康宁

Wenzhou Kangning Hospital Co., Ltd.

溫州康寧醫院股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 2120)

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1.1 The boa d of di ec o (he [illegible]) of Wen ho Kangning Ho pi al Co., L d. (he [illegible]) i plea ed o anno nce he in e im e 1 of he Compan and i bidia ie (collec i el , he [illegible]) fo he mon h ended J ne 30, 2016 (he [illegible]) i h compa a i e fig e fo he mon h ended J ne 30, 2015.

1.2 The conden ed con olida ed financial info ma ion of he G o p fo he Repo ing Pe iod (he [illegible]) i p epa ed in acco dance i h he In e na ional Financial Repo ing S anda d (he [illegible]).

[illegible]

	[illegible]	2015
	RMB'000	*RMB'000*
	[illegible]	(Audited)
Revenue	[illegible]	160,743
Profit before income tax	[illegible]	37,086
Income tax expense	[illegible]	(9,732)
Total comprehensive income	[illegible]	27,354
Total comprehensive income attributable to equity holders of the Company	[illegible]	29,130
Non-controlling interests	[illegible]	(1,776)

	[illegible]	As of December 31, 2015
	RMB'000	*RMB'000*
	[illegible]	(Audited)
Total assets	[illegible]	1,224,434
Total liabilities	[illegible]	262,205
Total equity	[illegible]	962,229
Equity attributable to owners of the Company	[illegible]	959,716
Non-controlling interests	[illegible]	2,513

[illegible]

In the first half of 2016, the People's Republic of China (the "[illegible]") continued to promote the reform of its healthcare system. While continuously enhancing the operational capabilities of our network of healthcare facilities, we implemented certain mid- and long-term development strategies so as to lay a foundation for the long-term development of the Company. Details of the progress we have made are as follows:

In April and May 2016, Linhai Kangning Hospital (臨海康寧醫院) and Wenzhou Yining Geriatric Hospital (溫州怡寧老年醫院) ("[illegible]") successively commenced operation, and achieved satisfactory results in terms of utilization rate of hospital beds in a short period. On March 31, 2016, we officially managed Pujiang Huangfeng Psychiatric Specialized Hospital (浦江黃鋒精神專科醫院) ("[illegible]") and Chun'an Huangfeng Kang'en Hospital (淳安黃鋒康恩醫院) ("[illegible]") through entering into agreements to subscribe for registered capital and to provide management and consultancy services. For details, please refer to the Company's 2015 annual report published on April 29, 2016. As of the end of June 2016, the number of the Group's healthcare facilities increased to 13, and the number of beds in operation increased to 3,000.

We also see talent fostering as a key factor for the long-term development of the Company. During the Reporting Period, the Company entered into a framework agreement with Wenzhou Medical University* (溫州醫科大學) in relation to the proposed establishment and operation of the Psychiatry School of Wenzhou Medical University* (溫州醫科大學精神醫學學院). The school was established on March 20, 2016 and it is scheduled that 60 undergraduates and [illegible] graduate students majoring in psychiatry, and 30 undergraduates majoring in applied psychology will be enrolled in August 2016.

In order to serve more mergers and acquisitions targets for the future development of the Company, on February 22, 2016, the Company entered into a partnership agreement with, among others, Shanghai Jinpu Jianfu Equity Investment Management Co., Ltd. (上海金浦健服股權投資管理有限公司, [illegible]) in relation to the Company's contribution of RMB50.0 million for the establishment of the Chongqing Jinpu Healthcare Services Industry Equity Investment Fund L.P. (重慶金浦醫療健康服務產業股權投資基金合夥企業(有限合夥)), (the [illegible]). On the same date, the Company and Jinpu Jianfu, the managing partner of the Investment Fund, entered into a strategic cooperation agreement in relation to, among others, certain rights of the Company as a limited partner of the Investment Fund. For details, please refer to the Company's announcement dated February 23, 2016. The Investment Fund was established in the PRC on March 22, 2016.

In addition, during the Reporting Period, Didi Psychology (的的心理), an online psychological consultation platform which the Company invested in and developed, was officially launched and progress was made in marketing. As of June 30, 2016, 92 psychiatrists and 227 psychological consultants were successfully registered upon examination and approval, and 1,578 cases of psychological consultation were completed through the platform. We will further optimize the functions of Didi Psychology and enhance user experience.

Looking into the future, we will also speed up the preparation for the opening of Pingyang Kangning Hospital (平陽康寧醫院), Quzhou Yining Hospital (衢州怡寧醫院) and Shenzhen Yining Hospital (深圳怡寧醫院), aiming for them to commence operation in the second half of 2016. Meanwhile, we have received numerous responses to the Entrepreneurial Program for 100 People (百人創業計劃) we launched at the beginning of 2016. We will also accelerate the expansion of the healthcare facilities network of the Group through integrating existing resources.

[illegible]

[illegible]

The Group achieved revenue of RMB189.1 million during the Reporting Period, representing an increase of 17.6% as compared with that of the same period of 2015. The revenue from operating the Group's owned hospitals and that from management service fees from managing healthcare facilities both increased. The gross profit margin of our owned hospitals decreased to 36.0%, and the gross profit margin of healthcare facilities management business was 51.1%. The overall gross profit margin of the Group during the Reporting Period decreased to 36.7% (six months ended June 30, 2015: 40.6%) due to lower utilization rate of new facilities. During the Reporting Period, net profit attributable to shareholders amounted to RMB28.2 million, representing a decrease of 3.2% as compared with that of the same period of 2015.

4.1.1 Revenue and cost of revenue

The Group generates revenue mainly through the following two sources: (i) revenue from operating its owned hospitals, and (ii) management service fees from managing healthcare facilities.

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

	[illegible]	
	[illegible]	2015
	(RMB'000)	*(RMB'000)*
	[illegible]	(Audited)
Revenue from operating the Group's owned hospitals	[illegible]	155,169
Management service fee income	[illegible]	5,574
Total revenue	[illegible]	160,743

During the Reporting Period, total revenue of the Group amounted to RMB189.1 million, representing an increase of 17.6% as compared with that of the same period of 2015, primarily due to (i) the increase of revenue from operating the Group's owned hospitals by 16.2% and (ii) the increase of management service fee income by 58.5%. Revenue from operating the Group's owned hospitals accounted for 95.3% of total revenue (six months ended June 30, 2015: 96.5%) and management service fee income accounted for 4.7% of total revenue (six months ended June 30, 2015: 3.5%).

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

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

	[illegible]	
	[illegible]	2015
	(RMB'000)	*(RMB'000)*
	[illegible]	(Audited)
Treatment and general healthcare services	[illegible]	111,945
Pharmaceutical sales	[illegible]	42,227
Ancillary hospital services	[illegible]	997
Total revenue	[illegible]	155,169
Cost of revenue	[illegible]	94,115
Gross profit	[illegible]	61,054

During the Reporting Period, revenue from the Group's owned hospitals amounted to RMB180.3 million, representing an increase of 16.2% as compared with that of the same period of 2015.

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

	[illegible]	2015
Inpatients		
Inpatient bed at period end	[illegible]	1,913
Effective inpatient service bed-day capacity	[illegible]	346,253
Utilization rate *(%)*	[illegible]	95.0%
Number of inpatient bed-days	[illegible]	328,893
Treatment and general healthcare services revenue attributable to inpatients *(RMB'000)*	[illegible]	104,964
Average inpatient spending per bed-day on treatment and general healthcare services *(RMB)*	[illegible]	319
Pharmaceutical sales revenue attributable to inpatients *(RMB'000)*	[illegible]	18,963
Average inpatient spending per bed-day on pharmaceutical sales *(RMB)*	[illegible]	58
[illegible] *(RMB'000)*	[illegible]	123,927
[illegible] *(RMB)*	[illegible]	377
Outpatients		
Number of outpatient visits	[illegible]	60,944
Treatment and general healthcare services revenue attributable to outpatients *(RMB'000)*	[illegible]	6,981
Average outpatient spending per visit on treatment and general healthcare services *(RMB)*	[illegible]	115
Pharmaceutical sales revenue attributable to outpatients *(RMB'000)*	[illegible]	23,264
Average outpatient spending per visit on pharmaceutical sales *(RMB)*	[illegible]	382
[illegible] *(RMB'000)*	[illegible]	30,245

	[illegible]	2015
[illegible] *(RMB)*	[illegible]	497
[illegible] *(RMB'000)*	[illegible]	111,945
[illegible] *(RMB'000)*	[illegible]	42,227

During the Reporting Period, inpatient revenue amounted to RMB143.7 million, representing an increase of 16.0% as compared with that of the same period of 2015, primarily due to (i) the increase of inpatient bed-days by 12.7% and (ii) the increase of average inpatient spending per bed-day by 2.9%. Inpatient revenue accounted for 79.7% of our revenue from operating our own hospitals (six months ended June 30, 2015: 79.9%).

During the Reporting Period, outpatient revenue amounted to RMB35.3 million, representing an increase of 16.6% as compared with that of the same period of 2015, primarily due to (i) the increase of outpatient visits by 13.0% and (ii) the increase of average outpatient spending per visit by 3.0%. Outpatient revenue accounted for 19.6% of our revenue from operating our own hospitals (six months ended June 30, 2015: 19.5%).

During the Reporting Period, due to the increase of both inpatients and outpatients business, revenue from treatment and general healthcare services increased by 15.6% as compared with that of the same period of 2015, accounting for 71.8% of our revenue from operating our own hospitals (six months ended June 30, 2015: 72.1%); and revenue from pharmaceutical sales increased by 17.4% as compared with that of the same period of 2015, accounting for 27.5% of our revenue from operating our own hospitals (six months ended June 30, 2015: 27.2%).

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

	[illegible]	
	[illegible]	2015
	(RMB'000)	*(RMB'000)*
	[illegible]	(Audited)
Pharmaceuticals and consumables used	[illegible]	41,266
Employee benefits and expenses	[illegible]	33,343
Leasing expenses	[illegible]	3,352
Depreciation and amortization	[illegible]	6,706
Canteen expenses	[illegible]	4,399
Testing fees	[illegible]	1,590
Others	[illegible]	3,459
Cost of revenue	[illegible]	94,115

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB115.3 million, representing an increase of 22.5% as compared with that of the same period of 2015, which was higher than the increase of revenue. It was mainly due to: (i) the increase of 16.5% in pharmaceutical expenses relating to increase in revenue from pharmaceutical sales; (ii) the increase of 19.5% in employee benefits and expenses arising from the increase in beds in operation of our owned hospitals; (iii) newly added leasing expenses and depreciation and amortization of RMB0.9 million of Linhai Kangning Hospital which was newly put into operation in 2016.

From the cost component structure perspective, pharmaceutical and consumables used is still the main part of cost of revenue of the owned hospitals, accounting for 41.7% (six months ended June 30, 2015: 43.8%). The second part is employee benefits and expenses, which accounted for 34.6% of cost of revenue of the owned hospitals (six months ended June 30, 2015: 35.4%). Leasing expenses, together with depreciation and amortization, accounted for 10.3% of cost of revenue of owned hospitals (six months ended June 30, 2015: 10.7%).

Management service fee income

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

	[illegible]	
	[illegible]	2015
	(RMB'000)	*(RMB'000)*
	[illegible]	(Audited)
Revenue	[illegible]	5,574
Cost of revenue	[illegible]	1,390
Gross profit	[illegible]	4,184

During the Reporting Period, management service fee income of the Group amounted to RMB8.8 million, representing an increase of 58.5% as compared with that of the same period of 2015 and accounting for 4.7% of the total revenue of the Group, due to the contribution of the management service fee in relation to the newly IOT-entrusted Beijing Yining Hospital (北京怡寧醫院) in the second half of 2015 and Rujiang Hospital and Chun'an Hospital starting from April 1, 2016. As of June 30, the Group managed 6 healthcare facilities, with 700 beds in operation.

Cost of the Group for rendering management services primarily include benefits and expenses for management staff assigned and amortization of operation rights acquired for obtaining management rights.

Cost of revenue of management service increased to RMB4.3 million, representing an increase of 210.7% as compared with that of the same period of 2015, outpacing the increase of revenue, mainly because since April 2015, we commenced management of Yanjiao Furen Hospital of Traditional Chinese and Western Medicine (燕郊輔仁中西醫結合醫院) ([illegible]). The Group acquired 19 years and 9 months of operation rights of this hospital and recognized RMB93.1 million of intangible assets. RMB2.4 million was amortized for such operation rights during the Reporting Period (six months ended June 30, 2015: 1.2 million). Accordingly, gross profit margin decreased to 51.1% (six months ended June 30, 2015: 75.1%).

4.1.2 Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB69.5 million, representing an increase of 6.5% as compared with that of the same period of 2015. Overall gross profit margin decreased to 36.7% (six months ended June 30, 2015: 40.6%), mainly due to (i) the decrease in gross profit margin of the Group's owned hospitals as a result of low utilization rate of beds of Linhai Kangning Hospital and Geriatric Hospital which were newly opened in April and May 2016, respectively; and (ii) since Yanjiao Furen Hospital was yet to make profits, we did not recognize any management service fee according to the management agreement which had a negative impact on the gross profit margin of the management and service business.

Additionally, the gross profit margin of pharmaceutical sales was 17.6% for the Reporting Period (six months ended June 30, 2015: 18.3%).

4.1.3 Other Income

Other income of the Group consists of government grants and investment income. During the Reporting Period, other income amounted to RMB3.0 million, representing an increase of 3,096.8% as compared with that of the same period of 2015, primarily due to the increase in interest income from term deposits.

4.1.4 Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB1.0 million (six months ended June 30, 2015: RMB0.5 million), representing an increase of 97.3% as compared with that of the same period of 2015, mainly due to the increase in promotion expenses of the newly-opened Linhai Kangning Hospital and Geriatric Hospital in April and May 2016, respectively.

4.1.5 Administrative Expenses

Administrative expenses of the Group primarily consist of benefits and expenses for the management and administrative staff, expenses of the newly-built hospitals prior to their commencement of operation, depreciation, amortization and others. The table below sets forth a breakdown of our administrative expenses for the periods indicated:

	Six months ended June 30	
	2016	2015
	(RMB'000)	*(RMB'000)*
	(Unaudited)	(Audited)
Employee benefits and expenses	[illegible]	8,542
Leasing expenses	[illegible]	7,765
Depreciation and amortization	[illegible]	2,096
Travelling expenses	[illegible]	772
Consultancy expenses	[illegible]	200
Donation	[illegible]	823
Provision for impairment of receivables	[illegible]	2,961
Others	[illegible]	3,430
Total administrative expenses	[illegible]	26,589

During the Reporting Period, administrative expenses of the Group amounted to RMB39.6 million (six months ended June 30, 2015: RMB26.6 million), representing a substantial increase of 49.0% as compared to the same period of 2015, primarily due to: (i) an increase of RMB6.7 million in our employee benefits and expenses as a result of the increase in (1) our management, research and information technology staff and (2) our reserved staff for the opening of Linhai Kangning Hospital and Geriatric Hospital; (ii) an increase of RMB1.3 million in the compliance expenses for meeting the listing requirements after the listing of the Company; and (iii) expenses primarily related to developing and promoting Didi Psychology – online platform increased by RMB3.4 million. During the Reporting Period, the proportion of administrative expenses to total revenue of the Group increased to 20.9% (six months ended June 30, 2015: 16.5%).

4.1.6 *Finance Income/Expenses – Net*

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

	[illegible]	
	[illegible]	2015
	(RMB'000)	*(RMB'000)*
	[illegible]	(Audited)
Interest income	[illegible]	307
Exchange gain	[illegible]	
Finance income	[illegible]	307
Finance expenses	[illegible]	(1,334)
Finance income/expenses – net	[illegible]	(1,027)

During the Reporting Period, the net finance income of the Group increased to RMB7.7 million, primarily attributable to (i) the increase of RMB0.6 million in the interest income of the proceeds from the initial public offering deposited in the bank, and (ii) the increase in the exchange gains of RMB9.6 million arising from the higher exchange rate of Hong Kong dollars against RMB due to the fact that the proceeds from the initial public offering were deposited in Hong Kong dollars. Finance expenses mainly comprised the finance expenses of RMB2.8 million measured at the effective interest rate from the long-term payables in relation to the entrusted management of Yanjiao Furen Hospital, representing an increase of 108.4% as compared with the same period of 2015, primarily because we started to undertake the entrustment of Yanjiao Furen Hospital in April 2015 and the same period of 2015 only includes three months of interest calculation accordingly.

4.1.7 *Share of Losses of Investments Accounted for Using the Equity Method*

During the Reporting Period, share of losses of investments accounted for using the equity method amounted to RMB2.2 million (for the six months ended June 30, 2015: nil), representing our 49% equity interests in Beijing Yining Hospital, which commenced operation in September 2015 and recorded losses after tax of RMB4.5 million during the Reporting Period.

4.1.8 *Income Tax Expense*

During the Reporting Period, income tax expense increased to RMB10.5 million, representing an increase of 8.2% as compared with the same period of 2015, primarily due to the fact that deferred income tax assets were not recognized for losses of Hangzhou Honglan Information Technology Co., Ltd. (杭州宏瀾信息科技有限公司) ([illegible]) of the period. For the six months ended June 30, 2015 and 2016, our actual tax rates were 26.2% and 28.6%, respectively. The increase in actual tax rates for the Reporting Period was mainly due to the increase in fees not deducted before tax.

4.1.9 *Total Comprehensive Income*

During the Reporting Period, total comprehensive income attributable to owners of the Company amounted to RMB28.2 million, representing a decrease of 3.2% as compared with the same period of 2015, primarily due to the following reasons:

(i) expenses of developing and promoting the online psychological consultation platform increased by RMB3.4 million;

(ii) Geriatric Hospital, which commenced operation in May 2016, recorded loss after tax of RMB3.3 million;

(iii) Linhai Kangning hospital, which commenced operation in April 2016, recorded loss after tax of RMB3.0 million;

(iv) share of losses of investments accounted for using the equity method increased by RMB2.2 million, due to after tax loss of RMB4.5 million of Beijing Yining Hospital; and

(v) costs and expenses relating to managing Yanjiao Furen Hospital increased by RMB3.2 million.

[illegible]

4.2.1 *Inventory*

As of June 30, 2016, inventory balances increased to RMB9.3 million (as of December 31, 2015: RMB7.5 million), primarily due to the increase in pharmaceuticals inventory of newly-opened Linhai Kangning Hospital and Geriatric Hospital.

4.2.2 *Trade Receivables*

As of June 30, 2016, the balance of trade receivables slightly increased to RMB129.5 million (as of December 31, 2015: RMB123.1 million), primarily due to: (i) the increase in our revenue over the same period in line with the business growth of our healthcare facilities; and (ii) the increase in the amount of trade receivables attributable to medical insurance programs. Approximately 70.0% of the trade receivables of the Group were either bills not past due or aged within six months.

4.2.3 Other Receivables, Deposits and Prepayments

As of June 30, 2016, other receivables, deposits and prepayments increased to RMB109.7 million (as of December 31, 2015: RMB91.0 million), primarily due to deposits of RMB38.1 million relating to the acquisition of equity interest in Wenzhou Guoda Investment Company (溫州國大投資有限公司) ([illegible]) and the creditors' rights held by Guoda Investment's certain creditor. For details, please refer to the Company's announcement dated June 2, 2016.

4.2.4 Available-for-sale Financial Assets

As of June 30, 2016, available-for-sale financial assets balance increased by RMB50.0 million, primarily due to our contribution to the Investment Fund. For details, please refer to the Company's announcement dated February 23, 2016.

4.2.5 Trade Payables

As of June 30, 2016, trade payables increased to RMB30.3 million (as of December 31, 2015: RMB20.0 million), of which approximately 90.6% aged within 90 days.

4.2.6 Accruals and Other Payables

As of June 30, 2016, accruals and other payables decreased to RMB164.3 million (as of December 31, 2015: RMB166.4 million).

[illegible]

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

	[illegible]	
	[illegible]	2015
	(RMB'000)	*(RMB'000)*
	[illegible]	(Audited)
Net cash generated from/(used in) operating activities	[illegible]	(14,018)
Net cash used in investing activities	[illegible]	(60,982)
Net cash generated from financing activities	[illegible]	77,553
Net (decrease)/increase in cash and cash equivalents	[illegible]	2,553

4.3.1 *Net Cash Generated from/(Used in) Operating Activities*

During the six months ended June 30, 2016, net cash generated from operating activities amounted to RMB38.0 million. We had net cash generated from operating activities before changes in working capital of RMB44.5 million, primarily consisting of profit before tax of RMB36.8 million and adjustments for depreciation of property, plant and equipment of RMB10.2 million. Changes in working capital resulted in cash inflows of RMB7.1 million. We had cash outflows of RMB13.6 million attributable to our income tax paid.

4.3.2 *Net Cash Used in Investing Activities*

During the Reporting Period, net cash used in investing activities amounted to RMB159.0 million, primarily due to: (i) purchase of property, plant and equipment and intangible assets of RMB71.4 million, consisting of (1) amounts paid and prepaid to renovate and upgrade Wenzhou Kangning Hospital, (2) amounts paid to renovate Geriatric Hospital prior to its opening and (3) amounts for purchasing properties of Pingyang Kangning Hospital; and (ii) RMB50.0 million for the contribution to the Investment Fund.

4.3.3 *Net Cash Generated from Financing Activities*

During the Reporting Period, net cash generated from financing activities amounted to RMB22.1 million, primarily due to a loan of RMB50.0 million from China CITIC Bank, which offset repayment of the loan of RMB30.0 million from China CITIC Bank.

4.3.4 *Significant Investment, Acquisition And Disposal*

On February 22, 2016, the Company entered into a strategic cooperation agreement to contribute RMB50.0 million to the Investment Fund, which shall invest in healthcare and other modern services industries. In principle, the Investment Fund's investments in the healthcare service industry shall be no less than 80% of its total amount available for investment. Please refer to the announcement of the Company dated February 23, 2016 for details.

On June 2, 2016, the Company entered into an agreement with Wenzhou Medical University Asset Management Company Limited* (溫州醫科大學資產經營有限公司, the "Vendor") and Wenzhou Medical University in relation to (i) the acquisition of 51% of the equity interests in Guoda Investment by the Company from the Vendor and (ii) the acquisition by the Company of Wenzhou Medical University's creditor's rights in relation to certain sums owed to it by Guoda Investment. The Company shall pay the consideration for the acquisition of equity interests of approximately RMB17.5 million and pay the consideration for the acquisition of creditor's rights of approximately RMB20.6 million. Please refer to the announcement of the Company dated June 2, 2016 for details.

Save as disclosed above, the Group had no other significant investments, acquisitions or disposals during the six months ended June 30, 2016.

4.4 [illegible]

4.4.1 *Bank Borrowings*

As of June 30, 2016, the balance of bank borrowings of the Group amounted to RMB70.0 million (as of December 31, 2015: RMB50.0 million), primarily attributable to the additional borrowings of RMB50.0 million designated for construction purposes and the repayment of borrowings of RMB30.0 million as working capital in the meantime during the Reporting Period. The bank borrowings due within one year amounted to RMB20.0 million, while bank borrowings due over one year amounted to RMB50.0 million.

* *For identification purposes only*

4.4.2 *Contingent Liabilities*

As of June 30, 2016, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

4.4.3 *Asset Pledge*

As of June 30, 2016, none of the Group's assets had been pledged.

4.4.4 *Contractual Obligations*

The contractual obligation of the Group primarily consists of operating lease arrangements. As of June 30, 2016, the future aggregate minimum lease payments under non-cancellable lease agreements were RMB194.7 million.

4.4.5 *Financial Instruments*

Financial instruments of the Group consist of trade receivables, available-for-sale financial assets, amounts due from related parties, other receivables, term deposits, cash and cash equivalents, bank borrowings, trade and other payables. The Company's management manages and monitors these exposures to ensure effective measures are implemented on a timely manner.

4.4.6 *Exposure to Fluctuation in Exchange Rates*

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

During the six months ended June 30, 2016, the Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates and will consider hedging against significant foreign currency exposures should such need arise.

4.4.7 *Gearing Ratio*

As of June 30, 2016, the Group's gearing ratio (total interest-bearing liabilities divided by total assets) was 12.7% (as of December 31, 2015: 11.8%).

[illegible]

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

[illegible]

The Company's audit committee has reviewed the Group's unaudited interim results for the six months ended June 30, 2016 and has opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

The Company's audit committee consists of two independent non-executive directors of the Company, Mr. HUANG Zhi (the chairman of the audit committee of the Company) and Mr. GOT Chong Key Clevin, and one non-executive director of the Company, Ms. HE Xin. Among them, Mr. HUANG Zhi has the appropriate professional qualifications (a certified public accountant accredited by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會)).

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2016 (for the six months ended June 30, 2015: nil).

[illegible]

The Company has complied with all code provisions in the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the Reporting Period.

[illegible]

[illegible]

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2015, as described in those annual financial statements except for the adoption of amendments to IFRSs effective for the financial year ending December 31, 2016 and the accounting policy for available-for-sale financial assets, which is newly applied to a new transaction in 2016.

[illegible]

The Condensed Consolidated Interim Financial Information of the Group prepared in accordance with the IFRS is set out as follows:

8.2.1 Interim Condensed Consolidated Statement of Comprehensive Income

	[illegible]	2015
	RMB'000	*RMB'000*
	[illegible]	(Audited)
Revenue	[illegible]	160,743
Cost of revenue	[illegible]	(95,505)
[illegible]	[illegible]	65,238
Other income	[illegible]	93
Other losses	[illegible]	(113)
Selling expenses	[illegible]	(516)
Administrative expenses	[illegible]	(26,589)
[illegible]	[illegible]	38,113
Finance income/(expenses) – net	[illegible]	(1,027)
Share of losses of investments accounted for using the equity method	[illegible]	[illegible]
[illegible]	[illegible]	37,086
Income tax expense	[illegible]	(9,732)
[illegible]	[illegible]	27,354
Other comprehensive income	[illegible]	[illegible]
[illegible]	[illegible]	27,354
Attributable to:		
– Equity holders of the Company	[illegible]	29,130
– Non-controlling interests	[illegible]	(1,776)
Basic and diluted earnings per share *(in RMB)*	[illegible]	0.57

8.2.2 *Interim Condensed Consolidated Balance Sheet*

	[illegible]	December 31, 2015
	RMB'000	*RMB'000*
	[illegible]	(Audited)
[illegible]		
[illegible]		
Property, plant and equipment	[illegible]	233,200
Land use rights	[illegible]	20,738
Intangible assets	[illegible]	90,581
Investments in associate	[illegible]	8,422
Deferred income tax assets	[illegible]	10,071
Available-for-sale financial assets	[illegible]	–
Deposits and prepayments	[illegible]	48,324
[illegible]	[illegible]	411,336
[illegible]		
Inventories	[illegible]	7,506
Trade receivables	[illegible]	123,067
Other receivables, deposits and prepayments	[illegible]	42,690
Amounts due from related parties	[illegible]	20,044
Term deposits	[illegible]	251,334
Cash and cash equivalents	[illegible]	368,457
[illegible]	[illegible]	813,098
[illegible]	[illegible]	1,224,434
[illegible]		
Equity attributable to owners of the Company		
Share capital	[illegible]	73,040
Capital reserve	[illegible]	797,510
Surplus reserve	[illegible]	11,342
Retained profits	[illegible]	77,824
	[illegible]	959,716
Non-controlling interests	[illegible]	2,513
[illegible]	[illegible]	962,229

	[illegible]	Decembe 31, 2015
	RMB'000	*RMB'000*
	[illegible]	(A di ed)
[illegible]		
[illegible]		
Bank bo o ing	[illegible]	
Defe ed go e nmen g an	[illegible]	14,284
Long- e m pa able	[illegible]	98,821
[illegible]	[illegible]	113,105
[illegible]		
Bank bo o ing	[illegible]	50,000
T ade pa able	[illegible]	19,976
Acc al and o he pa able	[illegible]	63,209
Di idend pa able	[illegible]	
G en income a liabili ie	[illegible]	11,559
G en po ion of long- e m pa able	[illegible]	4,356
[illegible]	[illegible]	149,100
[illegible]	[illegible]	262,205
[illegible]	[illegible]	1,224,434

8.2.3 *Interim Condensed Consolidated Statements of Changes In Equity*

	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		–	–	–	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]								
Acq i ion of a bdia		–	–	–	–	–	[illegible]	[illegible]
Capi al con ib ion b non-con olling in e e		–	–	–	–	–	[illegible]	[illegible]
Emplo ee ha e op ion cheme:								
Val e of emplo ee e ice	16	–	[illegible]	–	–	[illegible]	–	[illegible]
Di idend ela ing o 2015	25	–	–	–	[illegible]	[illegible]	–	[illegible]
[illegible]		–	[illegible]	–	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

		Audited						
		Attributable to owners of the Company						
	Note	Share Capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Retained Earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
[illegible]		50,000	159,153	5,708	46,229	261,090	–	261,090
[illegible]		–	–	–	29,130	29,130	(1,776)	27,354
Total transactions with owners recognised directly in equity								
Capital contribution by shareholders	15	2,800	75,600	–	–	78,400	–	78,400
Employees share option scheme:								
– Value of employee services	16	–	1,031	–	–	1,031	–	1,031
Dividends relating to 2014	25	–	–	–	(18,480)	(18,480)	–	(18,480)
Capital contribution by non-controlling interests		–	–	–	–	–	2,400	2,400
[illegible]		2,800	76,631	–	(18,480)	60,951	2,400	63,351
[illegible]		52,800	235,784	5,708	56,879	351,171	624	351,795

8.2.4 Interim Condensed Consolidated Statement of Cash Flows

	[illegible]	2015
	RMB'000	*RMB'000*
	[illegible]	(Audited)
[illegible]		
Cash generated from operations	[illegible]	2,670
Income tax paid	[illegible]	(16,688)
[illegible]	[illegible]	(14,018)
[illegible]		
Purchase of property, plant and equipment	[illegible]	(49,279)
Purchase of intangible assets	[illegible]	(10)
Proceeds from transfer of construction in progress	[illegible]	–
Purchase of available-for-sale assets	[illegible]	–
Prepayment of an investment	[illegible]	–
Amount due to third parties	[illegible]	(12,000)
Interest received	[illegible]	307
[illegible]	[illegible]	(60,982)
[illegible]		
Proceeds of borrowings	[illegible]	–
Repayment of borrowings	[illegible]	–
Prepayment for H share IPO costs	[illegible]	(5,247)
Prepayment for A share IPO costs	[illegible]	–
Proceeds from capital contribution by shareholders	[illegible]	78,400
Deposits received from a non-controlling interest	[illegible]	2,000
Share capital received from a non-controlling interest	[illegible]	2,400

	[illegible]	2015
	RMB'000	*RMB'000*
	[illegible]	(Audited)
[illegible]	[illegible]	77,553
[illegible]	[illegible]	2,553
Cash and cash equivalents at beginning of the period	[illegible]	37,271
Exchange gains on cash and cash equivalents	[illegible]	[illegible]
Cash and cash equivalents at end of the period	[illegible]	39,824

[illegible]

8.3.1 Trade receivables

	[illegible]	December 31, 2015
	RMB'000	*RMB'000*
	[illegible]	(Audited)
Trade receivables	[illegible]	130,738
Less: provision for impairment of trade receivables	[illegible]	(7,671)
Trade receivables, net	[illegible]	123,067

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

As of June 30, 2016 and December 31, 2015, the ageing analysis of the trade receivables was as follows:

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Aging analysis based on the billing date:		
Bills not presented	[illegible]	9,580
1–3 months	[illegible]	74,718
4–6 months	[illegible]	19,635
7–12 months	[illegible]	19,937
1–2 years	[illegible]	5,075
2–3 years	[illegible]	1,426
Over 3 years	[illegible]	367
	[illegible]	130,738

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

8.3.2 Other receivables, deposits and prepayments

	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Other receivables (a)	[illegible]	14,337
Deposits (b)	[illegible]	17,268
Amount due from third parties (c)	[illegible]	12,304
Prepayments for rental	[illegible]	30,007
Deposits for investment in a subsidiary (d)	[illegible]	
Prepayments for purchase of property	–	13,000
Prepayments for construction in progress	[illegible]	2,594
Prepayments for goods and services	[illegible]	2,539
Others	[illegible]	43
Less: provision for impairment of other receivables	[illegible]	(1,078)
Total	[illegible]	91,014

	[illegible]	December 31, 2015
	RMB'000	RMB'000
	[illegible]	(Audited)
Current	[illegible]	42,690
Non-current	[illegible]	48,324
Total	[illegible]	91,014

The carrying amounts of the Group's other receivables, deposits and prepayments are denominated in RMB and approximate to their fair values.

(a) Included in other receivables as of June 30, 2016 was an advance payment amounting to RMB3,321,000 (as of December 31, 2015: RMB9,210,000) to Yanjiao Furen Hospital. Such advances will be repaid to the Group by Yanjiao Furen Hospital when and as its cash flow allows as agreed by both parties.

(b) Included in deposits as of June 30, 2016 and December 31, 2015 was a deposit of RMB12,688,000 to the contractor of the new hospital construction work as the guarantee for fulfillment of obligation of the Group under the construction contract. The deposit will be repaid to the Group after the construction is completed and all Group's obligation has been discharged.

(c) The Company entered into an agreement with Sichuan Hongji Pharmaceutical Company Limited ([illegible]), an independent third party in March 2015 and planned to develop certain business with Sichuan Hongji. The Company placed a deposit of RMB12,000,000 to Sichuan Hongji as future capital contribution. Subsequently, the agreement was cancelled and a supplemental agreement was entered into by Sichuan Hongji, Chengdu Jihong Hospital Company Limited ([illegible], a wholly owned subsidiary of Sichuan Hongji) and the Company on June 29, 2015. Pursuant to the supplemental agreement, the three parties agreed to abandon the business plan and the deposit should be repaid by Chengdu Jihong to the Group within 12 months commencing from June 29, 2015, bearing an interest rate of 5% per annum. The amount is guaranteed by the shareholders of Sichuan Hongji.

On July 28, 2015, Chendu Jihong changed its name to Chengdu Renrui Hospital Company Limited.

(d) In June 2016, the Company entered into an agreement with the Vendor and Wenzhou Medical University. Pursuant to the agreement, the Company has agreed to acquire 51% of the equity interest in Guoda Investment from the Vendor and creditors' rights from Wenzhou Medical University. Following completion of the public bidding process which is mandatory for the state-owned assets transfer, the Company has successfully bid for the equity interest and creditor's rights at an aggregate consideration of RMB38,096,000, representing RMB17,492,000 for the equity interest and RMB20,604,000 for the creditor's rights. As of June 30, 2016, the transfer of the ownership was still subject to the approval by or registration with the relevant government authorities in the PRC. The acquisition was subsequently completed in August 2016.

8.3.3 Revenue

	[illegible]	
	[illegible]	*2015*
	RMB'000	*RMB'000*
	[illegible]	(Audited)
Treatments and general healthcare services	[illegible]	111,945
Pharmaceutical sales	[illegible]	42,227
Ancillary hospital services	[illegible]	997
Management service fee	[illegible]	5,574
	[illegible]	160,743

All revenue is generated in the PRC where all assets of the Group are located. The Group has a highly diversified patient portfolio, aside from Pingyang Changgeng Hospital Co., Limited, from which the Group earns management service fee of RMB6,254,000 and RMB5,574,000 respectively in the six months ended June 30, 2016 and 2015, no single patient or client contributed 1% or more of the Group's revenue during the period.

8.3.4 Income tax expense

The income tax expense of the Group for the six months ended June 30, 2016 and 2015 is analysed as follows:

	Six months ended June 30	
	[illegible]	2015
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Current income tax:		
– PRC corporate income tax	[illegible]	10,344
Deferred income tax	[illegible]	(612)
	[illegible]	9,732

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

	Six months ended June 30	
	[illegible]	2015
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Profit before income tax	[illegible]	37,086
Calculated at the tax rate of 25%	[illegible]	9,272
Expenses not tax deductible	[illegible]	460
Income not subject to tax	[illegible]	[illegible]
Over-provision in prior years	[illegible]	[illegible]
Tax losses for which no deferred income tax assets was recognised	[illegible]	[illegible]
	[illegible]	9,732

The income tax provision of the Group in respect of operations in the PRC has been calculated at the tax rate of 25% on the estimated assessable profits, based on the existing legislation, interpretations and practices in respect thereof, unless preferential tax rates were applicable.

8.3.5 *Earnings per share*

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on profit attributable to ordinary equity shareholders of the Company of RMB28,207,000 and RMB29,130,000 for the six months ended June 30, 2016 and 2015 respectively and the weighted average number of ordinary shares in issue at the end of each reporting period, is calculated as follows:

[illegible]

	[illegible]	2015
	[illegible]	No. of shares (Audited)
Ordinary shares issued at beginning of the period	[illegible]	50,000,000
Effect of issuance of shares	[illegible]	1,423,000
Weighted average number of ordinary shares at the end of period	[illegible]	51,423,000

The calculation of earnings per share for the six months ended June 30, 2016 is based on 73,040,000 (for the six months ended June 30, 2015: 51,423,000) ordinary shares.

(b) *Diluted earnings per share*

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

8.3.6 Commitments

(a) Capital commitments

	[illegible]	December 31, 2015
	RMB'000	*RMB'000*
	[illegible]	(Audited)
Contracted but not provided for		
– construction building	[illegible]	36,635
– leasehold improvements	[illegible]	60,529
– property, plant and equipment	[illegible]	10,935
	[illegible]	108,099

(b) Operating lease commitments

The Group leases certain office buildings and hospitals under non-cancellable operating lease agreements. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	[illegible]	December 31, 2015
	RMB'000	*RMB'000*
	[illegible]	(Audited)
No later than 1 year	[illegible]	28,593
Later than 1 year and no later than 5 years	[illegible]	74,546
Later than 5 years	[illegible]	105,831
	[illegible]	208,970

8.3.7 Dividends

On March 24, 2016, the Board declared a final dividend of RMB18,260,000 for the year ended December 31, 2015 which is calculated based on 73,040,000 issued shares as at December 31, 2015. The proposed dividend was approved by the shareholders at its annual general meeting on June 14, 2016. The dividend is reflected as a dividend payable in the condensed consolidated interim financial information for the six months ended June 30, 2016.

On May 11, 2015, the Board declared a final dividend of RMB18,480,000 for the year ended December 31, 2014. The proposed dividend was approved by the shareholders' meeting on June 1, 2015 and the Company paid out the dividend on July 23, 2015.

By order of the Board
[illegible]
[illegible]
Chairman

Zhejiang, the PRC
August 29, 2016

As of the date of this announcement, the Company's executive directors are Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue; the non-executive directors are Mr. YANG Yang and Ms. HE Xin; and the independent non-executive directors are Mr. CHONG Yat Keung, Mr. HUANG Zhi and Mr. GOT Chong Key Clevin.