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Hospital Corporation of China Limited
弘和仁愛醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3869)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

The board of directors (the "**Directors**") (the "**Board**") of Hospital Corporation of China Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**", "**we**" or "**our**") for the year ended December 31, 2016 together with the comparative figures for the year 2015.

FINANCIAL HIGHLIGHTS

	For the year ended December 31	
	2016	**2015**
	RMB'000	*RMB'000*
Revenue	161,385	142,524
Gross profit margin	51.8%	71.0%
Net profit margin	25.7%	47.2%
Earnings per share	RMB0.243	RMB0.525

CEO'S STATEMENT

Dear Shareholders,

2016 was a critical year in the development of the Group, our performance in 2016 laid a solid foundation for the listing of the Company's shares on The Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on March 16, 2017 (the "**Listing**") and turned a new chapter in our development.

Our revenue increased by 13.2% from RMB142.5 million for the year ended December 31, 2015 to RMB161.4 million for the year ended December 31, 2016. Our net profit recorded in 2016 was RMB41.5 million. Eliminating the impact of expenses related to the Listing in 2015 and 2016 and share-based awards incurred in 2016, non-recurring items which are not indicative of the operating performance of our business in 2015 and 2016, our net profit increased by 14.1% from RMB72.4 million in 2015 to RMB82.6 million in 2016, which achieve the goals in our annual strategic plan and budget.

With our precisely laid out strategic plans and clearly defined targets, the Company is taking steps to prepare its organization structures and build its capabilities that is required in becoming a leading medical services group in China. We are further developing our strategic plans and long term implementation strategies in aspects such as talent recruitment, financing and development of our business model. It would place us in a strong position in the challenging and opportunistic competitive landscape and development in our industry. We believe we are able to maintain rapid growth in the future.

China's economic restructuring, favorable changes in consumption behavior, healthcare reforms as well as Chinese consumers' growing demand for quality medical services bring biggest growing opportunities to the medical services industry. We strive to fulfill the growing healthcare needs of the general public by focusing on the diagnosis and treatment of common diseases, frequently re-occurring diseases and chronic diseases. In this regard, we also plan to expand our services scope to include health management services, rehabilitation services, in-home medical and healthcare services and geriatric services. To form innovative regional medical service centers, we aim to use the acquired hospitals as the core of the services platform to consolidate hospitals and healthcare resources in the surrounding area and deepen our presence and expand our scope of services in the regional healthcare service market.

Our management team has established an efficient and standardized management system to be implemented in hospitals we acquire. The management system was designed to provide guidance and assistance to the hospitals in improving their operating management and services quality, and expanding their healthcare business. We believe these efforts drive the improvement in the management quality and results of operations. Under the management of our Group, Shanghai Yangsi Hospital ("**Yangsi Hospital**") recorded stable growth and unleashed tremendous growth potential.

With supports from the controlling shareholders of the Company and the capital markets, we are committed to further expand rapidly through mergers and acquisitions and create a nationwide medical services network. This will allow us to benefit from the efficiency from economies of scale, which reinforce our ability to continually creating values.

We believe that with the supports from the shareholders of the Company (the "**Shareholders**") and combined efforts from our employees, and utilizing the Group's strategic development and management principals as guidance, we will remain focus to pursue rapid business growth in all aspects and create greater value to Shareholders.

Acknowledgement

I would like to take this opportunity to express my sincere gratitude to our Directors, management and employees for their dedication and contributions to our Group in the past years. I would also like to express my appreciation for the trust and enduring supports from our Shareholders as well as business partners and friends from the banking and investment sectors.

Zhang Xiaopeng
Executive Director and Chief Executive Officer

Beijing, China

March 30, 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended December 31, 2016	2015
		RMB'000	*RMB'000*
REVENUE	4	161,385	142,524
Cost of revenue		(77,766)	(41,395)
Gross profit		83,619	101,129
Selling expenses		(4)	(1)
Administrative expenses		(28,268)	(13,203)
Other gains/(losses) – net		1,068	(342)
Other income		2,982	2,477
Operating Profit		59,397	90,060
Finance income		690	53
PROFIT BEFORE INCOME TAX		60,087	90,113
Income tax expense	5	(18,606)	(22,788)
PROFIT FOR THE YEAR		41,481	67,325
Other comprehensive income		—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		41,481	67,325
Attributable to:			
Owners of the Company		24,068	50,935
Non-controlling interests		17,413	16,390
		41,481	67,325
Earnings per share from profit attributable to owners of the Company			
– Basic and diluted earnings per share (in RMB)	6	0.243	0.525

CONSOLIDATED BALANCE SHEET

	Note	As at December 31,	
		2016	**2015**
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		22,630	23,625
Intangible assets		1,082,071	1,085,351
Deferred income tax assets		276	249
Other receivables, deposits and prepayments		—	487
Total non-current assets		1,104,977	1,109,712
CURRENT ASSETS			
Inventories		1,847	1,180
Trade receivables	8(a)	4,575	7,490
Other receivables, deposits and prepayments		8,570	3,682
Amounts due from related parties	8(b)	38,276	166,861
Cash and cash equivalents		129,332	13,104
Total current assets		182,600	192,317
TOTAL ASSETS		1,287,577	1,302,029
EQUITY			
Equity Attributable to owners of the Company			
Share capital		65	—
Treasury shares		(2)	—
Reserves		1,058,416	1,044,847
Retained earnings		60,597	45,200
		1,119,076	1,090,047
Non-controlling interests		41,867	38,492
Total equity		1,160,943	1,128,539

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at December 31, 2016	2015
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Deferred income tax liabilities		36,465	37,069
Accruals, other payables and provisions		19,442	—
Total non-current liabilities		55,907	37,069
CURRENT LIABILITIES			
Amounts due to related parties		3,855	51,296
Trade payables	9	4,631	2,919
Accruals, other payables and provisions		57,838	63,753
Current income tax liabilities		4,403	18,453
Total current liabilities		70,727	136,421
Total Liabilities		126,634	173,490
TOTAL EQUITY AND LIABILITIES		1,287,577	1,302,029

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of preparation

The consolidated financial statements of Hospital Corporation of China Limited have been prepared in accordance with all applicable the International Financial Reporting Standards ('IFRS') and requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The financial statements are presented in Renminbi ('RMB'), unless otherwise stated.

2 Changes in accounting policy and disclosures

Impact of new or revised standards and amendments to existing standards that are effective on or after January 1, 2017

The following new standards, amendments and interpretations to existing standards which have been issued but are effective for the fiscal year beginning on or after January 1, 2017 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to IAS 7	Disclosure Initiative	January 1, 2017
Amendments to IAS 12	Recognition of deferred tax	January 1, 2017
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Lease	January 1, 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Amendment to IFRS 10 and IAS 28	Sale or Contribution of assets between an investor and its associate or joint venture	Deferred

Amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. An entity shall apply those amendments to IAS 7 for annual periods beginning on or after January 1, 2017.

Amendments to IAS 12 on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. An entity shall apply those amendments to IAS 12 for annual periods beginning on or after January 1, 2017.

IFRS 9 'Financial Instruments'. IFRS 9 (2014), 'Financial instruments' replaces the whole of IAS 39. IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ('OCI') and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognized in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognized in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss. IFRS 9 introduces a new model for the recognition of impairment losses the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognized in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. IFRS 9 also applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition. The directors of the Company has performed a preliminary assessment. Based on this assessment, it is noted that IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognize revenue when performance obligation is satisfied. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The directors of the Company are in the process of the performing assessment on the impact of the forthcoming standard which is effective on January 1, 2018. Under IFRS 15, an entity normally recognizes revenue when a performance obligation is satisfied. Impact on the revenue recognition may arise when multiple performance obligations are identified. The new standard is not expected to apply until the financial year of 2018. The financial impacts of the application of the standard and a reasonable estimate of the effect will be available once the detailed review is completed.

IFRS 16 'Lease'. The Group is a lessee of various properties which are currently classified as operating leases. The Group's current accounting policy for such leases is reflected in the consolidated balance sheet. As at December 31, 2016, the Group's total non-cancellable operating lease commitments amounted to RMB11,248,000. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the balance sheet. Instead, almost all leases must be recognized in the form of an asset (for the right-of-use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet. In the consolidated statement of comprehensive income, leases will be recognised in the future as depreciation of right-of-use assets and interest expense on lease liability and will no longer be recorded as an operating expense on a straight line basis. Therefore, during the initial period of lease term, the lease expense (asset depreciation plus interest) under the new standard is higher compared to the operating lease expense recognized under the existing standard. The new standard is not expected to apply until the financial year 2019. It is expected that certain portion of these lease commitments will be required to be recognized in the consolidated balance sheet as right-of-use assets and lease liabilities.

Amendment to IFRS 10 and IAS 28. The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operation. According to the assessment made by the directors of the Company, except as described above, the directors of the Company do not expect the application of the new and revised IFRSs in issue but not yet effective will have significant impact on the financial performance and positions of the Group.

3 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ('CODM'). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company that make strategic decisions.

The CODM considers the business from both the service and product perspective. When the Group companies have similar economic characteristics, and the segments are similar in each of the following respects: (i) the nature of the products and services; (ii) the nature of the production processes; (iii) the type or class of customer for their products and services; (iv) the methods used to distribute their products or provide their services; and (v) if applicable, the nature of the regulatory environment, the Group's operating segments are aggregated. In the view of CODM, the Group is principally engaged in two different segments which are subject to different business risks and different economic characteristics and the Group's operating and reportable segments for segment reporting purpose are as follows:

The Group assesses the performance of the operating segments based on a measure of earnings before interests, income tax, depreciation and amortisation ('EBITDA').

(a) General hospital services

Revenue from this segment is derived from hospital services provided at Fuhua Hospital.

(b) Hospital management services

The Group provides comprehensive management services to Yangsi hospital under hospital management agreements and receives management service fee.

(c) Unallocated

The 'Unallocated' category represents the headquarter expenses.

	General hospital services	**Hospital management services**	**Unallocated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended December 31, 2016				
Revenue from external customers	30,503	130,882	—	161,385
EBITDA	1,908	83,608		85,516
Depreciation	(634)	(1,864)	(1,188)	(3,686)
Amortization	(1,150)	(2,307)	(3)	(3,460)
Finance income on deposit	13	410	—	423
Headquarter expenses except for depreciation and amortization			(18,706)	(18,706)
Profit before tax	137	79,847	(19,897)	60,087
As at December 31, 2016				
Segment assets	25,814	267,690	35,209	328,713
Goodwill	7,948	950,916	—	958,864
Total assets	33,762	1,218,606	35,209	1,287,577
Total liabilities	9,005	73,580	44,049	126,634
Other Segment information for the year ended December 31, 2016				
Depreciation, amortization and impairment	(1,894)	(4,171)	(1,191)	(7,256)
Additions of non-current assets except for goodwill and deferred income tax assets	661	2,030	180	2,871

	General hospital services *RMB'000*	Hospital management services *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Year ended December 31, 2015				
Revenue from external customers	23,447	119,077	—	142,524
EBITDA	923	104,057		104,980
Depreciation	(531)	(1,755)	(1,166)	(3,452)
Amortization	(1,150)	(2,307)	—	(3,457)
Finance income on deposit	4	49	—	53
Headquarter expenses except for depreciation and amortization			(8,011)	(8,011)
Profit before tax	(754)	100,044	(9,177)	90,113
As at December 31, 2015				
Segment assets	26,773	311,222	5,170	343,165
Goodwill	7,948	950,916	—	958,864
Total assets	34,721	1,262,138	5,170	1,302,029
Total liabilities	16,742	128,791	27,957	173,490
Other Segment information for the year ended December 31, 2015				
Depreciation, amortization and impairment	(2,675)	(4,062)	(1,166)	(7,903)
Additions of non-current assets except for goodwill and deferred tax assets	984	2,213	82	3,279

4 Revenue

	Year ended December 31,	
	2016	**2015**
	RMB'000	*RMB'000*
General healthcare services		
- Pharmaceutical sales	22,016	15,207
- Treatments and general healthcare services	8,487	8,240
Hospital management services		
- Management services fee (a)	129,563	117,847
- Other services fee	1,319	1,230
	161,385	142,524

All revenue are generated in the PRC. For its general hospital services, the Group has a highly diversified patient portfolio, no single patient or client contributed 1% or more of the Group's revenue for the years ended December 31, 2016 and 2015. For its hospital management services, there is a single client, Yangsi Hospital, contributed to 1% or more of the Group's revenue for the years ended December 31, 2016 and 2015.

(a) Management services fee

On January 1, 2013, Weikang Investment entered into a hospital management framework agreement ('HMFA') arrangement with Yangsi Hospital. Pursuant to the HMFA arrangement, Weikang Investment provides management and consultancy services to Yangsi Hospital with a period of 6 years from 2013 to 2018 and the detailed service content and pricing are concluded and effective in separate hospital management agreement ('HMA') on an annually basis.

On September 23, 2014, the executive committee of Yangsi Hospital passed a resolution to extend the HMFA arrangement period to 2064. Accordingly, on October 8, 2014, Yangsi Hospital further signed a letter of intent with Weikang Investment pursuant to the resolution.

On January 1, 2016, Weikang Investment and Honghe Ruixin further entered into a long-term hospital management agreement ('LTHMA') arrangement with Yangsi Hospital. Pursuant to the LTHMA arrangement, Weikang Investment and Honghe Ruixin will provide management and consultancy services to Yangsi Hospital with a period of 10 years from 2016 to 2025.

On January 1, 2016, Weikang Investment and Honghe Ruixin signed the annual HMA with Yangsi Hospital respectively and derives management fee based on pre-set formulas set out in the annual HMA respectively.

5 Income tax expense

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 9% and 25% for the years ended December 31, 2016 and 2015.

	Year ended December 31,	
	2016	**2015**
	RMB'000	*RMB'000*
Current income tax:		
- PRC corporate income tax	19,237	18,454
Deferred income tax (credit)/charge	(631)	4,334
	18,606	22,788

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

	Year ended December 31,	
	2016	**2015**
	RMB'000	*RMB'000*
Profit before income tax	60,087	90,113
Calculated at taxation rate of 25%	15,022	22,528
Effect of different tax rates available to different subsidiaries of the Group	(9,288)	(7,525)
Expenses not tax deductible	10,411	136
Tax effect of unrecognized tax losses	330	2,202
Utilization of tax losses in previous years	(678)	—
Withholding tax	2,809	5,447
Income tax expense	18,606	22,788

(a) Cayman Islands Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% (2015: 16.5%) for the year ended December 31, 2016. No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the years ended December 31, 2016 and 2015.

(c) PRC Corporate Income Tax ('CIT')

The income tax rate of Weikang Investment, Fuhua Hospital and Honghe Yixin was 25% (2015: 25%) for the year ended December 31, 2016. The income tax rate of Honghe Zhiyuan and Honghe Ruixin was 9% (2015: 9%) for the year ended December 31, 2016.

Honghe Zhiyuan and Honghe Ruixin are eligible for a preferential 9% income tax rate for the period from January 1, 2015 to December 31, 2017, in accordance with the Measures for the Implementation of Preferential Enterprise Income Tax Policies of Tibet Autonomous Region (西藏自治區企業所得稅政策實施辦法) promulgated by the Tibet Autonomous Regional Government on May 1, 2014.

(d) Withholding Tax

The withholding tax rate of New Pride and Bliss Success was 10% pursuant to PRC Enterprise Income Tax based on the remittance of dividends from Honghe Ruixin and Weikang Investment in the foreseeable future, respectively.

6 Earnings per share

(a) Basic Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue for the year excluding ordinary shares purchased by the company.

	Year ended December 31,	
	2016	**2015**
Total profit attributable to owners of the Company (RMB'000)	24,068	50,935
Weighted average number of ordinary shares in issue (thousands)	98,943	97,000
Basic earnings per share (in RMB)	0.243	0.525

The earnings per share as presented above is calculated using the weighted average number of ordinary shares of 98,943,000 and 97,000,000 shares for the years ended December 31, 2016 and 2015.

In determining the weighted average number of ordinary shares, the one share issued upon incorporation and 9,699 shares issued in 2016 were treated as if they have been in issue since February 21, 2014.

In addition, the weighted average number of ordinary shares in issue was adjusted by additional 300 shares which were issued to Midpoint Honour on March 31, 2016.

On December 4, 2016, the Company repurchased and subsequently cancelled 14 out of 300 ordinary shares. The remaining 286 shares held by Midpoint Honour were treated as treasury share due to the amendments of the Subscription Agreement on December 4, 2016 and January 23, 2017.

The earning per share as presented above has taken into account of the proposed Capitalization Issue of 99,850,014 shares, which is effective on March 16, 2017, the listing date of the Company. Accordingly, the weighted average number of ordinary shares in issue have been adjusted retrospectively as if it was effective from the date of the beginning.

(b) Diluted Earnings per share

The Company did not have any potential dilutive shares throughout the entire year. Accordingly, diluted earnings per share are the same as the basic earnings per share.

7 Dividends

Pursuant to a resolution of the board of directors' meeting of Weikang Investment on September 12, 2016, a dividend, including withholding tax, of RMB25,493,000 to its majority shareholders and RMB6,373,000 to its minority shareholders was declared. The after-tax dividend to its minority shareholders of RMB5,099,000 had been settled on December 15, 2016.

Pursuant to a resolution of the board of directors' meeting of Honghe Ruixin on November 25, 2016, a dividend, including withholding tax, of RMB30,611,000 to its majority shareholders and RMB7,665,000 to its minority shareholders was declared. The after-tax dividend to its minority shareholders of RMB6,132,000 had been settled on December 27, 2016.

8 Trade receivables and amounts due from related parties with trade in nature

(a) Trade receivables

	As at December 31,	
	2016	**2015**
	RMB'000	**RMB'000**
Trade receivables	5,213	8,484
Less: provision for impairment of trade receivables	(638)	(994)
Trade receivables – net	4,575	7,490

The carrying amounts of the Group's trade receivables are denominated in RMB and approximate their fair values.

As at December 31, 2016 and 2015, the ageing analysis based on invoice date of the trade receivables was as follows:

	As at December 31,	
	2016	**2015**
	RMB'000	**RMB'000**
1 - 90 days	4,514	6,025
91 - 180 days	—	2,459
181 days – 1 year	—	—
Over 1 year	699	—
	5,213	8,484

As at December 31, 2016, the Group's trade receivables of RMB1,656,000 (2015: RMB1,491,000) were past due but not impaired. These mainly related to the amounts to be claimed from local social insurance bureau and similar government departments who are responsible for the reimbursement of medical expenses for patients who are covered by government medical insurance schemes. The management considers that based on past experience, the amounts can be recovered. The ageing analysis of these trade receivables was as follows:

	As at December 31,	
	2016	**2015**
	RMB'000	**RMB'000**
1 - 90 days	957	1,491
91 - 180 days	—	—
181 days – 1 year	—	—
Over 1 year	699	—
	1,656	1,491

The Group's trade receivables impaired were RMB638,000 (2015: RMB994,000) as at December 31, 2016. The ageing analysis of these trade receivables was as follow:

	As at December 31,	
	2016	**2015**
	RMB'000	**RMB'000**
1 - 90 days	638	994
91 - 180 days	—	—
181 days – 1 year	—	—
	638	994

Movement on the Group's provision for impairment of trade receivables are as following:

	RMB'000
Balance at January 1, 2015	—
Provision for receivables	994
Balance at December 31, 2015	994
Balance at January 1, 2016	994
Provision for receivables	638
Receivables written off during the year as uncollectible	(466)
Reversal of provision	(528)
Balance at December 31, 2016	638

The provision for receivables impairment have been included in 'administrative expenses' in the consolidated statements of comprehensive income. Amounts are generally written off, when there is no expectation of recovering additional cash.

(b) Amounts due from related parties with trade in nature

As at December 31, 2016 and 2015, the amounts due from related parties with trade in nature are unsecured, interest free, receivable/repayable on demand and are denominated in RMB.

	As at December 31,	
	2016	**2015**
	RMB'000	**RMB'000**
Amounts due from related parties		
- Trade in nature		
Yangsi Hospital	38,175	166,827

As at December 31, 2016 and 2015, the ageing analysis based on trading date of the trade receivables was as follows:

	As at December 31,	
	2016	**2015**
	RMB'000	**RMB'000**
Within 30 days	38,175	38,444
30 to 90 days	—	—
90 to 180 days	—	27,936
More than 180 days	—	100,447
	38,175	166,827

9 Trade payables

An ageing analysis, based on invoice date, of trade payables as at the consolidated balance sheet dates are as follows:

	As at December 31,	
	2016	**2015**
	RMB'000	**RMB'000**
Less than 60 days	4,604	2,892
61 to 180 days	—	—
181 days to 1 year	—	—
Over 1 year	27	27
	4,631	2,919

The carrying amounts of trade payables are denominated in RMB. The carrying amounts approximate their fair values due to their short-term maturities.

BUSINESS OVERVIEW

We are a hospital operation and management group, led by a professional team with extensive hospital management experience. Through our operation and management of hospitals, we plan to consolidate medical resources in the regions where our hospitals are located and establish regional medical service centers providing consistent, systematic, easy-to-access, high-quality and comprehensive medical services to residents of these regions.

We serve as the core platform for the hospital operation and management business of Hony Capital (a series of private equity funds, together with their respective management companies/general partners). To capture the business opportunities arising from healthcare reforms and structural transformation of the Chinese economy, we focus on the treatment of common diseases, frequently re-occurring diseases and chronic diseases. We have entered the healthcare services industry and achieved favorable economic benefit and fulfilled social responsibilities by leveraging our sophisticated medical techniques, our ability to provide high-quality healthcare services and our differentiated competitive strengths. Our ultimate goal is to create a nationwide medical services network through mergers and acquisitions across China. We target Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale that have demonstrated advanced performance in medical specialties and are located in areas with sizeable populations and attractive economic conditions.

Leveraging our industry knowledge and experience in operating hospitals, we select, acquire and invest in hospitals that meet our investment criteria, formulate customized business strategies for the acquired hospitals to achieve the growth targets, and provide these hospitals with management enhancement and other value-added support. We currently operate our business by (i) providing management and consultancy services to a non-public not-for-profit general hospital (Yangsi Hospital) and (ii) operating a non-public for-profit general hospital (Shanghai Fuhua Hospital Co., Ltd. ("**Fuhua Hospital**")) we own. Yangsi Hospital and Fuhua Hospital are located in the Pudong New District of Shanghai. Pursuant to hospital management agreements entered between Yangsi Hospital and us, we provide management and consultancy services to Yangsi Hospital, and in return we receive a percentage of Yangsi Hospital's annual revenue as management services fee. The management services fees we charged were effectively 22.5% and 22.1% of the total revenue of Yangsi Hospital for years ended December 31, 2015 and 2016. According to the Frost & Sullivan Report (as defined below), Yangsi Hospital is the largest non-public hospital in Shanghai. It provides comprehensive medical services and focuses on the treatment of common diseases, frequently re-occurring diseases and chronic diseases. We own and operate Fuhua Hospital, which provides extensive medical services integrating clinical care and rehabilitation services.

INDUSTRY OVERVIEW

China's Healthcare Service Market Overview

The healthcare service industry is a building block in support of China's economic growth and people's well-being. Along with China's economic transformation, the consumer industry and service industry have become increasingly important in driving China's economic growth. As people demand better living standard and high-end medical service, the healthcare service industry is projected to maintain a rapid growth. From 2011 to 2015, China's total healthcare spending grew from RMB2,434.6 billion to RMB4,097.5 billion, representing a Compound annual growth rate ("**CAGR**") of 13.9% during this period. According to the report dated February 27, 2017 prepared by Frost & Sullivan as commissioned by the Company containing an analysis of China's healthcare service market (the "**Frost & Sullivan Report**"), China's total healthcare spending is projected to undergo a steady growth in the next few years. By 2020, China's total healthcare spending is forecasted to increase to RMB6,281.8 billion, representing a CAGR of 8.9% from 2015 to 2020. China's total healthcare spending grew from 5.0% of GDP in 2011 to 6.1% of GDP in 2015, and is expected to reach 6.9% of GDP by the end of 2020, according to the Frost & Sullivan Report. Driven by stimulus from government on private capitals investing in healthcare services, the market size of the non-public hospital market in Shanghai is projected to reach RMB16.3 billion in 2024 from RMB6.4 billion in 2015, representing a CAGR of 10.9% during the same period.

By contrast, healthcare spending as percentage of GDP in China remains significantly low among the top 10 countries with the largest GDP. In 2015, China ranked second in total healthcare spending among these countries, but ranked ninth in healthcare spending in terms of the percentage of GDP, indicating that China still has ample potential for healthcare spending increment.

China Hospital Market Overview

China's healthcare services providers can be categorized into three kinds: hospitals; primary healthcare institutions, such as community health centers; and other healthcare institutions, such as centers of disease control and preventive institutions for special diseases. Hospitals play the most essential role in China's healthcare service industry, by serving nearly 40.1% of total out-patients and over 76.4% of total in-patients in 2015. Revenue generated by healthcare providers in China reached RMB2,953.8 billion in 2015, of which RMB2,287.9 billion, or 77.5%, was attributable to hospitals. Overall hospital revenue in China grew at a CAGR of 16.4% from RMB1,245.1 billion in 2011 to RMB2,287.9 billion in 2015, and is estimated to further grow at a CAGR of 12.9% to RMB6,831.1 billion in 2024, according to the Frost & Sullivan Report.

With the deepening of healthcare reform, the PRC Government has encouraged the development of hospital groups in the policy "Guidelines for Healthcare Services Industry by the State Council" (國務院關於促進健康服務業發展的若干意見). The policy guides non-public medical institutions in developing high quality healthcare services and establishing professional hospital management groups. In the subsequent implementation process, developing professional hospital management groups has also been addressed in the "Outlines of National Healthcare Service System Planning (2015-2020)"

(全國醫療衛生服務體系規劃綱要) (2015-2020), which indicates that the development of hospital management groups has become an explicit healthcare plan in China, as well as a major healthcare sector for social capital investment.

Class III public hospitals represent the largest market share in the public hospital market in China. The market share of Class III public hospitals among all public hospitals in China in terms of revenue grew from 56.9% to 66.4% from 2011 to 2015, and is expected to grow further in the future, according to the Frost & Sullivan Report.

Although the total number of non-public hospitals had outstripped that of public hospitals by the end of 2015, the total number of Class III hospitals is significantly lower than that of public hospitals, indicating that China's hospital industry is still dominated by public hospitals. In 2015, the total revenue of public hospitals reached RMB2,084.3 billion while that of non-public hospitals reached RMB203.6 billion. Although the market size of non-public hospitals is still small compared to that of public hospitals at present, non-public hospitals will play an increasingly important role in the healthcare service industry in the future.

RECENT DEVELOPMENT

In 2016 we made certain issuances of our ordinary shares and granted share appreciation rights and other share-based awards to incentivize our management. We have recognized expenses as a result of these actions in year ended December 31, 2016. Our share-based compensation expenses for 2016 were RMB22.9 million. On March 31, 2016, we issued to Midpoint Honour Limited (a Shareholder which is controlled by certain members of our management) ("**Midpoint Honour**") 300 ordinary shares at a consideration of RMB31.2 million (the "**Management Subscription**"). Pursuant to the subscription agreement and the amendment agreements, Midpoint Honour is subject to lock-up restrictions and shall put back the subscription shares to us, when any one of the management subscribers resign with our consent. For further details, please refer to the prospectus of the Company dated February 28, 2017 (the "**Prospectus**"). The Management Subscription is accounted for as a share option scheme in accordance with relevant accounting standards, of which the granted share options were considered as equity-settled share-based payment to the subscriber and the subscription consideration was deemed as a loan to us. We recognized RMB3.3 million of expenses in 2016 in respect of the share-based compensation related to the Management Subscription.

On November 28, 2016, we granted to certain members of our management pre-IPO share appreciation rights scheme representing approximately 2.5% of the total issued share capital of the Company, of which we recognized RMB2.8 million of expenses in 2016. On December 13, 2016, we granted to Mr. Lu Wenzuo certain share awards ("**Mr. Lu's Share Awards**") and share-appreciation rights ("**Mr. Lu's SARs**") in relation to equity interest in each of Shanghai Weikang Investment Management Co., Ltd. (上海維康投資管理有限公司) ("**Weikang Investment**") and Tibet Dazi Honghe Ruixin Business Management Co., Ltd. (西藏達孜弘和瑞信企業管理有限公司) ("**Honghe Ruixin**"). We recognized RMB13.9 million and RMB2.9 million of expenses in 2016 in respect of Mr. Lu's Share

Awards and Mr. Lu's SARs, respectively. In addition, we have agreed to pay a cash bonus of RMB2.5 million to Mr. Lu Wenzuo after the Listing, of which we recognized RMB1.8 million of expenses in 2016 and RMB0.7 million of expenses in March 2017.

Our subsidiary, Weikang Investment, declared a RMB31.9 million dividend on September 12, 2016, out of which RMB6.4 million was declared to be distributed to its minority shareholders. The dividend of RMB6.4 million (including withholding tax and after-tax dividend payable to the minority shareholders) was fully settled in the first quarter of 2017. Our subsidiary, Honghe Ruixin, declared a RMB38.3 million dividend on November 25, 2016, out of which RMB7.7 million was declared to be distributed to its minority shareholders. The dividend of RMB7.7 million (including withholding tax and after-tax dividend payable to the minority shareholders) was fully settled in the first quarter of 2017.

The Company has listed its shares on the Main Board of the Stock Exchange on March 16, 2017 (the "**Listing Date**"). We have recognized RMB18.2 million of listing expenses in 2016 and accrued professional service fee for listing preparation of RMB6.8 million as at December 31, 2016. Our operating results in 2016 was therefore materially and adversely affected by the expenses described above related to our incentive schemes and our listing expenses.

REVIEW OF 2016 ANNUAL PERFORMANCE

Results of Operations

Our revenue increased by 13.2% from RMB142.5 million in 2015 to RMB161.4 million in 2016. Our revenue from the hospital management services segment and the general hospital services segment increased by 9.9% and 30.1% to RMB130.9 million and RMB30.5 million in 2016, respectively. Our gross profit decreased by 17.3% from RMB101.1 million in 2015 to RMB83.6 million in 2016. Our gross profit margin decreased from 71.0% in 2015 to 51.8% in 2016 due to the significant increase in cost of revenue. Our cost of revenue increased by RMB36.4 million in 2016, representing a 87.9% year-on-year increase, in part due to the increase in employee benefit expenses (2016: RMB47.5 million, 2015: RMB15.7 million) incurred to incentivize our management and the increase of cost of inventories, consumables and inspection fees (2016: RMB19.4 million, 2015: RMB12.9 million).

Eliminating the impact of expenses related to the Listing in 2015 and 2016 and share-based awards incurred in 2016, non-recurring items which are not indicative of the operating performance of our business in 2015 and 2016, our net profit increased by 14.1% from RMB72.4 million in 2015 to RMB82.6 million in 2016.

Liquidity and Capital Resources

Our total equity as at December 31, 2016 was RMB1,160.9 million (2015: RMB1,128.5 million). As at December 31, 2016, we had current assets of RMB182.6 million (2015: RMB192.3 million) and current liabilities of RMB70.7 million (2015: RMB136.4 million). The current ratio was 2.58 as at December 31, 2016 as compared to 1.41 as at December 31, 2015.

Our primary uses of cash in 2016 were for working capital, capital expenditures and dividend payment. We financed our liquidity requirements mainly with cash flows generated from our operating activities. In the year ended December 31, 2016, we had net cash generating from operating activities of RMB164.0 million, consisting of RMB69.0 million in net cash inflows generated from our operations before changes in working capital, net cash inflows of RMB125.4 million relating to changes in working capital, income tax paid of RMB30.7 million and interests received of RMB0.4 million. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our profit before income tax of RMB60.1 million, adjusted for non-cash items, including primarily to add back share-based compensation expenses of RMB3.4 million, depreciation of property, plant and equipment of RMB3.7 million, and amortization of intangible assets of RMB3.5 million. Our net cash inflows relating to changes in working capital were primarily attributable to an RMB128.6 million decrease in amounts due from related parties in respect of our management service fees from Yangsi Hospital, and an RMB35.7 million increase in accruals, other payables and provision, primarily payable to management subscribers under the Management Subscription and Share-base payment. These factors were offset in part by an RMB38.4 million decrease in amounts due to related parties, related to the repayment to Hony Capital Management (Tianjin) L.P. and Yangsi Hospital, and an RMB4.3 million increase in other receivable, deposits and prepayments, primarily prepayment for professional service fees in respect of preparation for the Listing.

Cash and Borrowings

As at December 31, 2016, we did not have any borrowings or banking facilities and we had cash and cash equivalents of RMB129.3 million (2015: RMB13.1 million). Our Directors believe that, after taking into account the financial resources available to us, including internally generated funds and the estimated net proceeds of the Listing, we have sufficient working capital for our requirements. As at December 31, 2016, the Group did not have any material contingent liabilities or guarantees.

FUTURE PROSPECT

In the coming year, we will continue to (i) implement strategy of multi-dimensional development to establish regional medical service centers, (ii) consolidate medical resources to form a nationwide healthcare services network; and (iii) enhance intra-group synergy to optimize resources allocation. In particular, the Board will actively seek opportunities to further penetrate the existing geographic markets by means of strategic acquisition of Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale in that possess competitive advantages and are located in regions in China with sizeable population and economic activities. In the event of strategic acquisitions, they will be funded by the net proceeds from the Listing.

We will implement a standardized and streamlined management system in the hospitals we acquire, which involves adjusting their development strategies, improving their corporate governance structure and incentive mechanisms, reinforcing the training of medical professionals with a view to improving the quality of the medical services they provide and enhancing the value of the hospitals. We will develop a medical service platform with an extensive geographic coverage focused on the diagnosis and treatment of common diseases, frequently re-occurring diseases and chronic diseases, supported by our efficient hospital management mechanism, to realize economic benefits.

We intend to form a nationwide medical services network leveraging our highly replicable business model. According to the Frost & Sullivan Report, there were 2,123 Class III hospitals and 7,494 Class II hospitals in China as at the end of 2015. This presents huge investment opportunities in relation to both non-public hospital acquisitions and potential reforms in relation to public hospitals, including enterprise-affiliated hospitals. We will focus our expansion in regions with sizeable populations and attractive economic conditions, including Yangtze River Delta, Bohai Rim and Pearl Delta regions, and select hospitals that have demonstrated advanced performance in medical specialties, as we believe these criteria will ensure rapid growth and facilitate our establishment of a nationwide healthcare services network. We plan to acquire or invest in Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale located in the regions mentioned above. We target to acquire or invest in one or two hospitals that are comparable to Yangsi Hospital in terms of factors including profitability, medical skills, number of patient visits and growth potential in each year subsequent to our Listing.

Following China's healthcare sector policy reforms, we aim to become a professional and large-scale hospital operation and management group. While we promote synergies within our Group, we centralize strategic planning and development at the Group level and enhance brand management, with an aim to establishing a unified investment and financing platform, supply chain platform and personnel training platform to enable us to benefit from the economies of scale and brand recognition, as well as to enhance our ability to consolidate resources through mergers and acquisitions.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2016.

HUMAN RESOURCES

At December 31, 2016, the Group had a workforce of 112 people. The Group maintains a good relationship with its employees, and provides them with proper training and competitive compensation and incentives. The staffs are remunerated based on their work performance, professional experience and prevailing market conditions. Remuneration packages comprise salary and bonuses based on individual merits.

USE OF NET PROCEEDS FROM LISTING

The Shares were listed on the Stock Exchange on the Listing Date with net proceeds received by the Company from the global offering in the amount of approximately HK$401.6 million after deducting underwriting commissions and all related expenses. The net proceeds received from the global offering will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

Since the Listing of the Company and up to the date of this announcement, the proceeds from the listing were not applied for any use.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

As the Company's shares were not listed on the Stock Exchange as at December 31, 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2016.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is dedicated to maintaining and ensuring high standards of corporate governance practices and the corporate governance principles of the Company are adopted in the best interest of the Company and its Shareholders. The Company had adopted the applicable code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") since the Listing Date. The Board considered that the Company has complied with all applicable code provisions set out in the CG Code since the Listing Date.

The Company's shares were listed on the Stock Exchange with effect from the Listing Date. As the Company was not a listed company during the year ended December 31, 2016, the CG Code was not applicable to it during that period, but has been applicable to the Company since the Listing Date.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and the relevant employees (who likely possess inside information of the Company) (the "**Securities Dealing Code**") on terms no less exacting than the required standard set out in 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 the Company's shares were not listed on the Stock Exchange as at December 31, 2016, related rules under the Listing Rules concerning the Model Code that Directors shall observe do not apply to the Company for the year ended December 31, 2016.

AUDIT COMMITTEE

The Company has established the audit committee (the "**Audit Committee**") with written terms of reference. The Audit Committee consists of two independent non-executive Directors, Mr. Zhou Xiangliang (Chairman) and Mr. Shi Luwen, and a non-executive Director, Mr. Yuan Bing. The Group's final results for the year ended December 31, 2016, including the accounting principles and practices adopted by the Group have been reviewed by all the members of the Audit Committee. The Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement and the Listing, there is no material subsequent event undertaken by the Company or by the Group after December 31, 2016 and up to the date of this announcement.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2016 as set out in this preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers (the "**Auditor**"), to the amounts set out in the Group's audited consolidated financial statements for the year ended December 31, 2016. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor on this preliminary announcement.

ANNUAL GENERAL MEETING AND ANNUAL REPORT

The annual general meeting of the Company ("**AGM**") will be held on or about Friday, May 26, 2017. The notice of the AGM together with the 2016 Annual Report and all other relevant documents will be despatched to Shareholders and published on the Company's website at www.hcclhealthcare.com and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk in due course.

By Order of the Board
Hospital Corporation of China Limited
Zhang Xiaopeng
Executive Director and Chief Executive Officer

Hong Kong, March 30, 2017

As at the date of this announcement, the Board comprises Mr. Zhao John Huan as the chairman and the non-executive Director, Mr. Zhang Xiaopeng and Mr. Lu Wenzuo as executive Directors, Mr. Yuan Bing, Mr. Lin Sheng and Mr. Lin Tun as non-executive Directors, and Ms. Chen Xiaohong, Mr. Shi Luwen and Mr. Zhou Xiangliang as independent non-executive Directors.