned hospitals increased to 34.0% (2016: 33.3%). As such, the overall gross profit margin of healthcare business of the Group for the Reporting Period increased to 35.1% (2016: 34.1%), the gross profit of healthcare business increased to RMB191.6 million, representing an increase of 37.1% as compared with 2016.During the Reporting Period, net profit attributable to shareholders of the Company amounted to RMB49.1 million, representing a decrease of 28.7% as compared with 2016, primarily due to the exchange losses of the Reporting Period while for 2016 recorded the exchange gains and one-off A-share offering application expense in 2017, excluding the exchange gains/losses effects and A-share offering application expense, net profit attributable to shareholders of the Company increased by 28.5% as compared with 2016.

4.1.1 Revenue and Cost of Revenue

The Group generates revenue mainly through the following four ways: (i) revenue from operating its owned hospitals; (ii) management service fees from managing healthcare facilities; (iii) revenue of other healthcare related business; and (iv) revenue of the property business.

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

	For the year ended December 31,	
	2017	2016
	(RMB'000)	*(RMB'000)*
Revenue from operating owned hospitals	**520,175**	391,505
Management service fee income	**26,386**	18,943
Total revenue of healthcare business	**546,561**	410,448
Revenue from other healthcare related business	**2,318**	2,955
Revenue of the property business	**117,557**	2,006
Total revenue	**666,436**	415,409

During the Reporting Period, total revenue of the Group amounted to RMB666.4 million, representing an increase of 60.4% as compared with 2016, primarily due to: (i) the increase of revenue from operating the Group's owned hospitals by 32.9% and the increase of management service fee income by 39.3%, resulting in an increase of 33.2% in the Group's revenue of healthcare business; and (ii) revenue of property sales amounted to RMB111.2 million arising from the delivery of some properties of Phase II Works of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda. Revenue from operating the Group's owned hospitals accounted for 95.2% of total healthcare business revenue (2016: 95.4%) and management service fee income accounted for 4.8% of total healthcare business revenue (2016: 4.6%). The proportion of revenue from operating the Group's owned hospitals to total healthcare business revenue kept stable.

Revenue and cost of revenue from operating the Group's owned hospitals

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

	For the year ended December 31,	
	2017	2016
	(RMB'000)	*(RMB'000)*
Treatment and general healthcare services		
Revenue	**389,494**	285,599
Cost of revenue	**235,839**	174,139
Gross profit	**153,655**	111,460
Pharmaceutical sales		
Revenue	**130,681**	105,906
Cost of revenue	**107,405**	86,970
Gross profit	**23,276**	18,936
Owned hospitals		
Revenue	**520,175**	391,505
Cost of revenue	**343,244**	261,109
Gross profit	**176,931**	130,396

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB520.2 million, representing an increase of RMB128.7 million as compared with 2016, mainly due to the fast business growth of Linhai Kangning Hospital, Geriatric Hospital, Quzhou Yining Hospital and Shenzhen Yining Hospital. Revenue of the aforementioned four hospitals for the Reporting Period amounted to RMB83.1 million (2016: RMB7.3 million). During the Reporting Period, the gross profit of the Group's owned hospitals increased by 35.7% as compared with 2016, which favored the overall gross profit margin of the Group's owned hospitals increased to 34.0% (2016: 33.3%).

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

	For the year ended December 31,	
	2017	2016
Inpatients		
Inpatient bed as at period end	**3,420**	2,577
Effective inpatient service bed-day capacity	**1,248,300**	943,182
Utilization rate (%)	**87.8%**	86.5%
Number of inpatient bed-days	**1,095,389**	815,883
Treatment and general healthcare services revenue attributable to inpatients *(RMB'000)*	**371,663**	268,555
Average inpatient spending per bed-day on treatment and general healthcare services *(RMB)*	**339**	329
Pharmaceutical sales revenue attributable to inpatients *(RMB'000)*	**64,896**	48,262
Average inpatient spending per bed-day on pharmaceutical sales *(RMB)*	**59**	59
Total inpatient revenue *(RMB'000)*	**436,559**	316,817
Total average inpatient spending per bed-day *(RMB)*	**398**	388
Outpatients		
Number of outpatient visits	**160,015**	145,696
Treatment and general healthcare services revenue attributable to outpatients *(RMB'000)*	**17,831**	17,044
Average outpatient spending per visit on treatment and general healthcare services *(RMB)*	**111**	117
Pharmaceutical sales revenue attributable to outpatients *(RMB'000)*	**65,785**	57,644
Average outpatient spending per visit on pharmaceutical sales *(RMB)*	**411**	396
Total outpatient revenue *(RMB'000)*	**83,616**	74,688
Total average outpatient spending per visit *(RMB)*	**522**	513
Total treatment and general healthcare services revenue *(RMB'000)*	**389,494**	285,599
Total pharmaceutical sales revenue *(RMB'000)*	**130,681**	105,906

During the Reporting Period, inpatient revenue amounted to RMB436.4 million, representing an increase of 37.8% as compared with 2016, primarily due to: (i) the increase of 34.3% in the number of inpatient bed-days arising from the considerable increase of inpatient beds in Linhai Kangning Hospital, Geriatric Hospital and Quzhou Yining Hospital; and (ii) the increase of 2.6% in average inpatient spending per bed-day. Inpatient revenue increased to 83.9% of our revenue from operating our owned hospitals (2016: 80.9%).

During the Reporting Period, outpatient revenue amounted to RMB83.6 million, representing an increase of 12.0% as compared with 2016, primarily due to: (i) the increase of outpatient visits by 9.8%; and (ii) the increase of average outpatient spending per visit by 1.8%. The proportion of outpatient revenue to our revenue from operating our owned hospitals decreased to 16.1% (2016: 19.1%), mainly due to outpatient revenue of Geriatric Hospital and Shenzhen Yining Hospital accounted for lower proportion of their operating revenue.

During the Reporting Period, due to the increase of both inpatient and outpatient business, revenue from treatment and general healthcare services increased by 36.4% as compared with 2016, accounting for 74.9% of our revenue from operating our owned hospitals (2016: 72.9%), and revenue from pharmaceutical sales increased by 23.4% as compared with 2016, accounting for 25.1% of our revenue from operating our owned hospitals (2016: 27.1%).

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

	For the year ended December 31,	
	2017	2016
	(RMB'000)	*(RMB'000)*
Pharmaceuticals and consumables used	**131,949**	103,962
Employee benefits and expenses	**116,085**	87,060
Leasing expenses	**20,358**	12,830
Depreciation and amortization	**29,331**	17,697
Canteen expenses	**17,401**	14,018
Testing fees	**9,975**	6,062
Others	**18,145**	19,480
Cost of revenue for owned hospitals	**343,244**	261,109

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB343.2 million, representing an increase of 31.5% as compared with 2016, which was lower than the increase of revenue of the owned hospitals. It was mainly due to: (i) the increase of 26.9% in pharmaceutical expenses relating to increase in revenue from pharmaceutical sales; (ii) the increase of 33.3% in employee benefits and expenses arising from the increase in beds in operation of the owned hospitals; and (iii) the increase of leasing expenses and depreciation and amortization of RMB19.2 million arising from Linhai Kangning Hospital, Geriatric Hospital, Quzhou Yining Hospital and Shenzhen Yining Hospital which were newly put into operation after April 2016, representing an increase of 62.8%.

From the cost structure perspective, pharmaceutical and consumables used is still the main part of cost of revenue of the owned hospitals, accounting for 38.4% (2016: 39.8%). The next part is employee benefits and expenses, which accounted for 33.8% of cost of revenue of the owned hospitals (2016: 33.3%). Leasing expenses, together with depreciation and amortization, accounted for 14.5% of cost of revenue of the owned hospitals (2016: 11.7%). During the Reporting Period, the change of the cost structure mainly due to the increase of the fixed costs which do not vary with the business volume, such as leasing expenses and depreciation and amortization, as compared with 2016.

Management service fee income

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

	For the year ended December 31,	
	2017	2016
	(RMB'000)	*(RMB'000)*
Revenue	**26,386**	18,943
Cost of revenue	**11,690**	9,554
Gross profit	**14,696**	9,389

During the Reporting Period, management service fee income of the Group amounted to RMB26.4 million, representing an increase of 39.3% as compared with 2016, accounting for 4.8% (2016: 4.6%) of the Group's total revenue of healthcare business for 2017, due to the contribution of the management service fee of RMB6.0 million during the Reporting Period (2016:RMB1.0 million) in relation to Yanjiao Furen Hospital entrusted by the Group.

Cost of the Group for rendering management services primarily include benefits and expenses for management staff assigned and amortization of operation rights acquired for obtaining operation rights. During the Reporting Period, cost of revenue of management service fee of the Group increased to RMB11.7 million, increased by 22.4% as compared with 2016, which is lower than the increase of management service fee income, mainly because the operation rights in relation to the cost of revenue of management service fee are amortized on the straight-line basis and the annual amortization amount is fixed. Accordingly, gross profit margin of the management service business increased to 55.7% (2016: 49.6%).

Revenue and cost of revenue of the property business

The Group's revenue of the property business includes property leasing income and property sales income. During the Reporting Period, revenue of the property business amounted to RMB117.6 million (2016: RMB2.0 million), mainly due to property sales income of RMB111.2 million and property leasing income of RMB6.4 million were recorded by Wenzhou Guoda, which was acquired by the Group in August 2016, during the Reporting Period. The cost of revenue of the property business amounted to RMB93.1 million, therefore the gross profit in property business contributed by Wenzhou Guoda during the Reporting Period amounted to RMB18.1 million..

4.1.2 Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB217.1 million, increased by 51.5% per year. The gross profit of healthcare business after deducting the property and other business amounted to RMB191.6 million, representing an increase of 37.1% as compared with 2016. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

	For the year ended December 31,	
	2017	2016
Treatment and general healthcare services	**39.4%**	39.0%
Pharmaceutical sales	**17.8%**	17.9%
Management services	**55.7%**	49.6%
Healthcare business	**35.1%**	34.1%
Property and other businesses	**21.3%**	71.6%
Consolidated gross profit margin	**32.6%**	34.5%

During the Reporting Period, consolidated gross profit margin of the Group decreased to 32.6% (2016: 34.5%), mainly due to the relatively low gross profit margin of property business of Wenzhou Guoda, excluding the property business and other businesses, the gross profit margin of healthcare business amounted to 35.1%, representing an increase of 1.0 percentage points as compared with 2016, mainly due to the fast increase of bed utilization rate of Linhai Kangning Hospital and Geriatric Hospital, which were newly opened in 2016.

4.1.3 Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB9.8 million (2016: RMB1.2 million), mainly due to the increase of RMB6.7 million in land value added tax arising from the property sales operated by Wenzhou Guoda.

4.1.4 Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB1.8 million (2016: RMB3.1 million), representing a decrease of 44.3% as compared with 2016 and accounting for 0.3% of the healthcare business revenue of the Group (2016: 0.8%), demonstrating that the Group's business growth does not rely on increasing selling expenses.

4.1.5 Administrative Expenses

During the Reporting Period, administrative expenses of the Group primarily consist of benefits and expenses for the management and administrative staff, leasing expenses of the hospitals under development, depreciation and amortization, consultancy expenses, travelling expenses and other expenses. The table below sets forth a breakdown of administrative expenses of the Group for the periods indicated:

	For the year ended December 31,	
	2017	2016
	(RMB'000)	*(RMB'000)*
Employee benefits and expenses	**42,020**	29,443
Leasing expenses of the hospitals under development	**14,469**	13,532
Depreciation and amortization	**6,967**	4,881
Consultancy expenses	**11,218**	4,800
Travelling expenses	**3,745**	3,155
Others	**13,335**	14,044
Total administrative expenses	**91,754**	69,855

During the Reporting Period, the administrative expenses of the Group amounted to RMB91.8 million, representing an increase of 31.3 % as compared with 2016, mainly due to: (i) an increase of 42.7% of our employee benefits and expenses arising from the increase of our management staff; (ii) depreciation and amortization increased by 42.7%; and (iii) increased consultancy expenses of RMB6.4 million mainly arising from the A-share offering application. The proportion of the administrative expenses to the revenue of healthcare business of the Group was maintained as 16.8% (2016: 17.0%), excluding the one-off impact of consultancy expenses arising from the A-share offering, the proportion of the administrative expenses of healthcare business to the revenue of healthcare business of the Group slightly decreased to 15.8%, mainly due to: (i) the management efficiency of the Group headquarter has been improved with the expansion of the Group's business scale; and (ii) after Shenzhen Yining Hospital opened in March 2017, its leasing expenses were recorded in cost of revenue.

4.1.6 Finance (Expenses)/Income – Net

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

	For the year ended December 31,	
	2017	2016
	(RMB'000)	*(RMB'000)*
Interest income	**4,960**	5,666
Exchange (loss)/gain	**(14,930)**	25,139
Borrowing interest expense	**(8,371)**	(109)
Amortization of unrecognized financial charge	**(5,465)**	(5,636)
Others	**(457)**	(295)
Finance (expenses)/income – net	**(24,263)**	24,765

During the Reporting Period, the net finance expenses of the Group amounted to RMB24.3 million, while a finance income of RMB24.8 million was recorded in the same period of 2016, mainly due to: (i) the exchange losses of RMB14.9 million arising from the lower exchange rate of HKD against RMB during the Reporting Period, representing a decrease of RMB40.1 million as compared with 2016; and (ii) an increase of RMB8.3 million of interest expense of bank borrowings.

4.1.7 Investment Income/(Loss)

Our investments income/(loss) consist of share of investments income/(loss) accounted for using the equity method and gains/(loss) arising from disposal of long-term equity investment. The table below sets forth a breakdown of our investments income/(loss) for the periods indicated:

	For the year ended December 31,	
	2017	2016
	(RMB'000)	*(RMB'000)*
Share of losses of investments accounted for using the equity method	**(6,462)**	(6,202)
Gains arising from disposal of long-term equity investment	**350**	4,541
	(6,112)	(1,661)

During the Reporting Period, the investment loss of the Group amounted to RMB6.1 million (2016: RMB1.7 million), mainly due to our investment losses in Chongqing Hechuan Kangning Hospital, Shandong Yining Management Company, Chengdu Yining Hospital and Hangzhou Anken, which were accounted for using the equity method.

4.1.8 Assets Impairment Losses

During the Reporting Period, the assets impairment losses increased to RMB19.1million (2016: RMB3.9 million), representing an increase of 389.7% as compared with 2016 and increased to 3.5% of revenue of healthcare business (2016: 1.0%), mainly due to the change of the Group's accounting estimate in the bad debt provision of accounts receivable and other receivables during the Reporting Period. The adoption incurred additional provision of bad debt of RMB7.5 million as compared with the original method; additionally, the increase of assets impairment losses is also attributed to the considerable increase of account receivables for the Reporting Period as compared with the balance of December 31, 2016. As at December 31, 2017 and December 31, 2016, the provisions for bad debts for accounts receivables of the Group's healthcare business amounted to RMB14.7 million and RMB8.1 million respectively and accounted for 6.7% and 5.4% of account receivables balance of healthcare business at the corresponding time.

4.1.9 Non-Operating Income (Expenses) and Other Gains

Our non-operating income mainly consists of government grants, and non-operating expenses mainly consist of donation expenses and losses on disposal of non-current assets. The table below sets forth a breakdown of our non-operating income, non-operating expresses and other gains for the periods indicated:

	For the year ended December 31,	
	2017	2016
	(RMB'000)	*(RMB'000)*
Government grants	**9,619**	8,019
Other non-operating income	**196**	549
Non-operating income	**9,815**	8,568
Donation	**4,166**	4,478
Losses on disposal of non-current assets	**7,215**	—
Other non-operating expenses	**1,821**	205
Non-operating expenses	**13,202**	4,683
Other gains	**9,417**	—

During the Reporting Period, the non-operating income of the Group increased to RMB9.8 million, primarily due to the government grants of RMB9.6 million of the Group. The non-operating expenses of the Group increased to RMB13.2 million, of which RMB 6.7 million was due to the disposal of decoration expenses of Shuangyu Medical Area after Wenzhou Kangning Hospital moved to the new building. Other gains of the Group increased to RMB9.4 million, primarily due to the increase of the government grants in relation to healthcare business.

4.1.10 Income Tax Expense

During the Reporting Period, income tax expense of the Group decreased to RMB22.0 million (2016: RMB26.6 million), representing a decrease of 17.2% as compared with 2016, mainly due to the decrease of 24.2% of the Group's profits before income tax during the Reporting Period as compared with 2016. As for the year of 2017 and 2016, our actual tax rates were 31.5% and 28.9%, respectively. The slight increase in actual tax rates for the Reporting Period was mainly due to the increase of the expenses which cannot be deducted before tax.

4.1.11 Total Comprehensive Income

During the Reporting Period, total comprehensive income attributable to shareholders of the Company amounted to RMB49.1 million, representing a decrease of 28.7% as compared with 2016, primarily due to the following incidental factors:

i. an increase of approximately RMB8.3 million in relation to the profit before tax arising from property business of Wenzhou Guoda for the Reporting Period;

ii. the exchange loss of approximately RMB14.9 million arising from the lower exchange rate of HKD against RMB for the Reporting Period;

iii. an increase of approximately RMB7.5 million in asset impairment loss from the adoption of a new accounting estimate in the bad debt provision of accounts receivable and other receivables; and

iv. non-operaitng expense of approximately RMB6.7 million from disposal of the decoration of Shuangyu Medical Area.

Because of the above incidental factors, total comprehensive income attributable to shareholders of the Company decreased by approximately RMB18.8 million during the Reporting Period. Excluding incidental factors above, total comprehensive income attributable to shareholders of the Company for the Reporting Period amounted to approximately RMB67.9 million, representing an increase of 35.8% as compared with the comprehensive income excluding the exchange gain in 2016, primarily due to the rapid enhancement in bed utilization rates of Linhai Kangning Hospital and Geriatric Hospital.

4.2 Financial Position

4.2.1 Inventory

As of December 31, 2017, inventory balances amounted to RMB23.5 million (as of December 31, 2016: RMB162.8 million), mainly includes: (i) the medical inventory and turnover materials of RMB14.1 million (as of December 31, 2016: RMB9.3 million); and (ii) completed properties of RMB9.4 million (as of December 31, 2016: properties under development RMB153.5 million), representing Phase II Works of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda. The table below sets forth the details of completed properties held by us during the Reporting Period:

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

4.2.2 Accounts Receivables

As of December 31, 2017, the balance of accounts receivables amounted to RMB232.2 million (as of December 31, 2016: RMB142.9 million), the balance of accounts receivables for healthcare business amounted to RMB220.1 million, representing an increase of 54.0% as compared with that of December 31, 2016, primarily due to our revenue of healthcare business increased during the Reporting Period as compared with 2016.

During the Reporting Period, the accounts receivables turnover days of the Group's healthcare business were 121 days (2016: 117days).

4.2.3 Other Receivables and Prepayments

As of December 31, 2017, other receivables and prepayments decreased to RMB54.6 million (as of December 31, 2016: RMB77.0 million).

4.2.4 Investment Properties

As of December 31, 2017, the balance of investment properties amounted to RMB128.6 million (as of December 31, 2016: RMB72.2 million), representing Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F) and Phase II Works of Business Center (2F to 11F) held by Wenzhou Guoda. During the Reporting Period, there was no significant change in the fair value of investment properties. The following table sets out the details of our investment properties during the Reporting Period:

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-290617, Wen Guoyong (2012) No. 3-290604, Wen Guoyong (2012) No. 3-290602, Wen Guoyong (2012) No. 3-290616, Zhe (2017) Wenzhou property rights No. 0136790, Zhe (2017) Wenzhou property rights No. 0136791, Zhe (2017) Wenzhou property rights No. 0136792, Zhe (2017) Wenzhou property rights No. 0136793
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	3,722.29
Total floor area (Approx.) (Sq. m.)	12,854.06
Usage	Non-residential
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the properties are freehold properties

Investment property	Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2F to 11F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-289403
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	11,850.34
Usage	Commercial, office and hotel
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the properties are freehold properties

4.2.5 Available-for-Sale Financial Assets

As of December 31, 2017, the balance of available-for-sale financial assets amounted to RMB50.0 million (as of December 31, 2016: RMB50.0 million), primarily due to our contribution to the investment fund. During the Reporting Period, there was no significant change in the fair value of available-for-sale financial assets.

4.2.6 Accounts Payable

As of December 31, 2017, accounts payables increased to RMB83.8 million (as of December 31, 2016: RMB43.3 million), mainly due to the increase of RMB19.8 million as the payables for the property development accrued by Wenzhou Guoda.

4.2.7 Advanced from Customers

As of December 31, 2017, advanced from customers decreased to RMB7.5 million (as of December 31, 2016: RMB71.1 million), mainly due to Phase II Works of Business Center of Wenzhou Higher Education Mega Center has been completed and part of the properties has been delivered, advanced from customers of RMB65.3 million was settled.

4.2.8 Other Payables

As of December 31, 2017, other payables increased to RMB99.8 million (as of December 31, 2016: RMB38.9 million), mainly due to the increase of payable in relation to the expansion project of Wenzhou Kangning Hospital.

4.3 Liquidity and Capital Resources

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

	For the year ended December 31,	
	2017	2016
	(RMB'000)	*(RMB'000)*
Net cash generated from operating activities	**81,499**	49,867
Net cash used in investing activities	**(223,628)**	(92,788)
Net cash (used in)/generated from financing activities	**(21,900)**	69,080
Net (decrease)/increase in cash and cash equivalents	**(169,625)**	38,706

4.3.1 Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB81.5 million, primarily consisting of net profit of RMB47.8 million and adjustments for depreciation of property, plant and equipment of RMB18.6 million. Changes in working capital resulted in cash outflow of RMB101.9 million. We had cash outflow of RMB47.6 million attributable to our various taxes paid.

4.3.2 Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities amounted to RMB223.6 million, primarily due to RMB208.9 million for purchasing property, plant and equipment, including the amounts paid for renovation and upgrade of Wenzhou Kangning Hospital, purchasing property of Cangnan Kangning Hospital and renovation projects of Shenzhen Yining Hospital and Hangzhou Yining Hospital; and the amount of RMB60.5 million paid for investment as a minority shareholder.

4.3.3 Net Cash Used in Financing Activities

During the Reporting Period, net cash used in financing activities amounted to RMB21.9 million, primarily due to bank borrowings of RMB90.0 million, offsetting the repayment of bank and other borrowings of RMB107.7 million.

4.3.4 Significant Investment, Acquisition and Disposal

The Group had no significant investment, acquisition or disposal during the Reporting Period.

4.4 Indebtedness

4.4.1 Bank Borrowings

As of December 31, 2017, the balance of bank borrowings of the Group amounted to RMB200.0 million (as of December 31, 2016: RMB216.7 million), primarily attributable to the increase of RMB90.0 million short-term bank borrowings, offsetting repayment of the bank borrowings of RMB106.7 million.

4.4.2 Contingent Liabilities

As of December 31, 2017, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

4.4.3 Asset Pledge

Wenzhou Guoda had pledged its properties, Phase I of Business Center of Wenzhou Higher Education Mega Center, in favor of Zheshang Bank for bank loan and as of December 31, 2017, the balance of the borrowing amounted to RMB40.0 million.

4.4.4 Contractual Obligations

The contractual obligation of the Group primarily consists of operating lease arrangements. As of December 31, 2017, the future aggregate minimum lease payments under non-cancellable lease agreements were RMB334.2 million.

4.4.5 Financial Instruments

Financial instruments of the Group consist of accounts receivable, available-for-sale financial assets, other receivables, cash and cash equivalents, bank borrowings, accounts payable and other payables. The Company's management manages and monitors these exposures to ensure effective measures are implemented on a timely manner.

4.4.6 Exposure to Fluctuation in Exchange Rates

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

As of December 31, 2017, the Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

4.4.7 Gearing Ratio

As of December 31, 2017, the Group's gearing ratio (total liabilities divided by total assets) was 34.3% (as of December 31, 2016: 35.1%).

4.4.8 Employees and Remuneration Policy

As of December 31, 2017, the Group had a total of 1,860 full-time employees (as of December 31, 2016: 1,348 full-time employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB163.7 million (2016: RMB122.9 million). The average employees' remuneration is RMB101.1 thousand per year (including social medical insurance scheme and housing grant scheme bore by the Group). The remuneration is determined with reference to the salary level in the same industry and the qualifications, experience and performance of an employee.

The Group had no share option schemes.

5 SIGNIFICANT EVENTS

5.1 CSRC did not approve the Company's application for the initial public offering of A Shares of the Company

At a meeting held by the the Public Offering Review Committee of the CSRC on January 23, 2018, the Public Offering Review Committee of the CSRC reviewed the application made by the Company in respect of the A share offering and did not approve the Company's application. For details, please refer to the Company's announcement dated January 23, 2018.

5.2 Dividend

The Board recommends the payment of the Proposed Final Dividend. Subject to the approval of the Proposed Final Dividend by the Shareholders at the AGM to be held on June 13, 2018, the Proposed Final Dividend will be distributed on or about July 13, 2018 to the Shareholders whose names appear on the register of members of the Company on June 25, 2018 (the "**Record Date**").

The register of the members of the Company will be closed from 14 May 2018 to 13 June 2018 (both days inclusive). In order to determine the identity of members who are entitled to attend and vote at the AGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 11 May 2018.

The amount of final dividend distribution shall be calculated based on the total number of Shares in issue as of December 31, 2017 and the final cash dividend distribution shall be based on RMB0.15 per Share (inclusive of applicable tax). In order to qualify for the Proposed Final Dividend, the holders of H Shares must lodge all share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Limited before 4:30 p.m. on June 19, 2018. For the purpose of ascertaining Shareholders who qualify for the Proposed Final Dividend, the register of members for H Shares will be closed from June 20, 2018 to June 25, 2018 (both days inclusive).

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

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

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

For the year ended December 31, 2017, none of the Shareholder has waived or agreed to waive any dividends.

6 PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

7 REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed the Group's annual results for the financial year ended December 31, 2017 and has opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

The Audit Committee consists of two independent non-executive directors of the Company, Mr. HUANG Zhi (the chairman of the Audit Committee) and Mr. GOT Chong Key Clevin, and one non-executive director of the Company, Mr. LIN Lijun. Among them, Mr. HUANG Zhi has the appropriate professional qualifications (a certified public accountant accredited by the Chinese Institute of Certified Public Accountants).

8 COMPLIANCE WITH CG CODE

The Company has complied with all code provisions in the CG Code during the Reporting Period.

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

The Company has adopted the Model Code as a code of conduct of the Company for its Directors' and Supervisors' securities transactions. Having made specific enquiry of all Directors and Supervisors of the Company, the Directors and the Supervisors of the Company have complied with the required standard set out in the Model Code during the Reporting Period.

10 IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in the paragraph headed "Significant Events" above, there is no important events after the Reporting Period to the date of this announcement.

11 AUDITORS AND ACCOUNTING STANDARDS

The financial statements of the Group for the year ended December 31, 2017, which have been prepared in accordance with China Accounting Standards for Business Enterprises have been audited by PricewaterhouseCoopers Zhong Tian LLP ("**PricewaterhouseCoopers**"), who has issued an audit report with unqualified opinions on the financial statements. The figures in respect of this announcement have been agreed by PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial report for 2017. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with "Hong Kong Standards on Auditing", "Hong Kong Standards on Review Engagements" or "Hong Kong Standards on Assurance Engagements" issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the Announcement.

12 FINANCIAL REPORT

12.1 Accounting Policies

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises - Basic Standard and 38 specific accounting standards issued by the Ministry of Finance on 15 February 2006 (hereafter collectively referred to as "the Accounting Standards for Business Enterprises" or "CAS").

The financial statements are prepared on a going concern basis.

The new "Companies Ordinance" of Hong Kong became effective in 2016. Certain disclosures in this financial statement have been adjusted according to requirements of the Companies' Ordinance.

12.2 Change In Accounting Policies

In 2017, the Ministry of Finance of the PRC released the 'Accounting Standard for Business Enterprises No. 42—Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations', revised 'Accounting Standard for Business Enterprises No. 16—Government Grants' and the 'Circular on Amendment to Formats of Financial Statements of General Industry' and its interpretation (Cai Kuai [2017] 30). The financial statements are prepared in accordance with the above standards and circular, and impacts are as follows:

Content and reason for change in accounting policies	Impacted financial statement item	Amount of impact	
		For the year ended December 31, 2017	For the year ended December 31, 2016
The Group included the government grants by the year ended December 31, 2017 that related to ordinary course of business in other gains. The comparative financial statements for the year ended December 31, 2016 is not restated.	Other gains	9,417,463	–
	Non-operating income	(9,417,463)	–
The Group included the gains/losses from disposal of fixed assets and intangible assets for the year ended December 31, 2017 in assets disposal gains/losses, the comparative financial statements for the year ended December 31, 2016 is adjusted retrospectively.	Losses on disposal of assets	505,331	115,556
	Non-operating expenses	(505,331)	(115,556)

12.2 Consolidated Annual Financial Information

The Consolidated Annual Financial Information of the Group prepared in accordance with the China Accounting Standard for Business Enterprises is set out as follows:

12.2.1 Annual Consolidated Income Statement

		For the year ended December 31,	
		2017	2016
		RMB	*RMB*
1.	**Revenue**	**666,435,528**	415,408,969
	Less: Cost of sales	**(449,331,902)**	(272,071,264)
	Taxes and surcharges	**(9,780,313)**	(1,169,328)
	Selling and distribution expenses	**(1,752,173)**	(3,144,314)
	General and administrative expenses	**(91,754,247)**	(69,855,467)
	Financial (expenses)/income-net	**(24,262,625)**	24,764,573
	Asset impairment losses	**(19,104,920)**	(3,902,289)
	Add: Investment losses	**(6,111,760)**	(1,661,152)
	Including: Share of losses of associate	**(6,461,760)**	(6,201,867)
	Losses on disposal of assets	**(505,331)**	(115,556)
	Other gains	**9,417,463**	—
2.	**Operating profit**	**73,249,720**	88,254,172
	Add: Non-operating income	**9,814,600**	8,567,750
	Less: Non-operating expenses	**(13,201,645)**	(4,683,423)
3.	**Total profit**	**69,862,675**	92,138,499
	Less: Income tax expenses	**(22,026,917)**	(26,587,505)
4.	**Net profit**	**47,835,758**	65,550,994
	Net profit generated from		
	Continuing operation	**47,835,758**	65,550,994
	Discontinued operation	**—**	—
	Net profit attributable to		
	Shareholder of the Company	**49,070,774**	68,831,490
	Non-controlling interests	**(1,235,016)**	(3,280,496)
5.	**Total comprehensive income**	**47,835,758**	65,550,994
	Attributable to shareholders of the parent company	**49,070,774**	68,831,490
	Attributable to non-controlling shareholders of the Company	**(1,235,016)**	(3,280,496)
6.	**Earnings per share (expressed in RMB per share)**		
	– Basic	**0.67**	0.94
	– Diluted	**0.67**	0.94

12.2.2 Annual Consolidated Balance Sheets

ASSETS	**December 31, 2017 RMB**	December 31, 2016 RMB
Current assets		
Cash at bank and on hand	**279,334,159**	496,614,542
Accounts receivable	**232,179,323**	142,938,440
Other receivables	**43,447,939**	54,672,733
Advances to suppliers	**11,132,676**	22,283,987
Inventories	**23,532,469**	162,827,694
Current portion of non-current assets	**12,688,704**	12,688,704
Total current assets	**602,315,270**	892,026,100
Non-current assets		
Available-for-sale financial assets	**50,000,000**	50,000,000
Long-term equity investments	**89,683,865**	22,429,070
Investment properties	**128,568,963**	72,191,872
Fixed assets	**502,649,528**	97,666,540
Construction in progress	**22,290,670**	198,066,153
Intangible assets	**151,842,863**	125,865,371
Goodwill	**4,823,557**	8,533,389
Long-term prepaid expenses	**96,335,653**	88,855,792
Deferred tax assets	**22,571,944**	20,300,383
Other non-current assets	**19,318,211**	27,447,253
Total non-current assets	**1,088,085,254**	711,355,823
TOTAL ASSETS	**1,690,400,524**	1,603,381,923

LIABILITIES AND OWNERS' EQUITY	**December 31, 2017** *RMB*	December 31, 2016 *RMB*
Current liabilities		
Short-term borrowings	**90,000,000**	30,000,000
Accounts payable	**83,787,338**	43,271,014
Advances from customers	**7,511,284**	71,147,900
Employee benefits payable	**23,714,318**	19,552,350
Taxes payable	**34,912,381**	41,195,655
Other payables	**99,796,754**	38,922,694
Non-current liabilities due within one year	**22,751,104**	54,180,304
Total current liabilities	**362,473,179**	298,269,917
Non-current liabilities		
Long-term borrowings	**110,000,000**	149,950,190
Long-term payables	**86,932,300**	86,738,600
Deferred income	**10,556,851**	10,632,800
Deferred tax liabilities	**9,941,379**	16,420,433
Total non-current liabilities	**217,430,530**	263,742,023
Total liabilities	**579,903,709**	562,011,940
Owners' equity		
Share capital	**73,040,000**	73,040,000
Capital surplus	**808,244,186**	795,604,861
Surplus reserve	**23,710,012**	18,548,942
Retained earnings	**146,840,254**	121,190,550
Total equity attributable to owners of the parent company	**1,051,834,452**	1,008,384,353
Non-controlling interests	**58,662,363**	32,985,630
Total owners' equity	**1,110,496,815**	1,041,369,983
TOTAL LIABILITIES AND OWNERS' EQUITY	**1,690,400,524**	1,603,381,923

12.2.3 Annual Consolidated Statements of Cash Flow

		For the year ended December 31,	
		2017	2016
		RMB	*RMB*
1.	**Cash flows generated from operating activities**		
	Cash received from sales of goods or rendering of services	**502,692,532**	415,653,362
	Cash received relating to other operating activities	**35,442,492**	28,832,288
	Sub-total of cash inflows	**538,135,024**	444,485,650
	Cash paid for goods and services	**(172,416,737)**	(168,939,165)
	Cash paid to and on behalf of employees	**(158,956,031)**	(118,573,469)
	Payments of taxes and surcharges	**(47,590,827)**	(25,779,704)
	Cash paid relating to other operating activities	**(77,672,510)**	(81,326,450)
	Sub-total of cash outflows	**(456,636,105)**	(394,618,788)
	Net cash flows generated from operating activities	**81,498,919**	49,866,862
2.	**Cash flows used in investing activities**		
	Cash received from disposal of investments	**5,675,000**	1,075,000
	Net cash received from disposal of other long-term assets	**—**	2,039,728
	Net cash received from disposal of subsidiaries or other undertakings	**—**	1,500,000
	Cash received relating to other investing activities	**310,446,972**	256,999,636
	Sub-total of cash inflows	**316,121,972**	261,614,364
	Cash paid to acquire fixed assets and other long-term assets	**(208,923,550)**	(183,852,005)
	Cash paid to acquire investments	**(60,498,286)**	(71,708,000)
	Net cash paid to acquisition of subsidiaries and other undertakings	**—**	(280,995)
	Cash paid relating to other investing activities	**(270,328,000)**	(98,561,000)
	Sub-total of cash outflows	**(539,749,836)**	(354,402,000)
	Net cash flows used in investing activities	**(223,627,864)**	(92,787,636)

		For the year ended December 31,	
		2017	2016
		RMB	*RMB*
3.	**Cash flows (used in)/generated from financing activities**		
	Cash received from capital contributions	**27,020,000**	9,200,000
	Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries	**27,020,000**	9,200,000
	Cash received from borrowings	**90,000,000**	160,000,000
	Cash received relating to other financing activities	**300,000**	—
	Sub-total of cash inflows	**117,320,000**	169,200,000
	Cash repayments of borrowings	**(107,650,190)**	(67,496,810)
	Cash payments for interest expenses and distribution of dividends or profits	**(27,084,188)**	(18,260,000)
	Cash payments relating to other financing activities	**(4,485,351)**	(14,362,579)
	Sub-total of cash outflows	**(139,219,729)**	(100,119,389)
	Net cash flows (used in)/generated from financing activities	**(21,899,729)**	69,080,611
4.	**Effect of changes in foreign exchange rate**	**(5,596,209)**	12,546,534
5.	**Net (decrease)/increase in cash and cash equivalents**	**(169,624,883)**	38,706,371
	Add: Cash and cash equivalents at beginning of the year	**407,163,542**	368,457,171
6.	**Cash and cash equivalents at end of the year**	**237,538,659**	407,163,542

12.2.4 Annual Consolidated Statement of Changes In Equity

	Equity attributable to owners of the parent company					
	Share capital	Capital surplus	Surplus reserve	Retained earnings	Non-controlling interests	Total owners' equity
Balance at 1 January 2017	**73,040,000**	**795,604,861**	**18,548,942**	**121,190,550**	**32,985,630**	**1,041,369,983**
Net profit	**—**	**—**	**—**	**49,070,774**	**(1,235,016)**	**47,835,758**
Capital contribution by non-controlling shareholders	**—**	**—**	**—**	**—**	**27,020,000**	**27,020,000**
Share based payment	**—**	**412,805**	**—**	**—**	**—**	**412,805**
Others	**—**	**12,226,520**	**—**	**—**	**(108,251)**	**12,118,269**
Appropriation for surplus reserve	**—**	**—**	**5,161,070**	**(5,161,070)**	**—**	**—**
Profit distribution to equity owners	**—**	**—**	**—**	**(18,260,000)**	**—**	**(18,260,000)**
Balance at December 31, 2017	**73,040,000**	**808,244,186**	**23,710,012**	**146,840,254**	**58,662,363**	**1,110,496,815**

	Equity attributable to owners of the parent company					
	Share capital	Capital surplus	Surplus reserve	Retained earnings	Non-controlling interests	Total owners' equity
Balance at 1 January 2016	73,040,000	797,510,642	11,343,566	77,824,436	2,512,383	962,231,027
Net profit	—	—	—	68,831,490	(3,280,496)	65,550,994
Capital contribution by non-controlling shareholders	—	—	—	—	9,200,000	9,200,000
Share based payment	—	2,311,135	—	—	—	2,311,135
Others	—	(4,216,916)	—	—	15,946,066	11,729,150
Business combination involving enterprises not under common control	—	—	—	—	8,607,677	8,607,677
Appropriation for surplus reserve	—	—	7,205,376	(7,205,376)	—	—
Profit distribution to equity owners	—	—	—	(18,260,000)	—	(18,260,000)
Balance at December 31, 2016	73,040,000	795,604,861	18,548,942	121,190,550	32,985,630	1,041,369,983

12.3 Notes to the Consolidated Annual Financial Information prepared in accordance with the China Accounting Standard for Business Enterprises

12.3.1 Accounts receivable

	December 31, 2017	December 31, 2016
	RMB	*RMB*
Due from related parties	**2,250,000**	—
Due from third parties	**245,277,585**	151,042,945
Subtotal	**247,527,585**	151,042,945
Less: Provision for bad debts	**(15,348,262)**	(8,104,505)
	232,179,323	142,938,440

The aging of accounts receivable as of December 31, 2017 and 2016 is analysed as follows:

	31 December 2017	31 December 2016
	RMB	*RMB*
Within 1 year	**215,379,873**	137,552,824
1 - 2 years	**29,274,942**	10,835,771
2 - 3 years	**2,441,995**	2,211,065
Over 3 years	**430,775**	443,285
	247,527,585	151,042,945

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

12.3.2 Accounts payable

As of December 31, 2017 and 2016,the aging analysis of accounts payable is as follows:

	December 31, 2017	**December 31, 2016**
	RMB	*RMB*
Within 3 months	**42,078,771**	39,665,783
3- 6 months	**7,390,442**	2,933,736
6-12 months	**20,557,648**	223,574
1 - 2 years	**13,579,346**	103,052
2 - 3 years	**27,315**	344,869
Over 3 years	**153,816**	—
	83,787,338	43,271,014

12.3.3 Revenue and cost of sales

	For the year ended December 31,	
	2017	2016
	RMB	*RMB*
Revenue from main businesses	**546,561,325**	410,447,911
Revenue from other businesses	**119,874,203**	4,961,058
	666,435,528	415,408,969
Cost of sales from main businesses	**354,933,687**	270,663,677
Cost of sales from other businesses	**94,398,215**	1,407,587
	449,331,902	272,071,264

Revenue and cost of sale from main businesses

	For the year ended December 31,	
	RMB	*RMB*
	Revenue from main businesses	Cost of sales from main businesses
Pharmaceutical sales	**130,681,392**	107,405,332
Treatments and general healthcare services	**389,493,815**	235,838,816
Management service fee	**26,386,118**	11,689,539
	546,561,325	354,933,687

	For the year ended December 31,2016	
	RMB	*RMB*
	Revenue from main businesses	Cost of sales from main businesses
Pharmaceutical sales	**105,905,729**	86,970,397
Treatments and general healthcare services	**285,599,012**	174,138,929
Management service fee	**18,943,170**	9,554,351
	410,447,911	270,663,677

12.3.4 Earnings per share

(a) *Basic earning per share*

	For the year ended December 31,	
	2017	2016
	RMB	*RMB*
The profit attributed to the ordinary shareholders of the Company	**49,070,774**	68,831,490
Weighted average number of outstanding ordinary shares of the Company	**73,040,000**	73,040,000
Basic earning per share	**0.67**	0.94

(b) *Diluted earnings per share*

Diluted earnings per share is calculated by the profit attributed to the ordinary shareholders of the Company adjusted by the potential shares divided by the adjusted weighted average number of ordinary shares. The Company did not have any potential dilutive shares throughout the year ended December 31, 2017 and 2016. Accordingly, diluted earnings per share is the same as the basic earnings per share.

12.3.5 Income tax expenses

	For the year ended December 31,	
	2017	2016
	RMB	*RMB*
Current income tax	**30,123,517**	32,874,281
Deferred income tax	**(8,096,600)**	(6,286,776)
	22,026,917	26,587,505

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the statement of comprehensive income to the income tax expenses is listed below:

	For the year ended December 31,	
	2017	2016
	RMB	*RMB*
Profit before tax	**69,862,675**	92,138,499
Income tax expenses calculated at the effect tax rate of 25%	**17,465,669**	23,034,625
Expenses not deductible for tax purposes	**3,741,704**	2,394,514
Adjustment of income tax	**579,395**	(320,322)
Income not subject to tax	**(42,417)**	—
Tax effect of unrecognised tax losses	**415,248**	1,478,688
Tax effect of unrecognised temporary differences	**207,837**	—
Utilization of previous unrecognised tax losses	**(340,519)**	—
Income tax expenses	**22,026,917**	26,587,505

12.3.6 *Dividends*

On March 23, 2018, the Board proposed a final dividend of RMB10,956,000 for the year ended December 31, 2017, which is calculated based on 73,040,000 issued shares of the Company as at December 31, 2017. The proposed dividend is subject to approval by the Shareholders at the AGM.

On March 24, 2017, the Board proposed a final dividend of RMB18,260,000 for the year ended December 31, 2016. The proposed dividend was approved by the Shareholder at the annual general meeting for the year 2016 of the Company on June 14, 2017 and the Company paid out the dividend on July 14, 2017.

13 DEFINITIONS

"AGM"	the annual general meeting of the Company for the year 2017 expected to be convened and held on June 13, 2018
"Audit Committee"	the audit committee of the Board
"Beijing Yining Hospital"	Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司), an associate company established in the PRC with limited liability on August 17, 2015 and is held as to 32.67% by the Group
"Board of Directors" or "Board"	the board of directors of the Company
"Cangnan Kangning Hospital"	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company's wholly owned subsidiaries
"Chengdu Yining Hospital"	Chengdu Yining Hospital Co., Ltd. (成都怡寧醫院有限公司 previously known as Chengdu Renyi Hospital Co., Ltd.成都仁一醫院有限公司),an associate company established in the PRC with limited liability on June 29, 2010 and is held as to 41.67% by the Group
"Chengdu Yining Ward"	the psychiatric healthcare department of Chengdu Yining Hospital Co., Ltd. (成都怡寧醫院有限公司)
"Chongqing Hechuan Kangning Hospital"	Chongqing Hechuan Kangning Hospital Co., Ltd. (重慶合川康寧醫院有限公司), an associate company established in the PRC with limited liability on June 5, 2015 and is held as to 40% by the Group
"Chun'an Hospital"	Chun'an Huangfeng Kang'en Hospital (淳安黃鋒康恩醫院)
"Company" or "Wenzhou Kangning Hospital"	Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 2120)

"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
"CSRC"	the China Securities Regulatory Commission
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted Shares which are currently not listed or traded on any stock exchange
"Financial Report"	the Group prepares the financial report for the Reporting Period in accordance with China Accounting Standards for Business Enterprises
"Geriatric Hospital"	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a wholly owned subsidiary indirectly held by the Company, whose principal business is to provide medical services for the geriatric, including geriatric psychiatric and psychological treatment
"Group" or "we" or "our"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Hong Kong Stock Exchange
"Hangzhou Anken"	Hangzhou Anken Medical Technology Co., Ltd. (杭州安肯醫療科技有限公司 previously known as Hangzhou Honglan Information Technology Co., Ltd. 杭州宏瀾信息科技有限公司), an associate company established in the PRC with limited liability on November 20, 2015 and is held as to 25.94% by the Group
"Hangzhou Cining Hospital"	Hangzhou Cining Hospital Co., Ltd. (杭州慈寧醫院有限公司), a company established in the PRC with limited liability on November 18, 2017, one of the Company's indirect wholly owned subsidiaries
"Hangzhou Yining Hospital"	Hangzhou Yining Hospital Co. Ltd. (杭州怡寧醫院有限公司), a company established in the PRC with limited liability on August 25, 2016, one of the Company's indirect non-wholly owned subsidiaries

"HK$" or "HKD" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Langfang Yining Hospital"	Langfang Yining City Hospital Management Co., Ltd. (廊坊市怡寧醫院管理有限公司), a company established in the PRC with limited liability on December 2, 2015, one of the Company's wholly owned subsidiaries
"Linhai Kangning Hospital"	Linhai Kangning Hospital Co., Ltd. (臨海康寧醫院有限公司), a company established in the PRC with limited liability on February 2, 2015, one of the Company's non-wholly owned subsidiaries city
"Luqiao Yining Hospital"	Taizhou Luqiao City Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2016, one of the Company's indirect non-wholly owned subsidiaries
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"Nanchang Kangning Hospital"	Nanchang Kangning Hospital Co., Ltd. (南昌康寧醫院有限公司), a company established in the PRC with limited liability on April 7, 2016, one of the Company's non-wholly owned subsidiaries
"Pingyang Changgeng Ward"	the psychiatric healthcare department of Pingyang Changgeng Hospital Co., Ltd. (平陽縣長庚醫院有限責任公司精神科)
"Pingyang Kangning Hospital"	Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the Company's indirect wholly owned subsidiaries

"PRC"or "China"	the People's Republic of China which, for the purpose of this Annual results announcement, excludes Hong Kong, Macau and Taiwan
"Proposed Final Dividend"	the proposed final dividend distribution plan of RMB0.15 per Share (inclusive of applicable tax) for the year ended December 31, 2017 subject to the approval by the Shareholders at the AGM as described under the section headed "Dividend" of this announcement
"Pujiang Hospital"	Pujiang Huangfeng Psychiatric Specialty Hospital (浦江黃鋒精神專科醫院)
"Qingtian Kangning Hospital"	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011, one of the Company's wholly owned subsidiaries
"Quzhou Yining Hospital"	Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司), a company established in the PRC with limited liability on November 20, 2015, one of the Company's indirect non-wholly owned subsidiaries
"Reporting Period"	the year ended December 31, 2017
"RMB"	the lawful currency of the PRC
"Shandong Yining Management Company"	Shandong Yining Hospital Management Co., Ltd. (山東怡寧醫院管理有限公司), an associate company established in the PRC with limited liability on August 16, 2016 and is held as to 49% by the Group
"Share(s)"	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)

"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen Yining Hospital"	Shenzhen Yining Hospital Co., Ltd. (深圳怡寧醫院 previously known as Shenzhen City Yining Hospital Co., Ltd. 深圳市怡寧醫院有限公司), a company established in the PRC with limited liability on September 22, 2014, one of the Company's indirect non-wholly owned subsidiaries
"Sihui Kangning Hospital"	Sihui Kangning Hospital Co., Ltd. (四會康寧醫院有限公司), a company established in the PRC with limited liability on August 19, 2016, one of the Company's indirect non-wholly owned subsidiaries
"Subsidiary" or "Subsidiaries"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
"Supervisor(s)"	the members of the Supervisory Committee
"Supervisory Committee"	the Company's Supervisory Committee established pursuant to the PRC Company Law
"Taizhou Kangning Hospital"	Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company's indirect non-wholly owned subsidiaries
"Wenzhou Cining Hospital"	Wenzhou Cining Hospital Co., Ltd. (溫州慈寧醫院有限公司), an independent third party established in the PRC with limited liability on January 25, 2006
"Wenzhou Guoda"	Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司), a company established in the PRC with limited liability on February 9, 2002, one of the Company's indirect non-wholly owned subsidiaries

"Yanjiao Furen Hospital"	Yanjiao Furen Hospital of Traditional Chinese and Western Medicine (燕郊輔仁中西醫結合醫院) under the Company's operation and management in accordance with an entrustment management agreement dated March 26, 2015 entered into between Yanjiao Furen Hospital of Traditional Chinese and Western Medicine and the Company
"Yueqing Kangning Hospital"	Yueqing Kangning Hospital Co., Ltd. (樂清康寧醫院有限公司), a company established in the PRC with limited liability on September 3, 2013, one of the Company's wholly owned subsidiaries
"Yongjia Kangning Hospital"	Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2012, one of the Company's wholly owned subsidiaries
"%"	percentage ratio

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

Zhejiang, the PRC
March 26, 2018

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 Mr. LIN Lijun; and the independent non-executive directors are Mr. CHONG Yat Keung, Mr. HUANG Zhi and Mr. GOT Chong Key Clevin