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 2017

FINANCIAL HIGHLIGHTS

- Revenue for the year increased by 12.0% to RMB1,389.2 million (2016: RMB1,240.4 million).
- Profit for the year increased by 10.6% to RMB161.1 million (2016: RMB145.7 million).
- Profit for the year attributable to owners of the Company increased by 10.8% to RMB156.6 million (2016: RMB141.3 million).
- Basic earnings per share decreased by 13.0% to RMB46.8 cents (2016: RMB53.8 cents).

FINAL DIVIDEND

- The Board recommended the distribution of a final dividend of RMB16 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 announce the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the financial year ended 31 December 2017 (the "**reporting period**") together with the comparative figures for the preceding financial year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	**2017** **RMB'000**	2016 RMB'000
Revenue	3	**1,389,169**	1,240,390
Cost of revenue		**(1,058,293)**	(943,479)
Gross profit		**330,876**	296,911
Other income	4	**32,694**	22,953
Other expenses, gains and losses	5	**(18,500)**	(4,900)
Administrative expenses		**(126,994)**	(109,042)
Finance costs	6	**—**	(7,449)
Profit before taxation	7	**218,076**	198,473
Income tax expenses	8	**(56,937)**	(52,786)
Profit and total comprehensive income for the year		**161,139**	145,687
Profit and total comprehensive income for the year attributable to:			
– owners of the Company		**156,592**	141,260
– non-controlling interests		**4,547**	4,427
		161,139	145,687
Earnings per share (RMB cents):	10		
– Basic		**46.8**	53.8
– Diluted		**N/A**	53.8

CONSOLIDATED STATEMENT OF FINANICAL POSITION

As at 31 December 2017

	NOTES	**2017** *RMB'000*	2016 *RMB'000*
Non-current assets			
Property, plant and equipment		**434,109**	360,997
Deposits paid for acquisition of property, plant and equipment		**76,456**	29,940
Available-for-sale investments	11	**16,275**	—
Other receivables	12	**5,000**	—
		531,840	390,937
Current assets			
Inventories		**44,524**	43,226
Accounts and other receivables	12	**214,508**	190,486
Available-for-sale investments	11	**543,025**	—
Restricted bank balances	13	**14,700**	34,955
Bank balances and cash	13	**383,796**	936,374
		1,200,553	1,205,041
Current liabilities			
Accounts and other payables	14	**412,586**	386,359
Amount due to a shareholder		**925**	3,179
Tax payables		**29,483**	31,397
		442,994	420,935
Net current assets		**757,559**	784,106
Net assets		**1,289,399**	1,175,043
Capital and reserves			
Share capital	15	**334,394**	334,394
Reserves		**930,830**	821,021
Equity attributable to owners of the Company		**1,265,224**	1,155,415
Non-controlling interests		**24,175**	19,628
Total equity		**1,289,399**	1,175,043

NOTES:

1. GENERAL

廣東康華醫療股份有限公司 (Guangdong Kanghua Healthcare Co., Ltd.) ("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 ("H Shares") which are listed on the Main board of The Stock Exchange of Hong Kong Limited (the "Hong Kong 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, the provision of hospital management services and sales of pharmaceutical products in the PRC.

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

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

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Revenue from Contracts with Customers and Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014 - 2016 Cycle

Except as described below, the application of the above amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

Amendments to IAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchanges rates; (iv) changes in fair values; and (v) other changes.

Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayments Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendments, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 – 2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1 January 2021

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of hospital services, provision of hospital management services and sales of pharmaceutical products.

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 services provided.

During the year ended 31 December 2017, the Group has commenced a new operation of sales of pharmaceutical products. The Group's operating segments are classified as (i) Inpatient healthcare services; (ii) Outpatient healthcare services; (iii) Physical examination services; (iv) Hospital management services; and (v) Sales of pharmaceutical products. 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.
(v)	Sales of pharmaceutical products:	Sales of pharmaceutical products to patients of the Group's hospitals and outside customers.

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 2017

	Inpatient healthcare services *RMB'000*	Outpatient healthcare services *RMB'000*	Physical examination services *RMB'000*	Hospital management services *RMB'000*	Sales of pharmaceutical products *RMB'000* *(note)*	Total *RMB'000*
SEGMENT REVENUE						
External sales	**816,937**	**491,056**	**70,816**	**3,135**	**7,225**	**1,389,169**
Segment profit	**132,405**	**155,070**	**40,790**	**1,424**	**1,187**	**330,876**
Other income						**32,694**
Other expenses, gains and losses						**(18,500)**
Other unallocated expenses						**(126,994)**
Profit before taxation						**218,076**

Note: Sales of pharmaceutical products started in 2017 only.

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*	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

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 (except for available-for-sale investments) 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.

4. OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Bank and other interest income	**11,584**	4,452
Income from available-for-sale investments	**11,675**	—
Government subsidies (note)	**2,432**	500
Rental income	**4,457**	4,580
Imputed interest income arising from amount due from a shareholder	**—**	10,584
Others	**2,546**	2,837
	32,694	22,953

Note: The government subsidies represented the subsidies on medical seminars and forums with no special conditions attached. The amount for the year ended 31 December 2017 included an one-off government subsidy of RMB2,000,000 in connection with the successful listing of the Company in 2016.

5. OTHER EXPENSES, GAINS AND LOSSES

	2017 *RMB'000*	2016 *RMB'000*
Impairment loss on accounts receivables	**(3,513)**	(226)
Loss on disposal of property, plant and equipment	**(247)**	(318)
Net exchange (loss) gain	**(14,740)**	6,399
Listing expenses recognised in profit or loss	**—**	(10,755)
	(18,500)	(4,900)

6. FINANCE COSTS

	2017 *RMB'000*	2016 *RMB'000*
Interest on bank borrowings	**—**	7,449

7. PROFIT BEFORE TAXATION

	2017 *RMB'000*	2016 *RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' emoluments	**3,287**	1,153
Other staff costs:		
Salaries and allowances	**313,406**	260,998
Retirement benefit schemes contributions	**14,359**	13,076
Total staff costs	**331,052**	275,227
Depreciation of property, plant and equipment	**49,600**	41,488
Research and development expenditure	**1,094**	745
Operating lease rentals in respect of hospitals	**26,356**	22,906
Auditors' remuneration	**2,195**	2,326
Cost of inventories recognised as expenses (representing pharmaceutical products and consumables used, included in cost of revenue)	**646,517**	606,510

8. INCOME TAX EXPENSES

	2017	2016
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**57,348**	47,882
(Over)underprovision in respect of prior years	**(411)**	603
	56,937	48,485
Deferred tax	**—**	4,301
	56,937	52,786

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.

9. DIVIDENDS

Final dividend for the year ended 31 December 2016 of RMB14 cents per share amounting to approximately RMB46,783,000 in aggregate was declared and paid by the Company during the year ended 31 December 2017.

Subsequent to the end of the reporting period, final dividend of RMB16 cents per share amounting to approximately RMB53,503,000 in aggregate has been proposed by the directors of the Company which is subject to approval by the shareholders in the forthcoming annual general meetings.

10. EARNINGS PER SHARE

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

	2017	2016
	RMB'000	*RMB'000*
Earnings:		
Profit for the year attributable to the owners of the Company for the purpose of calculating earnings per share	**156,592**	141,260

	2017	2016
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (2016: basic and diluted) earnings per share	**334,394,000**	262,426,814

No diluted earnings per share was presented as there was no potential ordinary share outstanding for the year ended 31 December 2017.

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.

11. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	RMB'000	*RMB'000*
Unlisted fund (note i)	**16,275**	—
Portfolio investment fund (note ii)	**51,185**	—
Structured bank deposits (note iii)	**491,840**	—
	559,300	—
Analysed as:		
Current	**543,025**	—
Non-current	**16,275**	—
	559,300	—

Notes:

i. The unlisted fund represents investment in an equity security of an unlisted company in the PRC and is measured at fair value.

ii. The Group invested into a portfolio investment fund with a fund manager in Hong Kong for investment returns. The portfolio includes a mixture of cash and shares which are primarily listed in Hong Kong and is measured at fair value.

iii. The Group invested into structured deposits with a bank in the PRC for investment returns. Majority of these structured deposits are with maturities of less than six months and the principal is generally renewed when matured.

12. ACCOUNTS AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Accounts receivables	**95,037**	87,036
Prepayments to suppliers	**5,267**	19,260
Deposit paid for an investment (note i)	**5,000**	—
Loan receivables (note ii)	**100,000**	80,000
Interest receivables	**6,066**	514
Others	**8,138**	3,676
Total accounts and other receivables	**219,508**	190,486
Analysed as:		
Current	**214,508**	190,486
Non-current (note i)	**5,000**	—
	219,508	190,486

Notes:

(i) During the year ended 31 December 2017, an amount of RMB5,000,000 was paid by the Group to a vendor who is an independent third party, for a potential acquisition. Such deposit is refundable upon the unsuccessful of acquisition or will use to offset the remaining acquisition consideration.

(ii) In June 2016, a wholly-owned subsidiary of the Company granted an unsecured loan of RMB50,000,000 to Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd. (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 had made the first drawdown of RMB30,000,000 in the same month. In January 2017, the Managed Hospital had made the second drawdown of the unsecured loan facility of RMB20,000,000. 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. During the year ended 31 December 2017, the above loan and tranches of loans were renewed upon maturity at a fixed rate of 0.42% per month and repayable within twelve months from the end of the reporting period.

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:

	2017	2016
	RMB'000	*RMB'000*
Within 30 days	**71,637**	69,770
31 to 90 days	**14,379**	11,148
91 to 180 days	**4,102**	2,647
181 to 365 days	**2,802**	2,351
Over 365 days	**2,117**	1,120
	95,037	87,036

13. BANK BALANCES AND CASH/ RESTRICTED BANK BALANCES

Bank balances carried interest at prevailing market rates which range from 0% to 3.8% (2016: from 0.30% to 0.455%) per annum as at 31 December 2017.

Restricted bank balances represented (i) deposits required by Dongguan Social Insurance Bureau which are 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 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 which range from 0.30% to 0.35% (2016: from 0.30% to 0.41%) per annum as at 31 December 2017.

14. ACCOUNTS AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Accounts payables	**275,622**	274,119
Accrued expenses	**68,919**	50,965
Construction payables	**16,241**	18,166
Receipt in advance	**41,824**	30,924
Other tax payables	**3,979**	2,815
Provision for medical dispute claims	**503**	477
Others	**5,498**	8,893
Other payables	**136,964**	112,240
Total accounts and other payables	**412,586**	386,359

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:

	2017	2016
	RMB'000	*RMB'000*
Within 30 days	**69,988**	98,452
31 to 90 days	**92,977**	79,907
91 to 180 days	**76,910**	69,859
181 to 365 days	**20,565**	7,459
Over 365 days	**15,182**	18,442
	275,622	274,119

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:

	2017	2016
	RMB'000	*RMB'000*
At the beginning of the year	**477**	2,365
Provision for the year	**808**	323
Utilisation of the provision	**(782)**	(2,211)
At the end of the year	**503**	477

15. SHARE CAPITAL

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

Details of the movements of share capital of the Company are as follows:

	Number of domestic shares *'000*	Number of H shares *'000*	Share capital *RMB'000*
At 1 January 2016	250,000	—	250,000
Issue of ordinary shares upon listing (note i)	—	84,000	84,000
Issue of ordinary shares upon exercise of over-allotment options (note ii)	—	394	394
At 31 December 2016 and 31 December 2017	250,000	84,394	334,394

Notes:

i. On 8 November 2016, upon listing on the Hong Kong 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).

ii. 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

	2017	2016
	RMB'000	*RMB'000*
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**82,848**	49,004

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 RMB7,143,000 (2016: RMB11,254,000) as at 31 December 2017 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 RMB16 cents per share (inclusive of applicable tax) for the year ended 31 December 2017 (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 2018, the Proposed Final Dividend is expected to be distributed on or about 20 July 2018 to the Shareholders whose names appear on the register of members of the Company on 19 June 2018 (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 2018 to 8 June 2018, 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 2018.

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 RMB16 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 2018. 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 2018 to 19 June 2018, 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 2017

In the year 2017, the Group commenced its third five-year of operations. It also witnessed the opening of our managed hospital, 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**") in March 2017, a specialty hospital in cardiovascular diseases in Chongqing, and Kanghua Hospital – Huawei Clinic (康華醫院 - 華為門診部), an outpatient division of the Group that commenced operations in August 2017.

The business sentiment in the Dongguan region remained strong in 2017. The Group's owned hospitals, namely Dongguan Kanghua Hospital Co., Ltd.* (東莞康華醫院有限公司) ("**Kanghua Hospital**") and Dongguan Renkang Hospital Co., Ltd.* (東莞仁康醫院有限公司) ("**Renkang Hospital**"), continued to deliver promising operating results in 2017, in particular: (i) the total number of inpatient visits reached 61,143 (2016: 56,590), representing a year-on-year increase of 8.0%; (ii) the overall average spending per inpatient visit amounted to RMB13,361.1 (2016: RMB12,885.1), representing a year-on-year increase of 3.7%; (iii) the overall bed utilisation rate significantly improved to 90.0% (2016: 83.2%); (iv) the average length of stay was lowered to 7.7 days (2016: 7.8 days) as a result of more efficient clinical processes and oversight; (v) the total number of outpatient visits reached 1,542,482 (2016: 1,428,185), representing a year-on-year increase of 8.0%; (vi) the overall average spending per outpatient amounted to RMB318.4 (2016: RMB310.7), representing a year-on-year increase of 2.5%; and (vii) the total number of surgical operations reached 39,407 (2016: 33,630), representing a year-on-year increase of 17.2%.

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	**2017**	2016
Inpatient healthcare services			
Number of registered bed	—	**2,486**	2,486
Number of beds in operation	+70	**1,650**	1,580
Inpatient visits	+8.0%	**61,143**	56,590
Average length of stay (days)	-0.1	**7.7**	7.8
Average spending per visit (RMB)	+3.7%	**13,361.1**	12,885.1
Outpatient healthcare services			
Outpatient visits	+8.0%	**1,542,482**	1,428,185
Average spending per visit (RMB)	+2.5%	**318.4**	310.7

During 2017, Kanghua Hospital continued to enhance its leading position in the healthcare industry. Kanghua Hospital considerably stepped up its recruitment efforts, particularly for experienced medical experts who may in turn improve the medical capability of the Group. It has established cooperation with renowned experts in major hospitals in Guangdong Province with a view to leveraging their expertise to offer more comprehensive and sophisticated treatment options to patients. In particular, Kanghua Hospital expanded its capability in delivering multi-disciplinary services via inter-disciplinary synergies and collaborations.

Some of Kanghua Hospital's highlights in 2017 include:

- In January 2017, Kanghua Hospital was designated as an assessment service center for labour capacity (勞動能力鑒定中心) by the Dongguan Social Insurance Bureau (東莞市社保局). The Board believes that this recognition reflects public confidence in the medical capability and reputation of Kanghua Hospital.

- In April 2017, Kanghua Hospital formed the "South China Famous Doctors Alliance" (華南名醫聯盟) jointly with the Guangdong Clinical Medical Association (廣東省臨床醫學學會) and established a cooperation and exchange centre for consultation with a view to expanding its influence and network of clinical resources through cooperation and exchange with other hospital members of the alliance and multiple-site doctor practice.

- Rehabilitation medicine (康復醫學科) – In May 2017, the rehabilitation medicine of Kanghua Hospital was recognized as a key medical discipline in Dongguan (東莞市臨床重點專科). It has also established a network of rehabilitation services with Renkang Hospital and Kanghua Hospital – Huawei Clinic.

- Clinical experimental study and research centre (臨床試驗研究中心) – In June 2017, the first phase of the clinical experimental study and research centre of Kanghua Hospital commenced operations, offering research and development and application capabilities on novel clinical treatments and medications for the benefit of patients.

- Hematology centre (血液病中心) – In July 2017, Kanghua Hospital performed its first stem cell transfer therapy at the hematology centre and successfully cured a patient with lymphoma that has a high risk and remission rate.

- Prenatal diagnosis centre (產前診斷中心) – In October 2017, after two years of preparation and planning, Kanghua Hospital obtained the relevant approval and permit and launched a prenatal diagnosis center in October 2017. Since then, the obstetrics and gynecology ("O&G") medical centre of the hospital has been able to offer comprehensive multi-disciplinary services combining gynecology, reproductive medicine, prenatal diagnosis, neonatology and pediatrics with VIP settings.

In 2017, Renkang Hospital focused on developing its Chinese Medicine discipline and implemented a specialised ward with a deployment of 6 to 8 beds. Meanwhile, Renkang Hospital also continued to promote the development of other specialty disciplines, such as O&G, geriatric diseases and stomatology, with a view to enhancing the hospital's overall medical capability, particularly to receive and treat critically ill patients. In April 2017, Renkang Hospital entered into a designated hospital cooperation agreement with Ping An Life Insurance Company of China Ltd. to provide direct claim settlement services to patients, which significantly simplify the claiming processes and enhance patient experience. In November 2017, Renkang Hospital obtained the qualifications to conduct occupational health assessments in Dongguan, which is expected to have a strong demand in Dongguan.

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

		For the year ended 31 December			
Healthcare disciplines	Change	**2017** ***RMB'000***	% of revenue of the Group's owned hospitals	2016 *RMB'000*	% of revenue of the Group's owned hospitals
O&G related disciplines (婦產科有關科室)	+14.3%	**283,234**	20.5	247,755	20.0
Cardiovascular related disciplines (心血管有關科室)	+20.2%	**162,024**	11.8	134,838	10.9
Internal medicine related disciplines (內科有關科室)	+21.1%	**152,679**	11.1	126,047	10.2
General surgery related disciplines (普通外科有關科室)	+11.0%	**122,836**	8.9	110,711	8.9
Orthopaedics related disciplines (骨科有關科室)	+18.8%	**98,678**	7.2	83,074	6.7
Neurology related disciplines (神經醫學有關科室)	+13.6%	**90,975**	6.6	80,117	6.5
Emergency medicine related disciplines (急診有關科室)	+10.1%	**77,547**	5.6	70,449	5.7
Paediatrics related disciplines (兒童醫學有關科室)	+3.3%	**44,941**	3.3	43,487	3.5
Medical aesthetic related disciplines (醫學美容有關科室)	+29.6%	**33,045**	2.4	25,501	2.1
Nephrology related disciplines (腎臟科有關科室)	+12.3%	**30,807**	2.2	27,437	2.2
Oncology related disciplines (腫瘤有關科室)	-10.5%	**25,785**	1.9	28,818	2.3
Physical examination (體檢科)	+6.8%	**70,816**	5.1	66,298	5.3
Other disciplines (其他臨床科室)	-4.8%	**185,442**	13.4	194,697	15.7
Total#		**1,378,809**	100.0	1,239,229	100.0

\# *The amount does not include revenue from hospital management services and sales of pharmaceutical products.*

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 2017, Kanghua Hospital performed: (i) 1,648 cardiovascular interventional surgeries (2016: 1,625), representing a year-on-year increase of 1.4%; and (ii) 10,369 surgeries with level 3 or level 4 complexities (2016: 8,792), representing a year-on-year increase of 17.9%. 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 2017, accounting for approximately 59.0% of the Group's total revenue in the same period (2016: 56.7%).

During the year ended 31 December 2017, (a) revenue from O&G related disciplines recorded a year-on-year increase of 14.3%, as our O&G related disciplines becoming a stable revenue driver of the Group, the increase is primarily attributable to (i) the Group's continual efforts in recruiting more O&G healthcare expert professionals and enhancing medical facilities in such disciplines; (ii) the effect of two-child policy in the PRC had gradually becoming more apparent; and (iii) strong demand for VIP O&G and reproductive medicine services; (b) revenue from cardiovascular related disciplines recorded a strong year-on-year increase of 20.2%, primarily attributable to the Group's improvements in clinical resources and medical service capabilities in these areas that enhance the capability to receive and cure critical patients of cardiovascular diseases to further satisfy the needs of patients as well as the Group's growing reputation within Guangdong Province; (c) revenue from medical aesthetic related disciplines recorded a considerable year-on-year increase of 29.6%, primarily attributable to (i) the introduction of more advanced medical equipment and medical aesthetic materials to improve the service quality and treatment results; and (ii) a general increase in the level of fees charged by the services in such areas; and (d) revenue from oncology related disciplines recorded a year-on-year decrease of 10.5%, a moderate decrease as compared with prior year, primarily attributable to a loss of key oncology professional in 2016 and the relevant medical equipment taking longer time to become operational in clinically acceptable conditions, however, the Group was able to hire additional medical professionals to fill the gap towards the end of 2017. The Group will continue to recruit medical experts and talents, accelerate the installation and implementation of the medical equipment and promote the development of these disciplines comprehensively, as well as increase the capability to receive and treat critical oncology patients.

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 2017, the total revenue derived from special services amounted to RMB134.0 million (2016: RMB117.1 million), representing a year-on-year increase of 14.4%. In 2017, the average spending per inpatient visit of VIP healthcare services amounted to RMB26,118.2 (2016: RMB20,776.8), representing a year-on-year increase of 25.7%, 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. In 2017, the Group has begun to adopt a more balanced approach in the pricing of its VIP services taking into account the market demand and competitors' offering in the Dongguan area. Our revenue from VIP inpatient services recorded a year-on-year increase of 19.7%, primarily driven by the increase in average spending as our services are becoming more widely accepted in the market around the Dongguan region. The demand for reproductive medicine remains strong. However, the overall growth of reproductive medicine in 2017 slowed down primarily due to limited operating capacity. In view of this, the Group will continue to expand its capacity in reproductive medicine by recruiting qualified staff as well as deploying dedicated service floor space.

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

		For the year ended 31 December	
Special Services	**Change**	**2017**	2016
VIP healthcare services			
Number of beds in operation	+10	**130**	120
Inpatient visits	-1.0%	**1,295**	1,308
Average spending per inpatient visit (RMB)	+25.7%	**26,118.2**	20,776.8
Outpatient visits	+6.0%	**58,339**	55,056
Average spending per outpatient visit (RMB)	-2.4%	**486.5**	498.4
Revenue (RMB'000)	+13.9%	**62,207**	54,617
Reproductive medicine			
Number of outpatient visits	+11.3%	**57,878**	51,981
Revenue (RMB'000)	+12.8%	**57,862**	51,301
Plastic and aesthetic surgery			
Revenue (RMB'000)	+19.3%	**5,393**	4,520
Laser treatment			
Revenue (RMB'000)	+27.4%	**8,539**	6,702
Total revenue from special services (RMB'000)	+14.4%	**134,001**	117,140

In June 2016, the Group entered into a management agreement with Zhonglian Cardiovascular Hospital. It was the Group's first managed hospital and represented the first step of extending the Group's layout to outside of Guangdong Province. Zhonglian Cardiovascular Hospital will bear the "Kanghua" brand and is intended to be positioned as a regional integrated medical 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. As at 31 December 2017, Zhonglian Cardiovascular Hospital had 20 doctors and 151 other healthcare professionals. Zhonglian Cardiovascular Hospital continuously ramped up its operations and has experienced a gradual increase in patient visits since commencement. In May 2017, Zhonglian Cardiovascular Hospital successfully performed its first heart surgery since commencement. With the view to establishing brand image, Zhonglian Cardiovascular Hospital has organised numerous community health lectures and charity healthcare services. The Board considers that Zhonglian Cardiovascular Hospital is still in the infancy stage of its operations and is fully confident in its prospects. Zhonglian Cardiovascular Hospital only commenced outpatient services in April 2017 and inpatient services in May 2017 and was able to receive more than 3,000 outpatients and 390 inpatients in 2017. More than 190 cardiovascular surgeries were performed at Zhonglian Cardiovascular Hospital in 2017. In November 2017, it also became a designated hospital for medical insurance in Chongqing, enabling patients to settle medical fees through the insurance platform in Chongqing, further optimising the claiming processes and patient experience.

In 2017, Kanghua Hospital's Grade A Class III was in the process of being reviewed by the Health and Family Planning Commission of Guangdong Province (廣東省衛生和計劃生育委員會). It is expected that the last phase of the review will take place in March or April 2018. Kanghua Hospital will receive the review results upon completion of all the reviews by the commission. The Board remains confident that Kanghua Hospital will be able to maintain its rating. Renkang Hospital is also in the process of preparing for its application to be rated as a Grade A Class II hospital under the National Health and Family Planning Commission (中華人民共和國衛生和計劃生育委員會) hospital classification system and is expected to complete the application procedures in 2018.

Industry outlook and strategy

In April 2017, the State Council of the PRC promulgated the Guiding Opinion on Promoting the Building and Development of Healthcare Unions (關於推進醫療聯合體建設和發展的指導意見) promoting, among other things, the integration of hospital groups and community healthcare system. Against this backdrop, the Group intends to capitalise on the potential opportunities by enhancing its cooperation and referral channels with public hospitals, lower-tier hospitals and other community healthcare institutions, which are conducive to the long-term growth of the healthcare network of the Group.

In May 2017, the State Council of the PRC promulgated Key Tasks on Promoting Further Reform of the Healthcare System, 2017(深化醫藥衛生體制改革2017年重點工作任務) that is intended to reduce the proportion of public hospital income from the sale of pharmaceuticals and increase the proportion of hospital income from the provision of medical services. On this basis, the Group will continue to improve the quality of its medical services and strictly control the pricing of the pharmaceuticals with a view to further optimising the income structure of the Group.

The Group is actively seeking for opportunities to expand its operations and network coverage and is in the process of identifying suitable targets. 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 medical needs of the local population. Business feasibility studies, in-depth demographics analysis and due diligence will be conducted by the Group for the purposes of evaluating potential development opportunities.

The Guangdong – Hong Kong – Macau Greater Bay Area Initiative was introduced in the 13th five-year plan (2016 – 2020) of China. The development of the Guangdong – Hong Kong – Macau Greater Bay Area, together with the "Belt and Road" planning initiatives, may bring significant business opportunities and encourage investment activities in Guangdong Province, including Dongguan, where the Group primarily operates in. At the same time, this may also drive the market demand for healthcare services, particularly premium and high-end healthcare services in the region. The Group will continue to observe market demand and make appropriate adjustments to its service offerings to capture upcoming opportunities.

SIGNIFICANT EVENTS

Opening of Zhonglian Cardiovascular Hospital in March 2017

Zhonglian Cardiovascular Hospital commenced operations in March 2017. It has been continuously ramping up the development level of its operations and has experienced a rapid increase in patient visits since commencement. In May 2017, Zhonglian Cardiovascular Hospital successfully performed its first heart surgery since commencement. Zhonglian Cardiovascular Hospital commenced outpatient services in April 2017 and inpatient services in May 2017 and received more than 3,000 outpatients and 390 inpatients in 2017. More than 190 cardiovascular surgeries were performed at Zhonglian Cardiovascular Hospital in 2017. In November 2017, it also became a designated hospital for medical insurance in Chongqing, enabling patients to settle medical fees through the insurance platform in Chongqing.

Opening of Kanghua Hospital – Huawei Clinic in August 2017

Kanghua Hospital – Huawei Clinic, being a newly established outpatient division of the Group, commenced operations in August 2017. The clinic is located within the Songshan Lake Science and Technology Industrial Park in Dongguan (東莞松山湖科技產業園) with a gross floor area of approximately 4,000 square metres and a deployment of about 60 medical professionals. The clinic mainly provides basic outpatient services, emergency medical services and physical examination services to personnel inside the Songshan Lake Science and Technology Industrial Park. Patients with complex medical conditions may be transferred from the clinic to the headquarters of Kanghua Hospital to receive suitable treatment. As at the date of publication of this announcement, the Group has planned to invest approximately RMB30.0 million in the overall operations of the clinic, including construction of facilities, purchase of healthcare equipment and deployment of medical professionals. Moreover, the clinic will also share the quality healthcare facilities and expert resources with the headquarters of Kanghua Hospital.

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; (ii) providing hospital management services to a third-party hospital, namely Zhonglian Cardiovascular Hospital; (iii) sales of pharmaceutical products and medical consumables to patients of the Group's hospitals and walk-in customers who may not be patients of the Group's hospitals.

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 2017

	Inpatient healthcare services	**Outpatient healthcare services**	**Physical examination services**	**Hospital management services**	**Sales of pharmaceutical products**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue	**816,937**	**491,056**	**70,816**	**3,135**	**7,225**	**1,389,169**
Cost of revenue	**(684,532)**	**(335,986)**	**(30,026)**	**(1,711)**	**(6,038)**	**(1,058,293)**
Gross profit	**132,405**	**155,070**	**40,790**	**1,424**	**1,187**	**330,876**
Gross profit margin	**16.2%**	**31.6%**	**57.6%**	**45.4%**	**16.4%**	**23.8%**

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%

Revenue from the Group's inpatient healthcare services amounted to RMB816.9 million (2016: RMB729.2 million), representing a year-on-year increase of 12.0%, accounting for 58.8% (2016: 58.8%) 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; (iii) strong growth in the revenue of Cardiovascular related disciplines and O&G related disciplines as a result of penetrating impact of the two-child policy in the PRC; and (iv) the recognition of the Kanghua brand and reputation of the Group's owned hospitals in the Dongguan region.

Revenue from the Group's outpatient healthcare services amounted to RMB491.1 million (2016: RMB443.8 million), representing a year-on-year increase of 10.7%, accounting for 35.4% (2016: 35.8%) 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 primarily due to higher prices of certain medical services charged at the Group's hospitals.

Revenue from physical examination services amounted to RMB70.8 million (2016: RMB66.3 million), representing a year-on-year increase of 6.8%, accounting for 5.1% (2016: 5.3%) 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 and the opening of our Kanghua Hospital – Huawei Clinic contributing additional physical examination visits to the Group.

Revenue from hospital management services amounted to RMB3.1 million (2016: RMB1.2 million), accounting for 0.2% (2016: 0.1%) of the total revenue of the Group. The management agreement with Zhonglian Cardiovascular Hospital has a term from 1 July 2016 to 30 June 2026, during which the Group has exclusive management rights over the hospital and is entitled to a monthly management fee of RMB200,000 (before applicable tax) plus 5% of hospital's monthly revenue. Zhonglian Cardiovascular Hospital only commenced operations on 1 March 2017 and is still in the phase of ramping up its operations. Apart from the fixed management fee of RMB200,000 per month (before applicable tax), the Group has received minimal management income from the revenue generated by Zhonglian Cardiovascular Hospital.

Revenue from sales of pharmaceutical products and medical consumables amounted to RMB7.2 million (2016: nil), accounting for 0.5% (2016: nil) of the total revenue of the Group. In April 2017, the Group established a pharmaceuticals and medical consumables trading company (which commenced operations in July 2017) for the purpose of streamlining pharmaceuticals and medical consumables sales directly to the patients at the Group's hospitals and walk-in customers who may not be patients of the Group's hospitals.

Cost of Revenue

Cost of revenue of the Group 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 RMB1,050.5 million (2016: RMB942.7 million), representing a year-on-year increase of 11.4%, which was in line with the increase in revenue and business volume. For the year ended 31 December 2017, pharmaceuticals, medical consumables and staff cost accounted for approximately 34.0% (2016: 38.9%), 27.1% (2016: 25.4%) and 26.8% (2016: 24.4%), respectively, of the total cost of revenue of the Group. The decrease in the proportion of our cost of pharmaceuticals is primarily the result of increases in other cost of revenue components including medical consumables, staff related costs and depreciation. Our total staff related costs had increased by 22.9% in 2017, mainly attributable to an increase in general salary level and special bonus distributed with a view to retaining and attracting quality healthcare professionals in the highly competitive healthcare industry. 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 RMB330.9 million (2016: RMB296.9 million), representing a year-on-year increase of 11.4%. The overall gross profit margin decreased slightly to 23.8% (2016: 23.9%), primarily due to:

(i) an increase in staff related costs of 22.9% and depreciation of 22.5%. The increase in staff related costs includes general increase in overall salary level, more competitive compensation packages offered to our healthcare professionals and distribution of a special bonus to reward medical staff. The increase in depreciation was mainly a result of newly purchased medical facilities and equipment that were put into operation during the year as well as additional depreciation charge relating to the newly established Kanghua Hospital – Huawei Clinic.

(ii) the increase of the above is partially offset by the growth in special services that are targeted towards high-end patients and typically command higher margin than basic healthcare services; in 2017, the revenue from special services accounted for 9.6% of the total revenue derived from the Group's owned hospitals, compared to 9.4% in 2016;

(iii) further lowering of the 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;

(iv) 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; and

(v) the ability of Kanghua Hospital to uplift its healthcare consultation prices at a faster pace than its cost of revenue leveraging the reputation of the "Kanghua" brand that is gaining wider recognition in the Guangdong region.

In 2017, the Group's hospital management business had a gross profit of RMB1.4 million (2016: RMB0.4 million) and a gross profit margin of 45.4% (2016: 31.7%). Zhonglian Cardiovascular Hospital commenced operations in March 2017 and is at the stage of ramping up its services and operational capabilities. 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.

The Group's sales of pharmaceutical products and medical consumables segment recorded a gross profit of RMB1.2 million and a gross profit margin of 16.4%.

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	2017	2016
Inpatient healthcare services			
Inpatient visits	+10.0%	**47,425**	43,119
Average length of stay (days)	—	**7.9**	7.9
Average spending per visit (RMB)	+2.6%	**14,634.2**	14,257.1
Outpatient healthcare services			
Outpatient visits	+9.9%	**1,167,545**	1,062,728
Average spending per visit (RMB)	+1.2%	**346.9**	342.7
Staff			
Doctors	+9	**520**	511
Other medical, administrative and support staff	+79	**1,369**	1,290
Total	+88	**1,889**	1,801

In 2017, Kanghua Hospital continued to deliver stable 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.

Renkang Hospital

	Change	2017	2016
Inpatient healthcare services			
Inpatient visits	+1.8%	**13,718**	13,471
Average length of stay (days)	-0.1	**7.3**	7.4
Average spending per visit (RMB)	+5.5%	**8,959.8**	8,493.6
Outpatient healthcare services			
Outpatient visits	+2.6%	**374,937**	365,457
Average spending per visit (RMB)	+5.3%	**229.3**	217.8
Staff			
Doctors	-45	**138**	183
Other medical, administrative and support staff	-65	**386**	451
Total	-110	**524**	634

In 2017, Renkang Hospital regained its growth momentum in the number of inpatient and outpatient visits after a temporary reduction in year 2016, primarily as a result of improving economic sentiment in its vicinity during 2017. Patient flow noticeably increased beginning from 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 a stable increase in average spending per visit for both inpatients and outpatients.

Other Income

The other income of the Group primarily consisted of bank and other interest income, income from available-for-sale investments, government subsidies, rental income, imputed interest income arising from amount due from a shareholder (2016 only) and others. In 2017, other income amounted to RMB32.7 million (2016: RMB23.0 million), representing a year-on-year increase of approximately 42.2%, primarily due to (i) no imputed interest income arising from amount due from a shareholder was recorded in 2017 (2016: RMB10.6 million) as the amount was fully settled in July 2016; and (ii) partly offset by an increase in bank and other interest income to RMB11.6 million (2016: RMB4.5 million) as interest income arising from bank balances and loan receivable had a full year impact during 2017; and (iii) income generated from available-for-sale investments of RMB11.7 million (2016: nil). During the year, as part of the Group's cash management to maximise return on idle cash, the Group invested in certain principal-protected structured deposit products (classified as available-for-sale investments) issued by a PRC commercial bank to achieve higher interest income without interfering with business operations or capital expenditures to earn better return on our excess cash balance.

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 (loss) gain and listing expenses recognised in profit or loss. In 2017, other expenses, gains and losses amounted to a net loss of RMB18.5 million (2016: net loss of RMB4.9 million), representing a year-on-year increase of approximately 277.6%, primarily due to (i) a recorded net exchange loss of RMB14.7 million (2016: net exchange gain of RMB6.4 million) arising from the exchange rate translation of the Group's Hong Kong dollar denominated assets including bank balances and available-for-sale investments; (ii) no one-off listing related expenses was recorded during the year (2016: RMB10.8 million) and recognised in profit or loss; and (iii) an increase in impairment loss on accounts receivables. The Group has written off certain accounts receivables balances that are aged over three years and considered not recoverable after taking the relevant recovery measures.

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 2017, administrative expenses amounted to RMB127.0 million (2016: RMB109.0 million), representing a year-on-year increase of approximately 16.5%, primarily due to (i) an increase in administrative staff related costs to RMB49.2 million (2016: RMB42.8 million) as a result of general increase in salary and more competitive compensation package offered and distribution of bonuses to administrative staff; (ii) an increase in building rentals and management fee to RMB16.1 million (2016: RMB12.9 million) as a result of sub-contracted service fees to cope with business growth; and (iii) an increase in other administrative related expenses including professional fees.

Finance Costs

The finance costs of the Group primarily consisted of interest on bank borrowings wholly repayable within five years. In 2016, finance costs amounted to RMB7.4 million. No finance costs were recorded in 2017 as all of the Group's bank borrowings were fully repaid in July 2016 and no bank borrowing was raised since then.

Income Tax Expenses

The income tax expenses of the Group primarily consisted of PRC enterprise income tax. In 2017, income tax expenses amounted to RMB56.9 million (2016: RMB52.8 million), representing a year-on-year increase of approximately 7.8%, primarily due to higher profit before tax of RMB218.1 million (2016: RMB198.5 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 2017 was 26.1% (2016: 26.6%). The decrease was primarily due to certain expenses recorded in certain entities of the Group that were not deductible against the Group's profits in 2017 and certain administrative expenses recorded in a holding company in 2017.

Profit for the Year

In 2017, profit attributable to the Shareholders amounted to RMB156.6 million (2016: RMB141.3 million), representing a year-on-year increase of approximately 10.8%.

FINANCIAL POSITION

Property, Plant and Equipment and Deposits Paid for Acquisition of Property, Plant and Equipment

During the year, the Group acquired property, plant and equipment and incurred expenditure on construction in progress of RMB79.3 million (2016: RMB38.1 million) and RMB43.7 million (2016: RMB42.9 million), respectively, for the purpose of upgrading and expanding the service capacity of its hospital operations. In addition, as at 31 December 2017, the Group had certain deposits paid for acquisition of property, plant and equipment amounting to RMB76.5 million (2016: RMB29.9 million). The deposits mainly represented amount paid for acquisition of new medical equipment and other new facilities as well as medical equipment for the newly established Kanghua Hospital - Huawei Clinic and deposits for renovation work in respect of the new administrative building and Huaxin Building (華心樓) (a complex in Kanghua Hospital dedicated to VIP healthcare services).

Inventories

The inventories of the Group primarily consisted of pharmaceutical products, medical consumables and others. As at 31 December 2017, inventories increased slightly by 3.0% to RMB44.5 million (2016: RMB43.2 million) primarily due to business growth. During the year, the Group had tightened and improved overall inventory controls, despite the growth in business volume, inventory level was able to maintain at a similier level as last year.

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 2017, accounts receivables increased to RMB95.0 million (2016: RMB87.0 million) primarily due to an increase in the operation level of the Group, of which 90.5% (2016: 93.0%) were aged within 90 days. Average accounts receivables turnover days for 2017 was 23.9 days (2016: 23.2 days), which the Board considers to be relatively healthy as compared with industry average.

The other receivables of the Group primarily consisted of prepayments to suppliers, deposit paid for an investment, loan receivables, interest receivables and others. As at 31 December 2017, other receivables increased to RMB124.5 million (2016: RMB103.5 million) primarily due to (i) a decrease in prepayment to suppliers; (ii) during the year, the Group granted unsecured loans in the aggregate amount of RMB100 million (2016: RMB80.0 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; (iii) recorded interest receivables of RMB6.1 million (2016: 0.5 million) arising from cancelable short-term fixed deposits which were not mature at the end of the reporting period and interest income from loans granted Zhonglian Cardiovascular Hospital; and (iv) deposit paid for an investment of RMB5.0 million.

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 2017, accounts and other payables increased to RMB412.6 million (2016: RMB386.4 million) primarily due to (i) a slight increase in accounts payables to RMB275.6 million (2016: RMB274.1 million); (ii) an increase in accrued expenses to RMB68.9 million (2016: RMB51.0 million) primarily attributable to increase in staff salary and other operational and administrative charges incurred but not yet settled at the end of the reporting period; (iii) a decrease in construction payable to RMB16.2 million (2016: RMB18.2 million) primarily attributable to a renovation cost payable for a new administrative center; and (iv) an increase in receipt in advance to RMB41.8 million (2016: RMB30.9 million) due to expansion of operation during the year.

Net Current Assets

As at 31 December 2017, the Group recorded net current assets of RMB757.6 million (2016: RMB784.1 million).

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources

The Group continued to maintain a strong financial position with cash and cash equivalents of RMB383.8 million as at 31 December 2017 (2016: RMB936.4 million) and short-term available-for-sale investments of RMB543.0 million (2016: nil). The Group continues to generate steady cash inflow from operations and coupled with sufficient cash and bank balances, in the opinion of the directors of the Company, the Group will have adequate and sufficient liquidity and financial resources to meet the working capital requirement of the Group for at least the next twelve months from the end of the reporting period.

As at 31 December 2017, the Group had investments (classified as available-for-sale investments) in aggregate of RMB559.3 million (2016: nil) primarily consisting of, (i) an unlisted fund of US$2.5 million (equivalent to approximately RMB16.3 million) representing an investment in equity securities of a private company in the PRC for a minimum term of three years for the purpose of capital gain, strategic long-term investment and potential cooperation in healthcare; (ii) portfolio investment fund of RMB51.2 million, representing an investment fund deposited with a discretionary fund manager in Hong Kong mandate to achieve appropriate return consistent with the Group's cash management policy. The portfolio included a mixture of cash and shares that are primarily listed in Hong Kong; and (iii) structured bank deposits of RMB491.8 million, representing principal-protected products issued by a PRC commercial bank.

As part of the Group's cash management policy to manage excess cash, the Group purchases investment products from financial institutions to achieve higher interest income without interfering with business operations or capital expenditures. The Group carefully balances the risks and returns associated with the investment products when making the investment decisions. The senior management of the Group is closely involved in securitizing any decision of the Group to purchase investment products. The investment products should generally satisfy the following criteria, (i) its term should generally not exceed one year; (ii) it should not interfere with the Group's business operations or capital expenditures; (iii) it should be issued by a reputable bank which the Group has a long-term relationship, preferably exceeding five years; and (iv) the underlying investment portfolio should generally be low risk.

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	**2017** *RMB'000*	2016 *RMB'000*
Net cash generated from operating activities	+37.6%	**213,919**	155,423
Net cash (used in) generated from investing activities	-301.3%	**(711,188)**	353,297
Net cash (used in) generated from financing activities	-115.0%	**(49,037)**	326,498
Net (decrease) increase in cash and cash equivalents	-165.4%	**(546,306)**	835,218

Net cash generated from operating activities

In 2017, the net cash generated from operating activities amounted to RMB213.9 million, which was primarily attributable to (a) profit before taxation of RMB218.1 million, as mainly adjusted by (i) depreciation of property, plant and equipment of RMB49.6 million; (ii) unrealised exchange loss of RMB7.2 million; (iii) bank and other interest income of RMB11.6 million; and (iv) available-for-sale investments income of RMB11.7 million and (b) changes in working capital primarily consisting of (i) an increase in accounts and other receivables of RMB7.5 million; and (ii) a increase in accounts and other payables of RMB26.2 million as a result of business growth. The Group had further cash outflow of RMB58.9 million attributable to income tax paid. The increase in net cash generated from operating activities was primarily caused by the increase on profit before taxation for the year and the increase in accrued expenses in relation to staff salary and bonuses that remained unsettled at the end of the reporting period.

Net cash (used in) generated from investing activities

In 2017, the net cash used in investing activities amounted to RMB711.2 million, which was primarily attributable to (i) purchase of available-for-sale investments of 560.2 million; (ii) purchase of property, plant and equipment of RMB119.3 million; (iii) additional loan granted to Zhonglian Cardiovascular Hospital of RMB20.0 million; (iv) deposit paid for an investment of RMB5.0 million; and (v) partially off-set by income received from available-for-sale investments of RMB11.7 million and interest received of RMB11.6 million. During the year, as part of the Group's cash management policy, the Group had made investments in an unlisted fund, a portfolio investment fund and structured bank deposits to achieve higher returns on it excess cash, resulting in a net cash outflow in its investing activities.

Net cash (used in) generated from financing activities

In 2017, the net cash used in financing activities amounted to RMB49.0 million, which was primarily attributable to (i) dividend paid during the year of RMB46.8 million; and (ii) repayment to a shareholder of RMB2.3 million. The net cash inflow in 2016 was mainly attributable to the proceeds from the initial public offering of the Company's H Shares, partially off-set by repayment to shareholders and repayment of bank borrowings.

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 (before applicable tax) 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 (the "**June 2016 Loan**").

As disclosed in the Company's announcement dated 12 December 2016, 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 could 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. The loan amounts of RMB30.0 million and RMB20.0 million were drawndown by Zhonglian Cardiovascular Hospital in December 2016 (the "**First Tranche December 2016 Loan**") and February 2017 (the "**Second Tranche December 2016 Loan**"), respectively.

In June 2017, the **June 2016 Loan** was renewed in the amount of RMB50.0 million and carries a monthly interest rate of 0.42% for another year. The **First Tranche December 2016 Loan** and **Second Tranche December 2016 Loan** were renewed in the amount of RMB30.0 million in December 2017 and RMB20.0 million in February 2018, respectively, and carry a monthly interest rate of 0.42% for another year.

As at 31 December 2017, the total loan balance provided to Zhonglian Cardiovascular Hospital in aggregate amounted to RMB100.0 million (2016: RMB80.0 million). Such loan balance represented less than 6% of the assets ratio as defined under Rule 14.07(1) of the Hong Kong Listing Rules, taking in account of the Group's total assets position as at 31 December 2017.

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

Cash Management Activities

As part of the Group's cash management, the Group has from time to time invested into investment products issued by a reputable PRC commercial bank with terms ranging from 90-138 days and portfolio investment funds to achieve higher interest income without interfering with business operations or capital expenditures. The investment products are not rated by any credit agency but is classified as low-risk by the issuing bank and listed securities with low risk profile. The Group carefully balances the risks and returns associated with the investment products when making the investment decisions. The senior management of the Group is closely involved in securitizing any decision of the Group to purchase investment products.

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 2017 was RMB123.0 million (2016: RMB81.0 million), representing a increase of 51.9% from 2016, primarily due to acquisition and upgrade of medical equipment to cope with operational expansion, addition of leasehold improvement in Kanghua Hospital – Huawei Clinic and construction in progress work for the Group's new administrative centre. The Group has financed its capital expenditure through cash flows generated from operating activities.

USE OF PROCEED FROM THE INITIAL PUBLIC OFFERING

The Company's H Shares were listed on the Hong Kong Stock Exchange on 8 November 2016. The Company's net proceeds from the initial public offering of its H Shares amounts to approximately RMB782.6 million (equivalently to approximately HK$874.9 million) after deducting underwriting commissions and all related expenses. The net proceeds from the initial public offering have been and will be utilised in accordance with the purposes set out in the prospectus of the Company dated 27 October 2016 (the "**Prospectus**").

Up to 31 December 2017, approximately RMB47.8 million of the net proceeds from the initial public offering, representing approximately 6.1% of the net proceeds, has been utilised, of which 4.8% has been used as general working capital and 1.3% has been used as upgrading our hospitals' facilities. As at 31 December 2017, out of the balance of the unutilised net proceeds of RMB734.8 million, RMB559.3 million has been used to purchase certain financial products (classified as available-for-sale investments) as part of the cash management policy, to achieve higher interest income and capital return on excess cash balance without interfering with business operations or capital expenditures, and the remaining balance has been kept at the bank accounts of the Group (included in bank balances and cash). 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 2017, the Group had no bank borrowings (2016: nil). As at 31 December 2017, the Group had no banking facilities (2016: nil).

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 2017, the total stated claim amount of the Group's on-going medical disputes was approximately RMB7.1 million (2016: RMB11.3 million) and there were certain medical disputes without claim amount stated. Based on the Group's assessment, as at 31 December 2017, approximately RMB0.50 million (2016: RMB0.48 million) had been provided and included in accounts and other payables of the Group.

As at 31 December 2017, 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 2017, none of the Group's assets had been pledged (2016: none).

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 2017, the future aggregate minimum lease payments under non-cancellable lease agreements were RMB270.7 million (2016: RMB295.4 million).

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 2017, the capital commitments in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements were RMB82.8 million (2016: RMB49.0 million).

Financial Instruments

The Group's financial instruments primarily consisted of available-for-sale investments, accounts and other receivables, bank balances and cash, restricted bank balances, accounts and other payables and amount due to a shareholder. 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 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 2017, the Group's gearing ratio (total interest-bearing bank loans divided by total equity and multiplied by 100%) was zero (2016: zero).

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31 December 2017, 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 of Securities on the Hong Kong Stock Exchange (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 during the year ended 31 December 2017.

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 Rules during the year ended 31 December 2017.

EVENTS AFTER THE REPORTING PERIOD

As disclosed in the Company's announcement dated 13 March 2018, an indirect wholly-owned subsidiary of the Company entered into an agreement to acquire 57% equity interest in Anhui Hualin Medical Investment Co., Ltd. 安徽樺霖醫療投資有限公司 ("**Anhui Hualin**") at a total consideration of RMB78.66 million by way of purchase of equity interests from an independent third party with cash consideration of RMB58.66 million and capital injection in a non-pro rata basis of RMB20 million to Anhui Hualin. Anhui Hualin is principally engaged in the provision of healthcare, rehabilitation and training services and directly and indirectly holds the sponsor interest in a number of private non-enterprise entities (民辦非企業單位) in Anhui Province, the PRC, including one specialist hospital, one class I general hospital, nine rehabilitation centres and one vocational training school. Refundable earnest money of RMB5.0 million was paid in connection with the acquistion and set out in the consolidated statements of financial position.

REVIEW OF RESULTS ANNOUNCEMENT

The Company's audit committee has reviewed the Group's annual results for the financial year ended 31 December 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 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 2017 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 Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.kanghuagp.com). The 2017 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
15 March 2018

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:
Dr. Chen Keji
Mr. Yeung Ming Lai
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.

* *English translated name for identification purpose only.*