廣東康華醫療股份有限公司

GUANGDONG KANGHUA HEALTHCARE CO., LTD.*

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

(Stock Code: 3689)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue for the year increased by 16.6% to RMB1,240.4 million (2015: RMB1,063.7 million).
- Profit for the year increased by 22.5% to RMB145.7 million (2015: RMB119.0 million). With the exclusion of the one-off listing expenses, the profit for the year amounted to RMB156.4 million (2015: RMB120.2 million), representing a year-on-year increase of 30.1%.
- Profit for the year attributable to owners of the Company increased by 18.9% to RMB141.3 million (2015: RMB118.8 million). With the exclusion of the one-off listing expenses, profit for the year attributable to owners of the Company increased by 26.5% to RMB152.0 million (2015: RMB120.1 million).
- Basic earnings per share increased by 13.3% to RMB53.8 cents (2015: RMB47.5 cents).

FINAL DIVIDEND

- The Board recommended the distribution of a final dividend of RMB14 cents per share (inclusive of applicable tax) for the year.

FINAL RESULTS

The board of directors (the "**Board**") of Guangdong Kanghua Healthcare Co., Ltd. (the "**Company**") is pleased to announced the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**"), for the financial year ended 31 December 2016 (the "**reporting period**") together with the comparative figures for the preceding financial year ended 31 December 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTES	**2016** **RMB'000**	2015 RMB'000
Revenue	4	**1,240,390**	1,063,702
Cost of revenue		**(943,479)**	(824,290)
Gross profit		**296,911**	239,412
Other income	5	**22,953**	64,301
Other expenses, gains and losses	6	**(4,900)**	(4,085)
Administrative expenses		**(109,042)**	(83,657)
Finance costs	7	**(7,449)**	(67,153)
Profit before taxation	8	**198,473**	148,818
Income tax expenses	9	**(52,786)**	(29,854)
Profit and total comprehensive income for the year		**145,687**	118,964
Profit and total comprehensive income for the year attributable to:			
– owners of the Company		**141,260**	118,847
– non-controlling interests		**4,427**	117
		145,687	118,964
Earnings per share (RMB cents):	11		
– Basic		**53.8**	47.5
– Diluted		**53.8**	N/A

CONSOLIDATED STATEMENT OF FINANICAL POSITION
As at 31 December 2016

	NOTES	**2016** **RMB'000**	2015 RMB'000
Non-current assets			
Property, plant and equipment		**360,997**	321,828
Deferred tax assets		**—**	4,301
Deposits paid for acquisition of property, plant and equipment		**29,940**	4,676
		390,937	330,805
Current assets			
Inventories		**43,226**	38,195
Accounts and other receivables	12	**190,486**	88,217
Amounts due from a shareholder		**—**	490,117
Amount due from a related party		**—**	4,162
Pledged bank deposits	13	**—**	50,000
Restricted bank balances	13	**34,955**	8,904
Bank balances and cash	13	**936,374**	95,520
		1,205,041	775,115
Current liabilities			
Accounts and other payables	14	**386,359**	393,008
Amounts due to shareholders		**3,179**	104,541
Bank borrowings		**—**	341,800
Tax payables		**31,397**	19,823
		420,935	859,172
Net current assets (liabilities)		**784,106**	(84,057)
Net assets		**1,175,043**	246,748
Capital and reserves			
Share capital	15	**334,394**	250,000
Reserves		**821,021**	(18,453)
Equity attributable to owners of the Company		**1,155,415**	231,547
Non-controlling interests		**19,628**	15,201
Total equity		**1,175,043**	246,748

NOTES:

1. GENERAL

The Company was established as a limited liability company under the name of 東莞市康華實業有限公司 (Dongguan Kanghua Enterprise Co., Ltd.) in the People's Republic of China (the "PRC") on 30 January 2002. The Company acts as an investment holding company. On 30 December 2015, the Company was converted into a joint stock limited company and renamed as 廣東康華醫療股份有限公司 (Guangdong Kanghua Healthcare Co., Ltd.), with a share capital of RMB250,000,000 under the Company Law of the PRC. On 8 November 2016, the Company has issued overseas listed foreign invested ordinary shares (the "H Shares") which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and the principal place of business in Hong Kong of the Company are 3/F, Outpatient Zone One, Dongguan Kanghua Hospital, Nancheng Street, Dongguan, Guangdong Province, PRC and Unit 3207, Metroplaza Tower 2, 223 Hing Fong Road, Kwai Fong, New Territories, Hong Kong, respectively. The Group is principally engaged in the operation of hospitals and the provision of hospital management services in the PRC.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Historically, pursuant to an acting-in-concert arrangement between Mr. Wang Junyang, Ms. Wang Aici, Ms. Wang Aiqin and Mr. Chen Wangzhi, all of whom are close family members (collectively referred as the "Controlling Shareholders"), the Controlling Shareholders controlled the Company, 東莞康華醫院有限公司 (Dongguan Kanghua Hospital Co., Ltd.*, the "Kanghua Hospital") and 東莞仁康醫院有限公司 (Dongguan Renkang Hospital Co., Ltd.*, the "Renkang Hospital") through their investment holding companies, namely 東莞市康華投資集團有限公司 (Dongguan Kanghua Investment Group Co., Ltd.*, the "Kanghua Group"), 東莞市興業集團有限公司 (Dongguan Xingye Group Co., Ltd.*, the "Xinye Group"), 東莞市興達物業投資有限公司 (Dongguan Xingda Property Investment Co., Ltd.*, the "Xingda Property") and 東莞市同力實業有限公司 (Dongguan Tongli Enterprise Co., Ltd.*, the "Tongli Enterprise").

In preparation for the listing of the Company's H Shares on the Stock Exchange, the entities now comprising the Group underwent a group reorganisation (the "Group Reorganisation") to enable the Company to become the holding company of the Group which involves the principle steps of the Group Reorganisation as follows:

(1) On 8 September 2015, Kanghua Group, Xingye Group and Xingda Property transferred their equity interests in Kanghua Hospital to the Company at a total cash consideration of RMB212.5 million. The consideration of each of the transfers was determined with reference to the then registered capital of Kanghua Hospital.

Following the changes above, Kanghua Hospital became a wholly-owned subsidiary of the Company.

On the same date, Tongli Enterprise transferred 57% of its equity interest in Renkang Hospital to the Company at a cash consideration of RMB34.2 million.

Following the changes above, Renkang Hospital became a non-wholly owned subsidiary of the Company.

* English translated name is for identification purpose only.

(2) On 18 September 2015, Kanghua Group, together with Xingye Group and Xingda Property, contributed a total of RMB246.7 million in cash into the Company. Out of the RMB246.7 million, RMB140 million was contributed in the form of a registered capital increase and RMB106.7 million was contributed to the Company's capital reserve. As a result of capital contribution, the Company increased its registered capital from RMB60 million to RMB200 million, which was held as to 70% by Kanghua Group, as to 20% by Xingye Group, and as to 10% by Xingda Property.

(3) On 21 September 2015, (i) Xingye Group transferred 9% of its equity interest in the Company to Kanghua Group at a consideration of RMB27.603 million; and (ii) Xingye Group transferred 1% of its equity interest in the Company to Xingda Property at a consideration of RMB3.067 million. As a result of the transfers, the Company was held as to 79% by Kanghua Group, as to 11% by Xingda Property and as to 10% by Xingye Group.

(4) On 30 December 2015, the Company was converted into a joint stock limited company under the PRC Company Law, with a registered share capital of RMB250 million, divided into 250,000,000 ordinary shares of nominal value of RMB1 each, all of which were fully paid up. Upon completion of the conversion, Kanghua Group, Xingda Property and Xingye Group held 197,500,000, 27,500,000 and 25,000,000 ordinary shares, representing approximately 79%, 11% and 10% of the then equity interest in the Company, respectively.

Pursuant to the Group Reorganisation detailed above, the Company became the holding company of the companies now comprising the Group in September 2015 and the Controlling Shareholders are the ultimate controlling shareholders through their investment holding companies, namely Kanghua Group, Xingye Group and Xingda Property. The Company and its subsidiaries have been under the common control of the Controlling Shareholders. The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the financial information for the year ended 31 December 2015 has been prepared under the principles of merger accounting on the basis as if the Company had always been the holding company of the Group.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2015 include the results, changes in equity and cash flows of the companies now comprising the Group, as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the year ended 31 December 2015.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has consistently adopted all IFRSs issued by the International Accounting Standards Board ("IASB") which are effective for annual periods beginning on 1 January 2016 for both current and prior years.

New and amendments to IFRSs and interpretation in issue but not yet effective

The Group has not applied the following new and amendments to IFRSs and interpretation that have been issued but are not yet effective:

IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[2]
IFRS 16	Leases[3]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[2]
Amendments to IAS 7	Disclosure Initiative[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to IAS 40	Transfers of Investment Property[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 Effective for annual periods beginning on or after a date to be determined
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of hospital services and provision of hospital management services.

Information reported to the executive directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of service provided. The Group's operating segments are classified as (i) Inpatient healthcare services; (ii) Outpatient healthcare services; (iii) Physical examination services and (iv) Hospital management services. The details of the Group's operating segments are as follows:

(i) Inpatient healthcare services: Provision of treatment of patients who are hospitalised overnight or for an indeterminate time, usually several days or weeks, subject to the patient's conditions and recovery.

(ii) Outpatient healthcare services: Provision of treatment of patients who are hospitalised for less than 24 hours.

(iii) Physical examination services: Provision of clinical examination of individuals for signs of diseases and health advisory services.

(iv) Hospital management services: Provision of management services to an independent third-party operated hospital.

These operating segments also represent the Group's reportable segments. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segments:

Year ended 31 December 2016

	Inpatient healthcare services *RMB'000*	Outpatient healthcare services *RMB'000*	Physical examination services *RMB'000*	Hospital management services *RMB'000* *(note)*	Total *RMB'000*
SEGMENT REVENUE					
External sales	**729,168**	**443,763**	**66,298**	**1,161**	**1,240,390**
Segment profit	**123,480**	**136,094**	**36,969**	**368**	**296,911**
Other income					**22,953**
Other expenses, gains and losses					**(4,900)**
Other unallocated expenses					**(109,042)**
Finance costs					**(7,449)**
Profit before taxation					**198,473**

Note: Provision of hospital management services started in 2016 only.

Year ended 31 December 2015

	Inpatient healthcare services *RMB'000*	Outpatient healthcare services *RMB'000*	Physical examination services *RMB'000*	Total *RMB'000*
SEGMENT REVENUE				
External sales	628,045	373,265	62,392	1,063,702
Segment profit	93,078	110,799	35,535	239,412
Other income				64,301
Other expenses, gains and losses				(4,085)
Other unallocated expenses				(83,657)
Finance costs				(67,153)
Profit before taxation				148,818

There were no inter-segment sales during both years.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of other income, other expenses, gains and losses, other unallocated expenses and finance costs. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

Except as disclosed above, no other amounts are regularly provided to the CODM of the Group and therefore, no further analysis is presented.

Segment assets and liabilities

No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM of the Group.

Geographical information and information about major customers

All revenue are generated in the PRC where all of the non-current assets of the Group are also located in the PRC. The Group has a highly diversified patient portfolio. No single patient contributing over 10% of the Group's total revenue during both years.

5. OTHER INCOME

	2016 *RMB'000*	2015 *RMB'000*
Imputed interest income arising from amount due from a shareholder	**10,584**	52,847
Bank and other interest income	**4,452**	1,498
Government subsidies (note)	**500**	3,153
Rental income	**4,580**	4,973
Others	**2,837**	1,830
	22,953	64,301

Note: The government subsidies mainly represented the subsidies on cost incurred for research and development projects, medical related seminars and forums with no unfulfilled conditions attached. The amount for the year ended 31 December 2015 also included the release of deferred income of RMB1,000,000 which was recognised in profit or loss on a systematic basis over the useful life of the property, plant and equipment. No such releases of deferred income was noted for the year ended 31 December 2016.

6. OTHER EXPENSES, GAINS AND LOSSES

	2016 *RMB'000*	2015 *RMB'000*
Impairment loss on accounts receivables	**(226)**	(1,423)
Loss on disposal of property, plant and equipment	**(318)**	(1,383)
Net exchange gain	**6,399**	—
Listing expenses recognised in profit or loss	**(10,755)**	(1,279)
	(4,900)	(4,085)

7. FINANCE COSTS

	2016 *RMB'000*	2015 *RMB'000*
Interest on bank borrowings	**7,449**	63,796
Interest on amount due to a related party	**—**	3,357
	7,449	67,153

8. PROFIT BEFORE TAXATION

	2016	2015
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**1,153**	—
Other staff costs:		
Salaries and allowances	**260,998**	227,819
Retirement benefit schemes contributions	**13,076**	9,747
Total staff costs	**275,227**	237,566
Depreciation of property, plant and equipment	**41,488**	38,952
Research and development expenditure	**745**	709
Operating lease rentals in respect of hospitals	**22,906**	18,199
Auditor's remuneration	**2,326**	25
Cost of inventories recognised as expenses (representing pharmaceutical products and consumables used, included in cost of revenue)	**606,510**	523,381

9. INCOME TAX EXPENSES

	2016	2015
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax ("PRC EIT")	**47,882**	25,795
Underprovision in respect of prior years	**603**	288
	48,485	26,083
Deferred tax	**4,301**	3,771
	52,786	29,854

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory income tax rate of the Company and its PRC subsidiaries is 25% for both years.

10. DIVIDENDS

No dividend was declared or paid by the Company or its group entities during the year ended 31 December 2015.

Subsequent to the end of the reporting period, final dividend of RMB14 cents per share of the Company amounting to approximately RMB46,815,000 in aggregate has been proposed by the directors of the Company which is subject to approval by the shareholders in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2016	2015
	RMB'000	*RMB'000*
Earnings:		
Profit for the year attributable to the owners of the Company for the purpose of calculating earnings per share	**141,260**	118,847

	2016	2015
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted (2015: basic) earnings per share	**262,426,814**	250,000,000

The number of ordinary shares for the purpose of basic earnings per share in 2015 has been adjusted retrospectively for the effect of shares issued in connection with the Group Reorganisation as set out in note 2.

The calculation of diluted earnings per share for the year ended 31 December 2016 did not assume the exercise of the over-allotment options since it is anti-dilutive.

No diluted earnings per share has been presented for the year ended 31 December 2015 since there was no potential ordinary shares in issue.

12. ACCOUNTS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Accounts receivables	**87,036**	70,223
Prepayments to suppliers	**19,260**	3,288
Loan receivables (note)	**80,000**	—
Deferred listing expenses	**—**	5,642
Others	**4,190**	9,064
Total accounts and other receivables	**190,486**	88,217

Note: In June 2016, a wholly-owned subsidiary of the Company granted an unsecured loan of RMB50,000,000 to a hospital under its management (the "managed hospital"). In December 2016, the Group provided an unsecured loan facility of RMB50,000,000 to the managed hospital, of which the managed hospital made the first drawdown of RMB30,000,000 in the same month. The loans provided to the managed hospital are interest-bearing at a fixed rate of 0.42% per month and repayable within twelve months from the end of the reporting period. In January 2017, the manged hospital made the second drawdown of the unsecured loan facility of RMB20,000,000.

The individual patients of the Group would usually settle payments by cash, credit cards or governments' social insurance schemes. For credit card payments, the banks will normally settle the amounts approximately 30 days after the transaction date. Payments by governments' social insurance schemes will normally be settled by the local social insurance bureau or similar government departments which are responsible for the reimbursement of medical expenses for patients who are covered by the government medical insurance schemes ranged from 30 to 90 days from the transaction date. Corporate customers will normally settle the amounts within 90 days after the transaction date by bank transfers.

The following is an aged analysis of accounts receivables, net of allowance for doubtful debts, presented based on the revenue recognition date at the end of the reporting period:

	2016	2015
	RMB'000	*RMB'000*
Within 30 days	**69,770**	58,802
31 to 90 days	**11,148**	2,912
91 to 180 days	**2,647**	3,365
181 to 365 days	**2,351**	2,112
Over 365 days	**1,120**	3,032
	87,036	70,223

13. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS/RESTRICTED BANK BALANCES

Bank balances carried interest at prevailing market rates which ranges from 0.30% to 0.455% (2015: from 0.35% to 1.265%) per annum as at 31 December 2016.

Pledged bank deposits as at 31 December 2015 represented deposits pledged to a bank to secure bank borrowings granted to the Group. The pledged bank deposits carried fixed interest rate of 3.00% per annum.

Restricted bank balances represented (i) deposits required by Dongguan Social Insurance Bureau which is based on annual assessment on the medical service quality of the hospitals; such deposits will be discharged upon completion of the annual assessment; and (ii) proceeds from the initial public offering of the Company's H Shares remitted to PRC banks, the usage of which is subject to relevant approval. The restricted bank balances carried fixed interest rate ranging from 0.30% to 0.41% (2015: 0.35%) per annum as at 31 December 2016.

14. ACCOUNTS AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Accounts payables	**274,119**	296,883
Accrued expenses	**50,965**	42,328
Construction payables	**18,166**	11,894
Receipt in advance	**30,924**	29,112
Other tax payables	**2,815**	2,265
Interest payables	**—**	2,320
Provision for medical dispute claims	**477**	2,365
Others	**8,893**	5,841
Other payables	**112,240**	96,125
Total accounts and other payables	**386,359**	393,008

The credit period of accounts payables is from 30 to 90 days from the invoice date.

The following is an aged analysis of accounts payables based on the date of receipt of goods:

	2016	2015
	RMB'000	*RMB'000*
Within 30 days	**98,452**	95,664
31 to 90 days	**79,907**	80,588
91 to 180 days	**69,859**	85,647
181 to 365 days	**7,459**	14,560
Over 365 days	**18,442**	20,424
	274,119	296,883

Included in other payables is provision for medical dispute claims which the Group is involved as defendants in certain medical disputes arising from its ordinary course of business. The following is the movement in provision for medical dispute claims:

	2016	2015
	RMB'000	*RMB'000*
At the beginning of the year	**2,365**	983
Provision to the year	**323**	1,693
Utilisation of the provision	**(2,211)**	(311)
At the end of the year	**477**	2,365

15. SHARE CAPITAL

The Company was established as a limited liability company in the PRC on 30 January 2002.

Details of the movements of paid-in capital/share capital of the Company are as follows:

	Number of domestic shares *'000*	Number of H shares *'000*	Paid-in capital/ Share capital *RMB'000*
At 1 January 2015	N/A	N/A	60,000
Capital contribution by shareholders on 18 September 2015	N/A	N/A	140,000
Conversion into a joint stock company with limited liability (note i)	200,000	—	200,000
Issue of ordinary shares upon conversion into a joint stock company with limited liability (note i)	50,000	—	50,000
At 31 December 2015	250,000	—	250,000
Issue of ordinary shares upon listing (note ii)	—	84,000	84,000
Issue of ordinary shares upon exercise of over-allotment option (note iii)	—	394	394
At 31 December 2016	250,000	84,394	334,394

Notes:

i. The Company was converted into a joint stock company with limited liability on 30 December 2015. Pursuant to the approval of shareholders and the board of directors of the Company, the Company's equity was converted into 250,000,000 ordinary shares with par value of RMB1 each issued proportionately to its existing equity owners, after capitalisation of capital reserve of RMB53,306,000 and statutory reserve of RMB26,000 and elimination of accumulated losses of RMB3,332,000, respectively. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meeting of the Company. According to the articles of the association of the Company, ordinary shares rank pari passu with regard to the Company's residual assets.

ii. On 8 November 2016, upon listing on the Stock Exchange, the Company issued 84,000,000 H Shares with par value of RMB1 each at HK$11.60 each with net proceeds of approximately HK$870,341,000 (equivalent to approximately RMB778,520,000).

iii. On 1 December 2016, upon exercise of over-allotment option, the Company issued 394,000 H Shares with par value of RMB1 each at HK$11.60 each with net proceeds of approximately HK$4,570,000 (equivalent to approximately RMB4,088,000).

16. CAPITAL COMMITMENTS

	2016	2015
	RMB'000	*RMB'000*
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**49,004**	59,952

17. CONTINGENT LIABILITIES

The Group is involved as defendants in certain medical disputes arising from its normal business operations.

Except for those disputes with provision made as disclosed in note 14, the management of the Group believes that the final result of other medical disputes with total claims of RMB11,254,000 (2015: RMB9,946,000) as at 31 December 2016 will not have a material impact on the financial position or operations of the Group and the amount of outflow, if any, cannot be determined with sufficient reliability prior to judicial appraisals. Accordingly, no provision is made in this regard.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The Board recommended the distribution of a final dividend of RMB14 cents per share (inclusive of applicable tax) for the year ended 31 December 2016 (the "**Proposed Final Dividend**"). Subject to the approval of the Proposed Final Dividend by the shareholders of the Company (the "**Shareholders**") at the annual general meeting of the Company (the "**AGM**") to be held on 8 June 2017, the Proposed Final Dividend is expected to be distributed on or about 19 July 2017 to the Shareholders whose names appear on the register of members of the Company on 19 June 2017 (the "**Record Date**").

The register of members of the Company's H Shares (the "**Register of members of H Shares**") will be closed from 9 May 2017 to 8 June 2017, both days inclusive, during which period no transfer of H Shares will be effected. In order to determine the identity of the holders of H Shares who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited ("**Computershare**") at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 8 May 2017.

The final dividend distribution shall be calculated based on the total number of shares of the Company (the "**Shares**") in issue as at the Record Date and the final cash dividend distribution shall be based on RMB14 cents per Share (inclusive of applicable tax). In order to qualify for the final dividend, the holders of H Shares must lodge all share certificates accompanied by the transfer documents with Computershare (address: Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) no later than 4:30 p.m. on 13 June 2017. For the purpose of ascertaining the holders of H Shares who qualify for the final dividend, the Register of Members of H Shares will be closed from 14 June 2017 to 19 June 2017, both days inclusive, during which period no transfer of H Shares will be effected.

The 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 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 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 of 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 at the Record Date.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for the cash dividends to them with the PRC under the relevant tax agreement, the Company should withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of less than 10% with the PRC under the relevant tax agreement, the Company shall withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. In that case, if the relevant individual holders of H Shares wish to reclaim the extra amount withheld due to the application of 10% tax rate, the Company can apply for the relevant agreed preferential tax treatment provided that the relevant Shareholders submit the evidence required by the notice of the tax agreement to Computershare. The Company will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of over 10% but less than 20% with the PRC under the tax agreement, the Company shall withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of H Shares are residents of the countries which had an agreed tax rate of 20% with 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%.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business overview for 2016

The year 2016 marked the 10th anniversary of the Group's operations. At the same time, it opened up a new chapter for the Group following the successful listing of the Company's H Shares on the Stock Exchange in November 2016.

The Group's hospitals delivered promising operating results in 2016, in particular: (i) the total number of inpatient visits reached 56,590 (2015: 51,299), representing a year-on-year increase of 10.3%; (ii) the overall average spending per inpatient visit amounted to RMB12,885.1 (2015: RMB12,242.8), representing a year-on-year increase of 5.2%; (iii) the overall bed utilisation rate increased to 83.2% (2015: 78.3%); (iv) the average length of stay was lowered to 7.81 days (2015: 8.32 days) as a result of efficient clinical processes; (v) the total number of outpatient visits reached 1,428,185 (2015: 1,319,184), representing a year-on-year increase of 8.3%; (vi) the overall average spending per outpatient amounted to RMB310.7 (2015: RMB283.0), representing a year-on-year increase of 9.8%; and (vii) the total number of surgical operations reached 33,630 (2015: 27,838), representing a year-on-year increase of 20.8%.

The table below sets forth certain key operational data of the Group's owned hospitals for the years indicated:

		For the year ended 31 December	
	Change	**2016**	2015
Inpatient healthcare services			
Number of registered bed	+26	**2,486**	2,460
Number of beds in operation	+87	**1,580**	1,493
Inpatient visits	+10.3%	**56,590**	51,299
Average length of stay (days)	-0.5	**7.8**	8.3
Average spending per visit (RMB)	+5.2%	**12,885.1**	12,242.8
Outpatient healthcare services			
Outpatient visits	+8.3%	**1,428,185**	1,319,184
Average spending per visit (RMB)	+9.8%	**310.7**	283.0

In addition to maintaining business momentum, the Group strengthened its clinical governance and processes in response to the increased number of patients with critical and acute conditions to ensure adequate risk management and clinical quality control are in place. The Group enhanced and facilitated collaboration among various disciplines to deliver multi-disciplinary care to patients requiring complex and holistic care. In particular, in 2016, Kanghua Hospital performed: (i) 1,625 cardiovascular interventional surgeries (2015: 1,309), representing a year-on-year increase of 24.1%; and (ii) 1,560 gynaecological endoscopic surgeries with level 3 or level 4 complexities (2015: 1,261), representing a year-on-year increase of 23.7%. Obstetrics and gynecology ("O&G") disciplines, cardiovascular disciplines, internal medicine disciplines, general surgery disciplines and orthopaedics disciplines remained to be the top revenue generating disciplines of the Group for 2016.

The table below sets forth the revenue contribution by healthcare disciplines for the years indicated:

		For the year ended 31 December			
Healthcare disciplines	**Change**	**2016** ***RMB'000***	% of revenue of the Group's owned hospitals	2015 *RMB'000*	% of revenue of the Group's owned hospitals
O&G related disciplines (婦產科有關科室)	+33.9%	**247,755**	20.0	185,008	17.4
Cardiovascular related disciplines (心血管有關科室)	+26.5%	**134,838**	10.9	106,558	10.0
Internal medicine related disciplines (內科有關科室)	+18.1%	**126,047**	10.2	106,745	10.0
General surgery related disciplines (普通外科有關科室)	+10.7%	**110,711**	8.9	100,023	9.4
Orthopaedics related disciplines (骨科有關科室)	+4.9%	**83,074**	6.7	79,231	7.4
Neurology related disciplines (神經醫學有關科室)	+18.6%	**80,117**	6.5	67,556	6.4
Emergency medicine related disciplines (急診有關科室)	+17.8%	**70,449**	5.7	59,827	5.6
Paediatrics related disciplines (兒童醫學有關科室)	+13.5%	**43,487**	3.5	38,314	3.6
Oncology related disciplines (腫瘤有關科室)	-27.4%	**28,818**	2.3	39,708	3.7
Nephrology related disciplines (腎臟科有關科室)	+11.3%	**27,437**	2.2	24,657	2.3
Medical aesthetic related disciplines (醫學美容有關科室)	+1.6%	**25,501**	2.1	25,089	2.4
Physical examination (體檢科)	+6.3%	**66,298**	5.3	62,392	5.9
Other disciplines (其他臨床科室)	+15.5%	**194,697**	15.7	168,594	15.9
Total		**1,239,229**	100.0	1,063,702	100.0

Note: The Group's healthcare disciplines can generally be classified into clinical disciplines and medical technology disciplines. Medical technology disciplines provide diagnostic and treatment support according to the requirements of clinical disciplines from time to time. Revenue derived from services delivered through medical technology disciplines is generally recognised in the relevant clinical disciplines that utilised such services.

In 2016, the Group's medical capability and service offerings expanded considerably. In particular, (i) Kanghua Hospital expanded the service reach of its chest pain center by launching remote cardiac monitoring services to penetrate inaccessible areas; (ii) Kanghua Hospital enhanced its reproductive medicine offerings and launched a comprehensive pre-natal screening services to meet the growing demand driven by the two-child policy in the PRC; (iii) Kanghua Hospital enhanced its capability in O&G disciplines and became a designated hospital for pregnant and newborn patients with acute and critical conditions; (iv) Kanghua Hospital's success rate in severed finger replantation surgeries reached 99%; and (vi) Kanghua Hospital deployed advanced 3.0T MRI equipment to provide radiology services with higher digital clarity and speed.

The Group's special services are high-end healthcare services that extend beyond basic medical services and are specifically catered for the more affluent patients who are willing to pay a premium for higher quality and customised services not generally available in public hospitals. The Group's special services consist of VIP healthcare services, reproductive medicine, plastic and aesthetic surgery and laser treatment. In 2016, the total revenue derived from special services amounted to RMB117.1 million (2015: RMB81.8 million), representing a year-on-year increase of 43.1%. In 2016, the average spending per inpatient visit of VIP healthcare services amounted to RMB20,776.8 (2015: RMB10,359.7), representing a year-on-year increase of 100.6%, primarily attributable to the more premium and comprehensive services available at Huaxin Building (華心樓) (a complex in Kanghua Hospital dedicated to VIP healthcare services), including comprehensive general surgery and paediatrics services dedicated to VIP patients.

The table below sets forth some key operating data for the Group's special services:

Special Services	**Change**	**2016**	2015
VIP healthcare services			
Number of beds in operation	+5	**120**	115
Inpatient visits	-4.2%	**1,308**	1,365
Average spending per inpatient visit (RMB)	+100.6%	**20,776.8**	10,359.7
Outpatient visits	+30.0%	**55,056**	42,350
Average spending per outpatient visit (RMB)	-3.0%	**498.4**	513.8
Revenue (RMB'000)	+52.1%	**54,617**	35,899
Reproductive medicine			
Number of outpatient visits	+25.8%	**51,981**	41,334
Revenue (RMB'000)	+45.0%	**51,301**	35,374
Plastic and aesthetic surgery			
Revenue (RMB'000)	-4.1%	**4,520**	4,711
Laser treatment			
Revenue (RMB'000)	+14.3%	**6,702**	5,865
Total revenue from special services (RMB'000)	+43.1%	**117,140**	81,849

In June 2016, the Group entered into a management agreement with Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd. (重慶康華眾聯心血管病醫院有限公司) ("**Zhonglian Cardiovascular Hospital**"), a specialty hospital in cardiovascular diseases in Chongqing. It represents the Group's first managed hospital and its first presence outside of Guangdong Province. Zhonglian Cardiovascular Hospital will bear the "Kanghua" brand and is intended to be positioned as a regional integrated institution providing high level of cardiovascular healthcare services to patients from Chongqing and neighbouring provinces and regions. Zhonglian Cardiovascular Hospital commenced operations in March 2017.

In 2016, Kanghua Hospital has been making preparation in anticipation of the review of its Grade A Class III rating by the Health and Family Planning Commission of Guangdong Province (廣東省衛生和計劃生育委員會) in 2017. Kanghua Hospital is sufficiently prepared for the review and the Board is confident that Kanghua Hospital will be able to maintain its rating. Furthermore, the Group has comprehensively assessed Renkang Hospital, and is satisfied that it has been operating at a standard commensurate to a Grade A Class II hospital. Renkang Hospital has begun preparation for its application to be rated as a Grade A Class II hospital under the hospital classification system of the National Health and Family Planning Commission of the PRC (中華人民共和國衛生和計劃生育委員會).

Consistent delivery of quality healthcare services, active engagement in community activities and the successful listing of the Company's H Shares on the Stock Exchange have further reinforced the reputation of the Group. In 2016, the Group was reported approximately 170 times by influential media (2015: 151), representing a year-on-year increase of 12.6%. In 2016, Kanghua Hospital was awarded the 8th Integrity Service Model Unit in Dongguan (第八屆東莞誠信服務示範單位) by the Dongguan Daily (東莞日報), the 2016 Favourite Brand of Dongguan People (2016東莞市民喜愛品牌) by the Dongguan Daily Media Group (東莞報業傳媒集團), the 2016 Outstanding Unit of Traditional Chinese Medical and Health Management (2016年度中國中醫健康管理突出貢獻單位) by Dongguan Consumer Council (東莞市消費者委員會) and the 2016 Chinese Science and Advanced Technology Innovation Unit (2016年度中國科技創新先進單位) by the Chinese Scientists Forum Committee (中國科學家論壇組委會); and Renkang Hospital was awarded the Outstanding Hospital General Management Unit (醫院綜合管理工作良好單位) by the Dongguan Health and Family Planning Bureau (東莞市衛生和計劃生育局).

Industry outlook and strategy

The healthcare services industry in the PRC is expected to maintain a rapid growth. With the accelerating aging population and rising prevalence of chronic, common and life-style related diseases, public hospitals are unable to catch up with the rapid growth in demand for healthcare services and private hospitals play an increasingly important role to fill the gap of unmet demand. It is expected that private hospitals will remain one of the fastest growing sectors in the healthcare services industry in the PRC in the foreseeable future. The Group is well positioned to benefit from the opportunities within. In particular, favourable government policies under the healthcare reform, multi-site doctor practice and rising demand for high-end patient-centric healthcare services mean that private hospitals are able to compete on a more level playing field with public hospitals, which is conducive to the continued expansion of the Group as a private healthcare services provider.

One of the Group's key strengths lies in its ability to provide multi-disciplinary healthcare services. In 2017, the Group intends to enhance its overall competitiveness by strengthening its medical capability in treating critical and acute medical conditions. It will particularly focus on ramping up the cardiovascular disciplines, the O&G disciplines, the orthopedics disciplines, the neurology disciplines and the oncology disciplines. The Group will also enhance the capability and capacity of its prenatal screening center and develop 3rd generation in-vitro fertilisation techniques to capture the demand driven by the nation-wide two-child policy. The Group is closely monitoring the medical capability of each discipline and will apply for accreditation as a key clinical discipline when appropriate, which will further strengthen its market position as a provider of quality and sophisticated healthcare services. With a view to increasing industry influence, the Group will also put considerable focus on its research capability, including initiating the project of developing a pharmaceutical clinical trial center and further incentivizing its clinical staff to engage in research and publish literature. In order to cope with the Group's expansion, the Group will revamp its human resources system and planning, including recruitment, staff collegiality, remuneration management, performance-tied incentives, training programmes and long-term career progression. Competition for quality healthcare professionals in the PRC is fierce and remains a key challenge faced by the Group.

Having a solid foothold in Dongguan, the Group will continue to seek for opportunities to expand its operations and footprint. The Group will initially focus on exploring opportunities in neighboring cities in Guangdong Province such as Guangzhou and Shenzhen, and will also expand its scope to Southern China including Hangzhou and Kunming and further to other regions in the PRC with low healthcare services penetration. The Group intends to target on small and medium sized hospitals with 300 to 500 beds with a view to developing them into general hospitals with deep specialisations in specific disciplines (大專科小綜合醫院) and adaptations that serve the needs of the local population. Business feasibility studies, in-depth demographics analysis and due diligence will be conducted for the purposes of evaluating potential opportunities.

Financial review

Segment Revenue

The Group generates revenue primarily from: (i) providing healthcare services through its owned hospitals, namely Kanghua Hospital and Renkang Hospital, comprising inpatient healthcare services, outpatient healthcare services and physical examination services; and (ii) providing hospital management services to a third-party hospital, namely Zhonglian Cardiovascular Hospital.

The following tables below set forth the revenue, costs of revenue, gross profit and gross profit margin of the Group by segment for the years indicated:

For the year ended 31 December 2016

	Inpatient healthcare services	**Outpatient healthcare services**	**Physical examination services**	**Hospital management services**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue	**729,168**	**443,763**	**66,298**	**1,161**	**1,240,390**
Cost of revenue	**(605,688)**	**(307,669)**	**(29,329)**	**(793)**	**(943,479)**
Gross profit	**123,480**	**136,094**	**36,969**	**368**	**296,911**
Gross profit margin	**16.9%**	**30.7%**	**55.8%**	**31.7%**	**23.9%**

For the year ended 31 December 2015

	Inpatient healthcare services	Outpatient healthcare services	Physical examination services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	628,045	373,265	62,392	1,063,702
Cost of revenue	(534,967)	(262,466)	(26,857)	(824,290)
Gross profit	93,078	110,799	35,535	239,412
Gross profit margin	14.8%	29.7%	57.0%	22.5%

Revenue from the Group's inpatient healthcare services amounted to RMB729.2 million (2015: RMB628.0 million), representing a year-on-year increase of 16.1%, accounting for 58.8% (2015: 59.0%) of the total revenue of the Group, mainly due to (i) an increase in the number of inpatient visits during the year; (ii) an increase in average inpatient spending mainly driven by an increase in the number of surgeries with level 3 or level 4 complexities and full year operational impact of VIP inpatient services offered at Huaxin Building (華心樓) (a complex in Kanghua Hospital dedicated to VIP healthcare Services); and (iii) a considerable growth in revenue of O&G related disciplines as a result of the two-child policy in the PRC.

Revenue from the Group's outpatient healthcare services amounted to RMB443.8 million (2015: RMB373.3 million), representing a year-on-year increase of 18.9%, accounting for 35.8% (2015: 35.1%) of the total revenue of the Group, mainly due to (i) an increase in the number of outpatient visits during the year; and (ii) an increase in average outpatient spending partly due to higher prices of certain medical services charged by Kanghua Hospital.

Revenue from physical examination services amounted to RMB66.3 million (2015: RMB62.4 million, representing a year-on-year increase of 6.3%, accounting for 5.3% (2015: 5.9%) of the total revenue of the Group, mainly due to an increase in the number of physical examination visits during the year, in particular with respect to the personalised and high-end individual physical examination services of Kanghua Hospital.

In June 2016, the Group entered into a management agreement with Zhonglian Cardiovascular Hospital, a specialty hospital in cardiovascular diseases in Chongqing and generated a new revenue segment of the Group. Revenue from hospital management services amounted to RMB1.2 million (2015: nil), accounting for 0.1% of the total revenue of the Group. The management agreement has a term from 1 July 2016 to 30 June 2026, during which the Group has exclusive management rights over Zhonglian Cardiovascular Hospital and is entitled to a monthly management fee of RMB200,000 plus 5% of Zhonglian Cardiovascular Hospital's monthly revenue. During the reporting period, as Zhonglian Cardiovascular Hospital had not commenced any operation, the Group had received a fixed management fee of RMB200,000 per month. Zhonglian Cardiovascular Hospital commenced operations in March 2017 and going forward, the Group is expected to receive monthly management fee equal to 5% of Zhonglian Cardiovascular Hospital's monthly revenue in addition to the fixed monthly management fee of RMB200,000.

Cost of Revenue

Cost of revenue of the Group's owned hospitals (consisting of inpatient healthcare services, outpatient healthcare services and physical examination services) primarily consisted of pharmaceuticals, medical consumables, staff cost, depreciation, service expenses, utilities expenses, rental expenses and other costs. Cost of revenue of the Group's owned hospitals increased to RMB942.7 million (2015: RMB824.3 million), representing a year-on-year increase of 14.4%, which was in line with the increase in revenue. For the year ended 31 December 2016, pharmaceuticals, medical consumables and staff cost accounted for approximately 38.9% (2015: 39.2%), 25.4% (2015: 24.3%) and 24.4% (2015: 24.6%), respectively, of the total cost of revenue of the Group's owned hospitals.

Cost of revenue of the Group's hospital management services mainly represented staff costs in relation to management personnel assigned to Zhonglian Cardiovascular Hospital.

Gross Profit and Gross Profit Margin

Total gross profit of the Group amounted to RMB296.9 million (2015: RMB239.4 million), representing a year-on-year increase of 24.0%. The overall gross profit margin increased to 23.9% (2015: 22.5%), primarily due to:

(i) a strong growth in special services that are targeted toward high-end patients and typically command higher margin than basic healthcare services; in 2016, the revenue from special services accounted for 9.4% of the total revenue derived from the Group's owned hospitals, compared to 7.7% in 2015;

(ii) a lower proportion of revenue derived from pharmaceutical sales; as a result of various pharmaceutical policies in the PRC, margin in pharmaceutical sales has been under pressure and is generally lower than that of the provision of clinical services. In 2016, revenue derived from pharmaceutical sales for inpatient healthcare services amounted to 32.0% of the total revenue for inpatient healthcare services (2015: 33.0%) and revenue derived from pharmaceuticals sales for outpatient services amounted to 44.0% (2015: 44.8%) of the total revenue for outpatient healthcare services. This was in part attributable to the enhanced clinical governance of the Group, one of the key objectives of which is to minimise pharmaceuticals prescription where possible; and

(iii) an increased intake of patients requiring acute and complex treatments. Such treatments typically involve more delicate, precise and advanced surgeries and diagnostics support and command a higher margin than basic medical services.

The Group commenced its hospital management with Zhonglian Cardiovascular Hospital in June 2016 and had only received a fixed monthly management fee of RMB200,000 from June 2016 to December 2016. In 2016, the Group's hospital management business had a gross profit of RMB0.4 million and a gross profit margin of 31.7%. Zhonglian Cardiovascular Hospital commenced operation in March 2017 and going forward, it is expected that the revenue-pegged component of the management fee (5% of monthly revenue of Zhonglian Cardiovascular Hospital) will have an impact on the gross profit margin of the Group's hospital management business.

Key Operational Information of the Group's Owned Hospitals

The follow table sets forth certain key operational information of each of the hospitals owned by the Group for the years indicated:

Kanghua Hospital

	Change	2016	2015
Inpatient healthcare services			
Inpatient visits	+15.3%	**43,119**	37,393
Average length of stay (days)	-0.7	**7.9**	8.6
Average spending per visit (RMB)	+2.9%	**14,257.1**	13,856.7
Outpatient healthcare services			
Outpatient visits	+11.6%	**1,062,728**	952,125
Average spending per visit (RMB)	+9.1%	**342.7**	314.1
Staff			
Doctors	+48	**511**	463
Other medical, administrative and support staff	-82	**1,290**	1,372
Total	-34	**1,801**	1,835

In 2016, Kanghua Hospital achieved encouraging growth across all key operating parameters primarily as a result of its enhanced medical capability, in particular comprehensive multi-disciplinary service delivery to patients with acute and critical conditions and special services. Enhanced standard of clinical governance and more efficient clinical processes enabled Kanghua Hospital to achieve a considerable reduction in the average length of stay for inpatients to 7.9 days (2015: 8.6 days). Kanghua Hospital had a reduction in the number of administrative and support staff primarily due to outsourcing of ancillary non-clinical management services to a contractor.

Renkang Hospital

	Change	2016	2015
Inpatient healthcare services			
Inpatient visits	-3.1%	**13,471**	13,906
Average length of stay (days)	-0.2	**7.4**	7.6
Average spending per visit (RMB)	+7.5%	**8,493.6**	7,903.3
Outpatient healthcare services			
Outpatient visits	-0.4%	**365,457**	367,059
Average spending per visit (RMB)	+7.7%	**217.8**	202.2
Staff			
Doctors	+49	**183**	134
Other medical, administrative and support staff	-108	**451**	559
Total	-59	**634**	693

In 2016, Renkang Hospital had a reduction in the number of inpatient and outpatient visits primarily as a result of economic downturn in its vicinity during the first quarter of 2016. Patient flow noticeably increased during the second half of 2016 as business activities in the vicinity continued to pick up, including construction and infrastructure projects driving demand for Renkang Hospital's healthcare services. Renkang Hospital was able to achieve an increase in average spending per visit for both inpatients and outpatients primarily due to increased and diversified offerings of more high-end services that are generally more expensive than the basic medical services it used to prioritize on. In particular, Renkang Hospital performed considerably more complex surgeries in 2016. Similar to Kanghua Hospital, Renkang Hospital had a reduction in the number of administrative and support staff primarily due to outsourcing of ancillary non-clinical management services to a contractor.

Other Income

The other income of the Group primarily consisted of imputed interest income arising from amount due from a shareholder, bank and other interest income, government subsidies, rental income and others. In 2016, other income amounted to RMB23.0 million (2015: RMB64.3 million), representing a year-on-year decrease of approximately 64.3%, primarily due to (i) a decrease in imputed interest income arising from amount due from a shareholder to RMB10.6 million (2015: RMB52.8 million) as the amount had been settled in July 2016; and (ii) partly offset by an increase in bank and other interest income to RMB4.5 million (2015: RMB1.5 million) as the Group's bank balances increased during the year. In addition, during the year, the Group had invested in certain financial product issued by a PRC commercial bank to achieve better return on excess cash balance without interfering with business operations or capital expenditures.

Other Expenses, Gains and Losses

The other expenses, gains and losses of the Group primarily consisted of loss on disposal of property, plant and equipment, impairment loss on accounts receivables, net exchange gain and listing expenses recognised in profit or loss. In 2016, other expenses, gains and losses amounted to a net loss of RMB4.9 million (2015: net loss of RMB4.1 million), representing a year-on-year increase of approximately 20.0%, primarily due to (i) a recorded net exchange gain of RMB6.4 million (2015: nil) arising from Hong Kong dollar denominated proceeds from the Company's initial public offering of its H Shares; (ii) an increase in one-off listing expenses to RMB10.8 million (2015: RMB1.3 million) recognised in profit or loss; and (iii) a decrease in impairment loss on accounts receivables and loss on disposal of property, plant and equipment.

Administrative Expenses

The administrative expenses of the Group primarily consisted of staff costs, repairs and maintenance expenses, office expenses, depreciation and amortisation, rental expenses, utilities expenses, entertainment and travelling expenses and other expenses. In 2016, administrative expenses amounted to RMB109.0 million (2015: RMB83.7 million), representing a year-on-year increase of approximately 30.3%, primarily due to (i) an increase in administrative staff related costs to RMB42.8 million (2015: RMB33.4 million) as a result of performance-based bonuses distributed to employees; (ii) an increase in building rentals and management fee to RMB12.9 million (2015: RMB5.5 million) as a result of sub-contracted service fees to cope with business growth; and (iii) an increase in depreciation and administrative related expenses as a result of operation expansion.

Finance Costs

The finance costs of the Group primarily consisted of interest on bank borrowings and interest on an amount due to a related party in 2015. In 2016, finance costs amounted to RMB7.4 million (2015: RMB67.2 million), representing a year-on-year decrease of approximately 88.9%, primarily due to (i) a decrease in average bank borrowings during the year; and (ii) full repayment of all bank and other borrowings in July 2016.

Income Tax Expenses

The income tax expenses of the Group primarily consisted of PRC enterprise income tax. In 2016, income tax expenses amounted to RMB52.8 million (2015: RMB29.9 million), representing a year-on-year increase of approximately 76.8%, primarily due to higher profit before tax of RMB198.5 million (2015: RMB148.8 million). The subsidiaries of the Group are generally subject to income tax rate of 25% on their respective taxable income. The Group's effective tax rate in 2016 was 26.6% (2015: 20.1%). The increase was primarily due to certain expenses recorded in certain entities of the Group that were not deductible against the Group's profits; these expenses included one-off listing expenses and certain administrative expenses recorded in a holding company.

Profit for the Year

In 2016, profit attributable to the Shareholders amounted to RMB141.3 million (2015: RMB118.8 million), representing a year-on-year increase of approximately 18.9%.

FINANCIAL POSITION

Inventories

The inventories of the Group primarily consisted of pharmaceutical products, medical consumables and others. As at 31 December 2016, inventories increased to RMB43.2 million (2015: RMB38.2 million) primarily due to business growth and increased estimated consumption of inventories in the following months.

Accounts and Other Receivables

The account receivables of the Group primarily consisted of balances due from social insurance funds, certain corporate customers and individual patients. As at 31 December 2016, accounts receivables increased to RMB87.0 million (2015: RMB70.2 million) primarily due to an increase in the operation level of the Group, of which 93.0% were aged within 90 days. Average accounts receivables turnover days for 2016 was 23.2 days (2015: 21.4 days) which remained relatively healthy as compared with industry average.

The other receivables of the Group primarily consisted of prepayments to suppliers, loan receivables and deferred listing expenses in 2015 and others. As at 31 December 2016, other receivables increased to RMB103.5 million (2015: RMB18.0 million) primarily due to (i) an increase in prepayment to suppliers to secure supplies to cope with the growth in operations; and (ii) during the year, the Group granted unsecured loans in the aggregate amount of RMB80 million to Zhonglian Cardiovascular Hospital that is managed by the Group; such loans are interest-bearing at a fixed rate of 0.42% per month and repayable within twelve months from the end of the reporting period.

Accounts and Other Payables

The accounts and other payables of the Group primarily consisted of accounts payables, accrued expenses, construction payables, receipt in advance and others. As at 31 December 2016, accounts and other payables increased to RMB386.4 million (2015: RMB393.0 million) primarily due to (i) a decrease in accounts payable to RMB274.1 million (2015: RMB296.9 million) as the Group had accelerated the settlement of trade balances; (ii) an increase in accrued expenses to RMB51.0 million (2015: 42.3 million) primarily attributable to staff salary and other operational and administrative charges incurred but not yet settled at the end of the reporting period; (iii) an increase in construction payable to RMB18.2 million (2015: 11.9 million) in relation to renovation of a new administrative center; and (iv) a decrease in provision for medical dispute claims to RMB0.5 million (2015: RMB2.4 million) due to settlement of various claims during the year.

Amounts Due From (To) Shareholder(s)/a Related Party

All of the amounts due from (to) shareholder(s)/a related party that were brought forward from year 2015 had been settled in July 2016. The amount due to a shareholder as at 31 December 2016 primarily represented certain one-off listing related expenses that were paid by the shareholder on behalf of the Group but remained unsettled at the end of the reporting period.

Net Current Assets

As at 31 December 2016, the Group recorded a net current assets of RMB784.1 million (2015: net current liabilities of RMB84.1 million) primarily due to (i) proceeds from the Company's initial public offering of its H Shares, which increased the current assets of the Group; and (ii) repayment of all bank borrowings during the year.

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources

The Group continued to maintain a strong financial position with cash and cash equivalents of RMB936.4 million as at 31 December 2016. During the year, the Group received net proceeds from the initial public offering of the Company's H Shares of approximately RMB782.6 million. Taking into account of the steady cash inflow from operations and sufficient cash and bank balances, the directors of the Company are of the view that the Group will have adequate and sufficient liquidity and financial resources to meet the working capital requirements of the Group in the next financial year. As at 31 December 2016, the majority of the Group's cash and bank balances were denominated in Hong Kong dollars as a result the cash proceeds from the initial public offering of the Company's H Shares.

Cash Flow Analysis

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

	Change	**2016**	**2015**
		RMB'000	***RMB'000***
Net cash generated from operating activities	-21.9%	**155,423**	198,902
Net cash generated from investing activities	-59.5%	**353,297**	872,760
Net cash generated from (used in) financing activities	+132.2%	**326,498**	(1,013,488)
Net increase in cash and cash equivalents	+1,335.7%	**835,218**	58,174

Net cash generated from operating activities

In 2016, the net cash generated from operating activities amounted to RMB155.4 million, which was primarily attributable to (a) profit before taxation of RMB198.5 million, as mainly adjusted by (i) depreciation of property, plant and equipment of RMB41.5 million; (ii) finance costs of RMB7.4 million related to bank borrowings; (iii) imputed interest income arising from the amount due from a shareholder of RMB10.6 million (such amount has been fully repaid); and (iv) changes in working capital primarily consisting of an increase in accounts and other receivables of RMB22.5 million; and (b) a decrease in accounts and other payables of RMB7.4 million as a result of business growth. The Group had further cash outflow of RMB36.9 million attributable to income tax paid. The decrease in net cash generated from operating activities was primarily caused by the accelerated payments to suppliers towards the end of the reporting period as the Group was in a strong cash position and intends to maintain good relationships with the suppliers.

Net cash generated from investing activities

In 2016, the net cash generated from investing activities amounted to RMB353.3 million, which was primarily attributable to (i) repayment of RMB618.1 million received from a shareholder (Kanghua Group); (ii) repayment of amount due to a shareholder (Xinye Group) of RMB117.4 million; (iii) loans granted to a hospital of RMB80.0 million; and (iv) purchase of property, plant and equipment in the amount of RMB70.1 million. The decrease in net cash generated from investing activities was primarily caused by a decrease in repayment of amounts due from a shareholder from RMB1,023.7 million in year 2015 to RMB618.1 million in year 2016; such balances had been fully settled during the year.

Net cash generated from financing activities

In 2016, the net cash generated from financing activities amounted to RMB326.5 million, which was primarily attributable to (i) proceeds of RMB865.2 million from the initial public offering of the Company's H Shares; (ii) repayment of bank borrowings of RMB431.8 million; and (iii) repayment to shareholders of RMB104.5 million.

Significant Investment, Acquisition and Disposal

Zhonglian Cardiovascular Hospital

In June 2016, the Group entered into a management agreement with respect to Zhonglian Cardiovascular Hospital, a specialty hospital in cardiovascular diseases in Chongqing and the Group's first managed hospital and its first presence outside of Guangdong Province. Zhonglian Cardiovascular Hospital will bear the "Kanghua" brand and is intended to be positioned as a regional integrated institution providing high level of cardiovascular healthcare services to patients from Chongqing and neighbouring provinces and regions. The management agreement has a term from 1 July 2016 to 30 June 2026, during which the Group has exclusive management rights over Zhonglian Cardiovascular Hospital and is entitled to a monthly management fee of RMB200,000 plus 5% of Zhonglian Cardiovascular Hospital's monthly revenue.

In June 2016, following arm's length negotiations with Zhonglian Cardiovascular Hospital, the Group provided an unsecured loan in the amount of RMB50.0 million to Zhonglian Cardiovascular Hospital with a view to supporting its launch preparations and operating cash flow during its ramp-up period. The principal amount of the loan is repayable at the expiry of one year and carries a monthly interest rate of 0.42% to be settled monthly in arrears.

For further details of the management agreement and the above loan arrangement, please refer to the prospectus of the Company dated 27 October 2016 (the "**Prospectus**").

It was originally envisaged that Zhonglian Cardiovasular Hospital would commence operation towards the end of 2016. Due to implementation of additional clinical configurations with a view to achieving higher efficiency and wider service scope, involving, among other things, additional purchase of medical equipment and system testing, the commencement date of Zhonglian Cardiovascular Hospital was slightly delayed to March 2017. In December 2016, following arm's length negotiations with Zhonglian Cardiovascular Hospital, the Group provided an unsecured loan facility in the amount of RMB50 million to Zhonglian Cardiovascular Hospital, which may be drawndown in one or more tranches within two months. A monthly interest rate of 0.42% is payable by Zhonglian Cardiovascular Hospital monthly in arrears and the principal amount of each loan tranche is repayable by Zhonglian Cardiovascular Hospital at the expiry of 12 months from the relevant drawdown date. For further details of the loan facility, please refer to the announcement of the Company dated 12 December 2016. RMB30.0 million and RMB20.0 million were drawn down by Zhonglian Cardiovascular Hospital in December 2016 and January 2017, respectively.

Cash Management Activities

As part of the Group's cash management, the Group has from time to time invested a principal amount of RMB100.0 million into an investment product issued by a reputable PRC commercial bank with a term of approximately 90 days. The investment product is not rated by any credit agency but is classified as low-risk by the issuing bank. For further details of the above investment product, please refer to the Prospectus.

Save as disclosed in this announcement, the Group had no significant investment, acquisition or disposal during the reporting period and there had not been any significant event since the end of the reporting period and up to the date of this announcement.

Capital Expenditure

The Group regularly makes capital expenditures to expand its operations, maintain its medical facilities and improve its operating efficiency. Capital expenditure primarily consisted of purchases of property, plant and equipment. The capital expenditure of the Group in 2016 was RMB81.0 million (2015: RMB96.2 million), representing a decrease of 15.8% from 2015, primarily due to the completion of substantial renovation work in respect of Huaxin Building (華心樓) (a complex in Kanghua Hospital dedicated to VIP healthcare services) that became operational in September 2015. The Group has financed its capital expenditure through cash flows generated from operating activities.

Use of Proceeds from the Initial Public Offering

The Company's H Shares were listed on the Stock Exchange on 8 November 2016 (the "**Listing Date**"). The Company's net proceeds from the initial public offering of its H Shares amounted to approximately RMB782.6 million (equivalent to approximately HK$874.9 million) after deducting underwriting commissions and all related expenses. As at 31 December 2016, the net proceeds had not been utilised. As at the date of this announcement, the Company does not anticipate any material change to its plan on the use of proceeds as stated in the Prospectus.

INDEBTEDNESS

Bank Loans

As at 31 December 2016, the Group had no bank borrowings (2015: RMB341.8 million). As at 31 December 2016, the Group had no banking facilities.

Contingent Liabilities

The Group is subject to legal proceedings and claims in the ordinary of business primarily arising from medical disputes brought on by patients. Provision for medical disputes is made based on the status of potential and active claims outstanding as at the end of the relevant year, and primarily taking into account any judicial appraisal or court determination against the Group. As at 31 December 2016, the total stated claim amount of the Group's on-going medical disputes was approximately RMB11.3 million and there were certain medical disputes without claim amount stated. Based on the Group's assessment, as at 31 December 2016, approximately RMB0.48 million (2015: RMB2.37 million) had been provided and included in accounts and other payables of the Group.

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

Pledge of Assets

As at 31 December 2016, none of the Group's assets had been pledged.

Contractual Obligations

The contractual obligations of the Group primarily consisted of operating lease commitments and capital commitments.

The operating lease commitments of the Group were primarily attributable to the lease of the land and buildings underlying the Group's hospital operations. As at 31 December 2016, the future aggregate minimum lease payments under non-cancellable lease agreements were RMB295.4 million (2015: nil).

The capital commitments of the Group were primarily attributable to construction costs relating to the expansion and renovation of the Group's medical facilities. As at 31 December 2016, the capital commitments in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements were RMB49.0 million (2015: RMB60.0 million).

Financial Instruments

The Group's financial instruments primarily consisted of accounts and other receivables, amount(s) due from a shareholder/a related party, bank balances and cash, restricted bank balances, pledged bank deposits, accounts and other payables, amounts due to shareholders and bank borrowings. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Exposure to fluctuation in Exchange rates

The proceeds of raised by the Company in its initial public offering of its H Shares is denominated in Hong Kong dollars. The Group deposits certain of its financial assets in Hong Kong dollars, and is mainly exposed to fluctuation in exchange rates of Hong Kong dollars against RMB. The Group is therefore exposed to foreign exchange risk.

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

Gearing Ratio

As at 31 December 2016, the Group's gearing ratio (total interest-bearing bank loans divided by total equity and multiplied by 100%) was zero (2015: 138.5%).

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the period from the Listing Date to 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he has complied with the required standards as set out in the Model Code from the Listing Date to 31 December 2016.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company complied with all applicable code provisions in the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") during the period from the Listing Date to 31 December 2016.

REVIEW OF ANNUAL RESULTS

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

The Company's audit committee consists of three independent non-executive directors of the Company, Mr. Chan Sing Nun (the chairman of the audit committee), Mr. Yeung Ming Lai and Dr. Chen Keji. Among them, Mr. Chan Sing Nun has the appropriate professional qualifications (a certified public accountant accredited by the Hong Kong Institute of Certified Public Accountants).

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in this annual results announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the annual results announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kanghuagp.com). The 2016 annual report of the Company containing all the information required by the Listing Rules will be dispatched to the Shareholders and made available on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our appreciation to the management team and staff of the Group for their contribution and also to extend my sincere gratitude to all our shareholders and business partners for their continuous support.

By order of the Board
Guangdong Kanghua Healthcare Co., Ltd.
WANG Junyang
Chairman

Hong Kong
22 March 2017

As at the date of this announcement, the Board comprises:

Executive directors:
Mr. Wang Junyang *(Chairman)*
Mr. Chen Wangzhi *(Chief executive officer)*
Mr. Wong Wai Hung Simon *(Vice chairman)*
Ms. Wang Aiqin

Independent non-executive directors:
Mr. Yeung Ming Lai
Dr. Chen Keji
Mr. Chan Sing Nun

Non-executive director:
Mr. Lv Yubo

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond the control of the Group. These forward-looking statements may prove to be incorrect and may not be realised in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Furthermore, this announcement also contains statements based on the Group's management accounts, which have not been audited or reviewed by the Group's auditor. Shareholders and potential investors should therefore not place undue reliance on such statements.

* *For identification purpose only.*