溫州康寧醫院股份有限公司

Wenzhou Kangning Hospital Co., Ltd.

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

Stock code: 2120

2016

INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. GUAN Weili *(Chairman)*
Ms. WANG Lianyue
Ms. WANG Hongyue

Non-executive Directors

Mr. YANG Yang
Ms. HE Xin

Independent Non-executive Directors

Mr. CHONG Yat Keung
Mr. HUANG Zhi
Mr. GOT Chong Key Clevin

AUDIT COMMITTEE

Mr. HUANG Zhi *(Chairman)*
Mr. GOT Chong Key Clevin
Ms. HE Xin

NOMINATION COMMITTEE

Mr. GUAN Weili *(Chairman)*
Mr. CHONG Yat Keung
Mr. GOT Chong Key Clevin

REMUNERATION COMMITTEE

Mr. CHONG Yat Keung *(Chairman)*
Mr. HUANG Zhi
Mr. YANG Yang

CORPORATE INFORMATION (Continued)

STRATEGY AND RISK MANAGEMENT COMMITTEE

Mr. GOT Chong Key Clevin *(Chairman)*
Mr. HUANG Zhi
Mr. YANG Yang

SUPERVISORY COMMITTEE

Mr. SUN Fangjun *(Chairman)*
Ms. HUANG Jingou
Mr. XIE Tiefan

JOINT COMPANY SECRETARIES

Mr. WANG Jian
Ms. NG Wing Shan

AUTHORIZED REPRESENTATIVES

Ms. WANG Hongyue
Ms. NG Wing Shan

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISORS AS TO HONG KONG LAWS

Kirkland & Ellis

COMPLIANCE ADVISER

REORIENT Financial Markets Limited

CORPORATE INFORMATION (Continued)

REGISTERED OFFICE AND HEAD OFFICE IN THE PRC

Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

2120

COMPANY'S WEBSITE

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INVESTOR RELATIONS

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FINANCIAL HIGHLIGHTS

	For the six months ended June 30,	
	2016	2015
	(RMB'000)	*(RMB'000)*
	(Unaudited)	(Audited)
Revenue	**189,096**	160,743
Profit before income tax	**36,817**	37,086
Income tax expense	**(10,531)**	(9,732)
Total comprehensive income	**26,286**	27,354
Total comprehensive income attributable to equity holders of the Company	**28,207**	29,130
Non-controlling interests	**(1,921)**	(1,776)

	As of June 30, 2016	As of December 31, 2015
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Total assets	**1,294,342**	1,224,434
Total liabilities	**308,802**	262,205
Total equity	**985,540**	962,229
Equity attributable to owners of the Company	**970,819**	959,716
Non-controlling interests	**14,721**	2,513

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

In the first half of 2016, China continued to promote the reform of its healthcare system. While continuously enhancing the operational capabilities of 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 and Geriatric Hospital 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 Hospital and Chun'an Hospital through entering into agreements to subscribe for registered capital and to provide management 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 always 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 six graduate students majoring in psychiatry, and 30 undergraduates majoring in applied psychology will be enrolled in August 2016.

In order to reserve 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, "**Jinpu Jianfu**") in relation to the Company's contribution of RMB50.0 million for the establishment of the Chongqing Jinpu Healthcare Services Industrial 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 "**Investment Fund**"). 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.

* *For identification purposes only*

Looking into the future, we will also speed up the preparation for the opening of Pingyang Kangning Hospital, Quzhou Yining Hospital and Shenzhen Yining Hospital, 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.

FINANCIAL REVIEW

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% (for the 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.

Revenue and cost of revenue

The Group generates revenue mainly through the following two ways: (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:

	For the six months ended June 30,	
	2016	2015
	(RMB'000)	*(RMB'000)*
	(Unaudited)	(Audited)
Revenue from operating the Group's owned hospitals	**180,259**	155,169
Management service fee income	**8,837**	5,574
Total revenue	**189,096**	160,743

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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 (for the six months ended June 30, 2015: 96.5%) and management service fee income accounted for 4.7% of total revenue (for the 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:

	For the six months ended June 30,	
	2016	2015
	(RMB'000)	*(RMB'000)*
	(Unaudited)	(Audited)
Treatment and general healthcare services	**129,416**	111,945
Pharmaceutical sales	**49,563**	42,227
Ancillary hospital services	**1,280**	997
Total revenue	**180,259**	155,169
Cost of revenue	**115,293**	94,115
Gross profit	**64,966**	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.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

	For the six months ended June 30,	
	2016	2015
Inpatients		
Inpatient bed as at period end	**2,300**	1,913
Effective inpatient service bed-day capacity	**418,600**	346,253
Utilization rate *(%)*	**88.6%**	95.0%
Number of inpatient bed-days	**370,702**	328,893
Treatment and general healthcare services revenue attributable to inpatients *(RMB'000)*	**121,743**	104,964
Average inpatient spending per bed-day on treatment and general healthcare services *(RMB)*	**329**	319
Pharmaceutical sales revenue attributable to inpatients *(RMB'000)*	**21,980**	18,963
Average inpatient spending per bed-day on pharmaceutical sales *(RMB)*	**59**	58
Total inpatient revenue *(RMB'000)*	**143,723**	123,927
Total average inpatient spending per bed-day *(RMB)*	**388**	377
Outpatients		
Number of outpatient visits	**68,875**	60,944
Treatment and general healthcare services revenue attributable to outpatients *(RMB'000)*	**7,673**	6,981
Average outpatient spending per visit on treatment and general healthcare services *(RMB)*	**112**	115
Pharmaceutical sales revenue attributable to outpatients *(RMB'000)*	**27,583**	23,264
Average outpatient spending per visit on pharmaceutical sales *(RMB)*	**400**	382
Total outpatient revenue *(RMB'000)*	**35,256**	30,245
Total average outpatient spending per visit *(RMB)*	**512**	497
Total treatment and general healthcare services revenue *(RMB'000)*	**129,416**	111,945
Total pharmaceutical sales revenue *(RMB'000)*	**49,563**	42,227

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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 (for the 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 (for the six months ended June 30, 2015: 19.5%).

During the Reporting Period, due to the increase of both inpatient and outpatient 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 (for the 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 (for the 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:

	For the six months ended June 30,	
	2016	2015
	(RMB'000)	*(RMB'000)*
	(Unaudited)	(Audited)
Pharmaceuticals and consumables used	**48,086**	41,266
Employee benefits and expenses	**39,834**	33,343
Leasing expenses	**4,785**	3,352
Depreciation and amortization	**7,103**	6,706
Canteen expenses	**6,544**	4,399
Testing fees	**2,180**	1,590
Others	**6,761**	3,459
Cost of revenue	**115,293**	94,115

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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% (for the 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 (for the 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 (for the 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 other healthcare facilities. The table below sets forth the breakdown of our management service fee income and costs for the periods indicated:

	For the six months ended June 30,	
	2016	2015
	(RMB'000)	*(RMB'000)*
	(Unaudited)	(Audited)
Revenue	**8,837**	5,574
Cost of revenue	**4,319**	1,390
Gross profit	**4,518**	4,184

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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-entrusted Beijing Yining Hospital in the second half of 2015 and Pujiang Hospital and Chun'an Hospital starting from April 1, 2016. As of June 30, 2016, 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 services 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 in April 2015, we commenced management of Yanjiao Furen Hospital. The Group acquired 19 years and 9 months of operation right of this hospital and recognized RMB93.1 million of intangible assets. RMB2.4 million was amortized for such operation right during the Reporting Period (for the six months ended June 30, 2015: RMB1.2 million). Accordingly, gross profit margin decreased to 51.1% (for the six months ended June 30, 2015: 75.1%).

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% (for the 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; and (ii) since Yanjiao Furen Hospital was yet to make profit, 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 (for the six months ended June 30, 2015: 18.3%).

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.

Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB1.0 million (for the 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.

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:

	For the six months ended June 30,	
	2016	2015
	(RMB'000)	*(RMB'000)*
	(Unaudited)	(Audited)
Employee benefits and expenses	**15,247**	8,542
Leasing expenses	**8,477**	7,765
Depreciation and amortization	**3,468**	2,096
Travelling expenses	**1,492**	772
Consultancy expenses	**1,532**	200
Donation	**1,935**	823
Provision for impairment of receivables	**1,189**	2,961
Others	**6,274**	3,430
Total administrative expenses	**39,614**	26,589

During the Reporting Period, administrative expenses of the Group amounted to RMB39.6 million (for the 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 staff reserved for the opening of Linhai Kangning Hospital and Geriatric Hospital (ii) an increase of RMB1.3 million in the consultancy expenses for meeting the listing requirements after the listing of the Company; and (iii) expenses primarily related to developing and promoting "Didi Psychology" increased by RMB3.4 million. During the Reporting Period, the proportion of administrative expenses to total revenue of the Group increased to 20.9% (for the six months ended June 30, 2015: 16.5%).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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:

	For the six months ended June 30,	
	2016	2015
	(RMB'000)	*(RMB'000)*
	(Unaudited)	(Audited)
Interest income	**898**	307
Exchange gain	**9,592**	–
Finance income	**10,488**	307
Finance expenses	**(2,780)**	(1,334)
Finance income/expenses – net	**7,710**	(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 HK$ 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.

Share of Losses of Investments Accounted for Using the Equity Method

During the Reporting Period, share of losses of investment 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 losses in Beijing Yining Hospital, which commenced operation in September 2015 and recorded losses after tax of RMB4.5 million during the Reporting Period.

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 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.

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 loss of investment 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.

FINANCIAL POSITION

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.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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 presented or aged within six months.

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 Guoda Investment and the creditor's rights held by Guoda Investment's certain creditor. For details, please refer to the Company's announcement dated June 2, 2016.

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.

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.

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).

LIQUIDITY AND CAPITAL RESOURCES

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

	For the six months ended June 30,	
	2016	2015
	(RMB'000)	*(RMB'000)*
	(Unaudited)	(Audited)
Net cash generated from/(used in) operating activities	**37,984**	(14,018)
Net cash used in investing activities	**(159,031)**	(60,982)
Net cash generated from financing activities	**22,062**	77,553
Net (decrease)/increase in cash and cash equivalents	**(98,985)**	2,553

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 inflow of RMB7.1 million. We had cash outflow of RMB13.6 million attributable to our income tax paid.

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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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 investment 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 equity consideration 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 investment, acquisition or disposal during the six months ended June 30, 2016.

INDEBTEDNESS

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, whilst bank borrowings due in over one year amounted to RMB50.0 million.

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.

Asset Pledge

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

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.

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.

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.

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%)

EMPLOYEES AND REMUNERATION POLICY

As of June 30, 2016, the Group had a total of 1,110 full-time employees (as of December 31, 2015: 1,134 employees). During the six months ended June 30, 2016, employees' remuneration (including salaries and other forms of employee benefits) amounted approximately to RMB56.4 million (for the six months ended June 30, 2015: RMB41.9 million).The remuneration is determined with reference to the salary level in the same industry and the qualifications, experience and performance of an employee. Apart from the salary, other employee benefits include state-managed pension schemes, housing grant schemes and discretionary bonuses.

The Group had no share option schemes.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Interim Dividend

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).

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

The Board is of the opinion that the Company has complied with all code provisions and the recommended best practices under the CG Code throughout the period from January 1, 2016 to June 30, 2016.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as a code of conduct of the Company for the Directors' and the Supervisors' securities transactions. Having made specific enquiry of all Directors and Supervisors, the Directors and the Supervisors have complied with the required standard set out in the Model Code during the period from January 1, 2016 to June 30, 2016. Employees who are, or likely to be, in possession of unpublished inside information in relation to the Company or the Shares are prohibited from dealing in the Shares during the black-out period.

AUDIT COMMITTEE AND REVIEW OF THE INTERIM REPORT AND THE INTERIM RESULTS

The Company established the Audit Committee in compliance with Rule 3.21 and Rule 3.22 of the Hong Kong Listing Rules and with written terms of reference in compliance with the CG Code and the roles and the responsibilities delegated to the Audit Committee by the Board. The Audit Committee consists of two independent non-executive Directors, Mr. HUANG Zhi (the chairman of the Audit Committee) and Mr. GOT Chong Key Clevin, and one non-executive Director, Ms. HE Xin. The Audit Committee has reviewed this interim report and the Group's condensed consolidated financial information for the six months ended June 30, 2016, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

CHANGE IN DIRECTOR

At the annual general meeting of the Company held on June 14, 2016, Mr. GOT Chong Key Clevin was appointed as an independent non-executive Director. Mr. WONG Raymond Fook Lam resigned as an independent non-executive Director effective from June 14, 2016.

CHANGES IN DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S BIOGRAPHICAL DETAILS

Set out below are the changes in the Directors', the Supervisors' and the chief executives' biographical details between January 1, 2016 and June 30, 2016, which are required to be disclosed pursuant to Rule 13.51B of the Hong Kong Listing Rules:

	Position Held with other member of the Group and Term of Office		
Name	**Member of the Group**	**Positions Held at Members of the Group**	**Term of office**
Ms. WANG Lianyue	Nanchang Kangning Hospital Co., Ltd.	Director	From April 2016 to present

At the annual general meeting of the Company held on June 14, 2016, a resolution was passed by the Shareholders to adjust the annual remuneration (excluding employer's contribution to pension scheme) of the executive Directors, Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue from approximately RMB362,000, RMB302,000 and RMB184,000, respecitvely, to approximately RMB458,000, RMB386,000 and RMB244,000, respectively. For details of the aforementioned adjustment, please refer to the Company's circular dated April 29, 2016.

Save as disclosed above, the Company is not aware of other changes in the Directors', the Supervisors' or the chief executives' biographical details which are required to be disclosed pursuant to Rule 13.51B of the Hong Kong Listing Rules.

RELOCATION OF CANGNAN KANGNING HOSPITAL

On July 7, 2016, the Company entered into a letter of intent with Wenzhou Dongjing Packaging Company Limited* (溫州東經包裝有限公司) (as the vendor), pursuant to which the Company intends to acquire the vendor's land and property located in Lingxi Town, Cangnan County. As of the date of this report, we were still in the process of converting the use designated for such land and environmental appraisal procedures, and the registration of the transfer of such land and property had not been completed.

* *For identification purpose only*

DISCLOSURE OF INTEREST

Directors', Supervisors' and Chief Executives' Interests in Securities

As of June 30, 2016, the interests and short positions of the Directors, the Supervisors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company under section 352 of the SFO, or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Directors	Class of Shares	Nature of Interest	Number of Shares	Total Number of Shares	Approximate Percentage in Shares of the Same Class[1]	Approximate Percentage of the Company's Total Issued Share Capital[1]
Mr. GUAN Weili	Domestic Shares	Beneficial owner	19,810,250(L)	23,604,750(L)	44.71%	32.32%
		Interest of spouse	3,794,500(L)[2]			
Ms. WANG Lianyue	Domestic Shares	Beneficial owner	3,794,500(L)	23,604,750(L)	44.71%	32.32%
		Interest of spouse	19,810,250(L)[2]			
Ms. WANG Hongyue	Domestic Shares	Beneficial owner	5,304,350(L)	6,847,350(L)	12.97%	9.37%
		Interest in a controlled corporation	1,543,000(L)[3]			

Notes:

(L): Long position

(1) The shareholding percentages are calculated on the basis of 52,800,000 Domestic Shares and 20,240,000 H Shares (an aggregate of 73,040,000 Shares) issued by the Company as of June 30, 2016.

(2) Mr. GUAN Weili is the spouse of Ms. WANG Lianyue and therefore, Mr. GUAN Weili is deemed to be interested in the Domestic Shares held by Ms. WANG Lianyue, and Ms. WANG Lianyue is deemed to be interested in the Domestic Shares held by Mr. GUAN Weili by virtue of Part XV of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

(3) Ms. WANG Hongyue is the general partner of Ningbo Xinshi Kangning Investment Management L.P. ("**Xinshi Kangning**"), which is a limited partnership, and holds approximately 13.73% in Xinshi Kangning. Therefore, by virtue of Part XV of the SFO, Ms. WANG Hongyue is deemed to be interested in all the Domestic Shares held by Xinshi Kangning in the Company.

Save as disclosed above, as of June 30, 2016, to the knowledge of the Board, none of the Directors, the Supervisors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, the Supervisors and the chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Interests of Substantial Shareholders

As of June 30, 2016, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following person/entity (other than the Directors, the Supervisors or the chief executives of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class[(1)]	Approximate Percentage of the Company's Total Issued Share Capital[(1)]
Guangzhou GL Capital Investment Fund L.P. ("**Defu Fund**")	Domestic Shares	Beneficial owner	15,384,541(L)	29.14%	21.06%
Guangzhou GL Capital GP L.P.[(2)]	Domestic Shares	Interest in a controlled corporation	15,384,541(L)	29.14%	21.06%
Guangzhou Automobile Group Capital Co., Ltd.[(3)]	Domestic Shares	Interest in a controlled corporation	15,384,541(L)	29.14%	21.06%
Beijing CDH Weixin Venture Capital L.P. ("**Beijing CDH Weixin**")[(4)]	Domestic Shares	Beneficial owner	3,838,754(L)	7.27%	5.26%

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class[1]	Approximate Percentage of the Company's Total Issued Share Capital[1]
Beijing CDH Weisen Venture Capital L.P. ("**Beijing CDH Weisen**")[4]	Domestic Shares	Beneficial owner	2,667,605(L)	5.05%	3.65%
CDH Huatai Investment Management (Beijing) Company Limited ("**CDH Huatai**")[4]	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
CDH Equity Investment Management (Tianjin) Company Limited[4]	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Tianjin Taiding Investment Company Limited[4]	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Tianjin Haoyong Investment Management Company Limited ("**Tianjin Haoyong**")[4]	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Ningbo Economic & Technical Development Zone Runyong Investment Consulting Company Limited[4]	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Ningbo Economic & Technical Development Zone Chunyong Investment Consulting Company Limited[4]	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Ningbo Economic & Technical Development Zone Huiyong Investment Consulting Company Limited[4]	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
East Oak Company Limited[4]	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Mr. WU Shangzhi[4]	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	12.32%	8.91%
Mr. XU Yi[5]	Domestic Shares	Interest of spouse	6,847,350(L)	12.97%	9.37%

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class[(1)]	Approximate Percentage of the Company's Total Issued Share Capital[(1)]
Citigroup Inc.	H Shares	Interest in a controlled corporation/Person having a security interest	3,124,200(L) 307,800(S)	15.44% 1.52%	4.28% 0.42%
Baring Asset Management Limited	H Shares	Investment manager	3,052,400(L)	15.08%	4.18%
Northern Trust Fiduciary Services (Ireland) Limited	H Shares	Trustee	2,093,700(L)	10.34%	2.87%
OrbiMed Advisors LLC	H Shares	Investment manager	1,454,000(L)	7.18%	2.00%
OrbiMed Capital LLC	H Shares	Investment manager	2,150,900(L)	10.63%	2.94%
OrbiMed Partners Master Fund Limited	H Shares	Beneficial owner	1,279,900(L)	6.32%	1.75%
Prime Capital Management Company Limited	H Shares	Investment manager	2,803,800(L)	13.85%	3.84%
OrbiMed Partners II, LP	H Shares	Beneficial owner	1,052,000(L)	5.20%	1.44%
Morgan Stanley	H Shares	Interest in a controlled corporation	1,234,900(L) 1,174,000(S)	6.10% 5.80%	1.69% 1.61%

Notes:

(L): Long position

(S): Short position

(1) The shareholding percentages are calculated on the basis of 52,800,000 Domestic Shares and 20,240,000 H Shares (an aggregate of 73,040,000 Shares) issued by the Company as of June 30, 2016.

(2) Guangzhou GL Capital GP L.P. is the general partner of Defu Fund, which is a limited partnership. Therefore, by virtue of Part XV of the SFO, Guangzhou GL Capital GP L.P. is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.

(3) Guangzhou Automobile Group Capital Co., Ltd. is a limited partner of Defu Fund, which holds approximately 52.45% interest in Defu Fund. Therefore, by virtue of Part XV of the SFO, Guangzhou Automobile Group Capital Co., Ltd. is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

(4) As of June 30, 2016, Mr. WU Shangzhi held 100% interest in East Oak Company Limited, which held 100% interest in Ningbo Economic & Technical Development Zone Huiyong Investment Consulting Company Limited, which held 100% interest in Ningbo Economic & Technical Development Zone Chunyong Investment Consulting Company Limited, which held 100% interest in Ningbo Economic & Technical Development Zone Runyong Investment Consulting Company Limited, which held 100% interest in Tianjin Haoyong. Tianjin Haoyong held 34.16% interest in Tianjin Taiding Investment Company Limited, which held 85.4% interest in CDH Equity Investment Management (Tianjin) Company Limited, which held 57.16% interest in CDH Huatai. CDH Huatai is the general partner of both Beijing CDH Weixin and Beijing CDH Weisen, which are limited partnerships. Therefore, by virtue of Part XV of the SFO, each of Mr. WU Shangzhi, East Oak Company Limited, Ningbo Economic & Technical Development Zone Huiyong Investment Consulting Company Limited, Ningbo Economic & Technical Development Zone Chunyong Investment Consulting Company Limited, Ningbo Economic & Technical Development Zone Runyong Investment Consulting Company Limited, Tianjin Haoyong, Tianjin Taiding Investment Company Limited, CDH Equity Investment Management (Tianjin) Company Limited and CDH Huatai is deemed to be interested in all the Domestic Shares held by Beijing CDH Weixin and Beijing CDH Weisen in the Company.

(5) Mr. XU Yi is the spouse of Ms. WANG Hongyue, an executive Director, and therefore, Mr. XU Yi is deemed to be interested in the Domestic Shares held by Ms. WANG Hongyue by virtue of Part XV of the SFO.

Save as disclosed above, as of June 30, 2016, to the knowledge of the Directors, no other person (other than a Director, a Supervisor or a chief executive of the Company) had, or were deemed or taken to have interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

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

Zhejiang, the PRC
August 26, 2016

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**June 30, 2016 RMB'000 (Unaudited)**	December 31, 2015 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	7	**313,716**	233,200
Land use rights		**20,502**	20,738
Intangible assets	8	**107,590**	90,581
Investment in associate	9	**6,223**	8,422
Deferred income tax assets		**13,455**	10,071
Available-for-sale financial assets	10	**50,000**	–
Deposits and prepayments	12	**72,339**	48,324
Total non-current assets		**583,825**	411,336
Current assets			
Inventories		**9,313**	7,506
Trade receivables	11	**129,463**	123,067
Other receivables, deposits and prepayments	12	**37,313**	42,690
Amounts due from related parties	21	**5,658**	20,044
Term deposits	13	**256,401**	251,334
Cash and cash equivalents	14	**272,369**	368,457
Total current assets		**710,517**	813,098
Total assets		**1,294,342**	1,224,434
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	**73,040**	73,040
Capital reserve	17	**798,666**	797,510
Surplus reserve	17	**11,342**	11,342
Retained profits		**87,771**	77,824
		970,819	959,716
Non-controlling interests		**14,721**	2,513
Total equity		**985,540**	962,229

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Bank borrowings	19	**50,000**	–
Deferred government grants		**14,156**	14,284
Long-term payables	18	**102,530**	98,821
Total non-current liabilities		**166,686**	113,105
Current liabilities			
Bank borrowings	19	**20,000**	50,000
Trade payables	20	**30,334**	19,976
Accruals and other payables		**57,419**	63,209
Dividend payable	25	**18,260**	–
Current income tax liabilities		**11,747**	11,559
Current portion of long-term payables	18	**4,356**	4,356
Total current liabilities		**142,116**	149,100
Total liabilities		**308,802**	262,205
Total equity and liabilities		**1,294,342**	1,224,434

The notes on pages 34 to 67 form an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended June 30, 2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Revenue	22	**189,096**	160,743
Cost of revenue		**(119,612)**	(95,505)
Gross profit		**69,484**	65,238
Other income		**2,973**	93
Other losses		**(519)**	(113)
Selling expenses		**(1,018)**	(516)
Administrative expenses		**(39,614)**	(26,589)
Operating profit		**31,306**	38,113
Finance income/(costs) – net		**7,710**	(1,027)
Share of losses of investments accounted for using the equity method	9	**(2,199)**	–
Profit before income tax		**36,817**	37,086
Income tax expense	23	**(10,531)**	(9,732)
Profit for the period		**26,286**	27,354
Other comprehensive income		**–**	–
Total comprehensive income for the period		**26,286**	27,354
Attributable to:			
– Equity holders of the Company		**28,207**	29,130
– Non-controlling interests		**(1,921)**	(1,776)
Basic and diluted earnings per share *(in RMB)*	24	**0.39**	0.57

The notes on pages 34 to 67 form an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Unaudited						
		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
Balance at 1 January 2016		73,040	797,510	11,342	77,824	959,716	2,513	962,229
Total comprehensive income for the period ended 30 June 2016		–	–	–	28,207	28,207	(1,921)	26,286
Total transactions with owners, recognised directly in equity								
Acquisition of a subsidiary		–	–	–	–	–	11,729	11,729
Capital contribution by non-controlling interests		–	–	–	–	–	2,400	2,400
Employees share option scheme:								
– Value of employee services	16	–	1,156	–	–	1,156	–	1,156
Dividends relating to 2015	25	–	–	–	(18,260)	(18,260)	–	(18,260)
Total transactions with owners, recognised directly in equity		–	1,156	–	(18,260)	(17,104)	14,129	(2,975)
Balance at 30 June 2016		73,040	798,666	11,342	87,771	970,819	14,721	985,540

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Share Capital	Capital reserve	Surplus reserve	Retained Earnings	Total	Non-controlling interests	Total Equity
		Audited						
		Attributable to owners of the Company						
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2015		50,000	159,153	5,708	46,229	261,090	–	261,090
Total comprehensive income for the period ended 30 June 2015		–	–	–	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
Total transactions with owners, recognised directly in equity		2,800	76,631	–	(18,480)	60,951	2,400	63,351
Balance at 30 June 2015		52,800	235,784	5,708	56,879	351,171	624	351,795

The notes on pages 34 to 67 form an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended June 30, 2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Cash flows from operating activities			
Cash generated from operations		**51,619**	2,670
Income tax paid		**(13,635)**	(16,688)
Net cash generated from/(used in)operating activities		**37,984**	(14,018)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(64,254)**	(49,279)
Purchase of intangible assets	8	**(7,119)**	(10)
Proceeds from transfer of construction in progress		**2,040**	–
Purchase of available-for-sale financial assets	10	**(50,000)**	–
Prepayment of a investment	12	**(38,096)**	–
Amount due by third parties	12	**(2,500)**	(12,000)
Interest received		**898**	307
Net cash used in investing activities		**(159,031)**	(60,982)
Cash flows from financing activities			
Proceeds of borrowings	19	**50,000**	–
Repayment of borrowings	19	**(30,000)**	–
Prepayment for H share IPO costs		**–**	(5,247)
Prepayment for A share IPO costs		**(338)**	–
Proceeds from capital contribution by shareholders	15	**–**	78,400
Deposits received from a non-controlling interests		**–**	2,000
Share capital received from a non-controlling interests		**2,400**	2,400
Net cash generated from financing activities		**22,062**	77,553
Net (decrease)/increase in cash and cash equivalents		**(98,985)**	2,553
Cash and cash equivalents at beginning of the period		**368,457**	37,271
Exchange gains on cash and cash equivalents		**2,897**	–
Cash and cash equivalents at end of the period		**272,369**	39,824

The notes on pages 34 to 67 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was established as a joint stock cooperative enterprise under the name of Wenzhou City Kangning Psychiatric Rehabilitation Hospital (溫州市康寧精神康復醫院) in the PRC on February 7, 1996. The address of the Company's registered office is at Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, PRC.

On October 15, 2014, the Company was converted into a joint stock limited company and renamed as Wenzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司).

The Company and its subsidiaries (the "Group") are engaged in operation of psychiatric hospitals in the PRC.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited on November 20, 2015.

The condensed interim financial information is presented in Renminbi ("RMB") and rounded to the nearest thousand yuan, unless otherwise stated.

Key events

During the period, the Company entered into a strategic cooperation agreement to contribute RMB50,000,000 to an investment fund, which shall primarily invest in healthcare services industries. Details of the transaction are given in Note 10.

During the period, the Company entered into an agreement with certain independent third parties to acquire 51% of equity interest in Wenzhou Guoda Investment Company (溫州國大投資有限公司) ("Guoda Investment"). Details of the acquisition are given in Note 28.

On May 27, 2016, the Board announced that they are considering a plan for A share initial public offering ("IPO"). The IPO plan, if goes ahead, is subject to shareholders' approval and regulators' filing and approval.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended June 30, 2016 has been prepared in accordance with International Accounting Standard 34 ("IAS 34"), 'Interim financial reporting' and on going concern basis. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2015, which has been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to IFRSs effective for the financial year ending 31 December 2016 and the accounting policy for available-for-sale financial assets ("AFS"), which is newly applied to the new transaction as disclosed in Note 10.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the group's right to receive payments is established.

The Group assesses at the end of each Reporting Period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. ACCOUNTING POLICIES (Continued)

Available-for-sale financial assets (Continued)

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

New standards, amendments and interpretation to the existing standards that are effective during the six months ended June 30, 2016 have been adopted by the Group consistently unless prohibited by the relevant standard to apply retrospectively.

The Company had early adopted amendments to IAS 27 in its annual financial statement of 2015 which allowed the company using equity method to account for investment in associates in company level financial statements.

The adoption of those amendments to IFRS do not have a material impact on the Group's operating results and financial position.

3. ACCOUNTING POLICIES (Continued)

(b) Impact of standards issued but not yet applied by the entity

The following new standards, amendments to standards and interpretations have been published but are not yet effective for the annual period beginning from January 1, 2016 and which the Group has not early adopted:

(i) IFRS 9 'Financial instruments'

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until January 1, 2018 but is available for early adoption.

The financial assets currently held by the Group rather than receivables mainly include equity instruments currently classified as AFS for which a fair value through other comprehensive income ("FVOCI") election is available, accordingly the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

(ii) IFRS 15 "Revenue from contracts with customers"

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after January 1, 2018, and will allow early adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. ACCOUNTING POLICY (Continued)

(b) Impact of standards issued but not yet applied by the entity (Continued)

(ii) IFRS 15 "Revenue from contracts with customers" (Continued)

At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will make more detailed assessments of the effect over the next twelve months. The Group does not expect to adopt the new standard before January 1, 2018.

(iii) IFRS 16 "Leases"

IFRS 16, 'Leases' will require almost all leases to be on the balance sheet of lessees and introduces a single income statement model which basically treats all leases as finance leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will make more detailed assessments of the effect over the next twelve months. The Group does not expect to adopt the new standard before January 1, 2019.

(iv) Amendments to IAS 12 "Income tax"

The IASB has issued amendments to IAS 12,'Income taxes'. These amendments 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. The amendments to IAS 12 is effective for annual periods beginning on or after 1 January 2017.

(v) Amendments to IAS 7 "Statement of cash flows"

The IASB has issued an amendment to IAS 7 introducing 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. The amendments to IAS 7 is effective for annual periods beginning on or after 1 January 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. ESTIMATES

The preparation of interim condensed financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2015.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value risk and interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2015.

There have been no changes in the risk management policies since year end.

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents to meet operating capital requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
(Unaudited)					
At June 30, 2016					
Long-term payables for contractual rights to provide management services	4,356	5,802	17,446	66,594	94,198
Trade and other payables (excluding accrued employee benefit, receipts in advance and other tax liabilities)	67,944	12,688	–	–	80,632
Long-term bank borrowings (including interest payables)	2,375	2,375	55,973	–	60,723
Short-term bank borrowings (including interest payables)	20,286	–	–	–	20,286
	94,961	20,865	73,419	66,594	255,839

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT (Continued)

5.2 Liquidity risk (Continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Audited)					
At December 31, 2015					
Long-term payables for contractual rights to provide management services	4,356	4,792	17,446	63,895	90,489
Trade and other payables (excluding accrued employee benefit, receipts in advance and other tax liabilities)	59,675	13,955	–	–	73,630
Bank borrowings (including interest payables)	51,745	–	–	–	51,745
	115,776	18,747	17,446	63,895	215,864

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

5. FINANCIAL RISK MANAGEMENT (Continued)

5.3 Fair value estimation (Continued)

The following table presents the Group's financial assets that are measured at fair value at June 30, 2016. The Group has no related financial instruments measured at fair value at December 31, 2015.

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets				
Available-for-sale financial assets				
– Equity securities	–	–	50,000	50,000
Total assets	–	–	50,000	50,000

As of June 30, 2016, the Group has no any level 3 fair value requiring significant unobserved inputs.

Contingent consideration payable

At March 31, 2016, the Group acquired a newly set up company which major assets are contractual rights to manage two hospitals (Note 8). The management considered this as an asset deal. The assets acquired are initially measured at the fair value of consideration paid or payable taking into the contingent consideration.

Details regarding the valuation and sensitivity of the contingent consideration are disclosed in Note 8.

The Group had no contingent consideration financial liabilities at either January 1, 2015 or December 31, 2015 and there were no transactions in contingent consideration during the year ended December 31, 2015. Therefore comparative information is not applicable.

5. FINANCIAL RISK MANAGEMENT (Continued)

5.4 Fair value of financial assets and liabilities measures at amortised costs

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Term deposits
- Cash and banks
- Trade and other payables
- The long term loan of the Group bears fixed interest, however, as of June 30, 2016 the fair value approximate to its carrying amount.

6. SEGMENT REPORTING

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

The Group has only one operating segment, so no segment information was presented. The Group's non-current assets other than financial instruments and deferred tax assets were located in the PRC where all revenue are generated.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. PROPERTY, PLANT AND EQUIPMENT

	Six months ended June 30, 2016 *RMB'000* (Unaudited)	2015 *RMB'000* (Audited)
At beginning of the period	**233,200**	160,799
Additions	**90,840**	52,474
Disposals	**(84)**	(103)
Depreciation	**(10,240)**	(7,175)
At end of the period	**313,716**	205,995

8. INTANGIBLE ASSETS

	Computer software *RMB'000*	Contractual rights to provide management services *RMB'000*	Total *RMB'000*
(Unaudited)			
Six months ended June 30, 2016			
Opening balance as at January 1, 2016	**972**	**89,609**	**90,581**
Additions *(a)*	**62**	**19,717**	**19,779**
Amortisation	**(206)**	**(2,564)**	**(2,770)**
Closing balance as at June 30, 2016	**828**	**106,762**	**107,590**
(Audited)			
Six months ended June 30, 2015			
Opening balance as at January 1, 2015	1,229	–	1,229
Additions *(b)*	10	93,147	93,157
Amortisation	(212)	(1,179)	(1,391)
Closing balance as at June 30, 2015	1,027	91,968	92,995

8. INTANGIBLE ASSETS (Continued)

(a) The Group entered into an agreement with Mr. Huang Feng and Mr. Huang Chen ("the Founders") in January 2016 and tripartite agreement with the Founders and Zhejiang Huangfeng Hospital Management Co., Ltd. (浙江黃鋒醫院管理有限公司) ("the Management Company") in March 2016. Pursuant to the agreements, the Group obtained 51.22% shares of the Management Company with the consideration of RMB24.7 million.

At the same time, the Management Company entered into an entrustment agreement with Chunan Huangfeng Kangen Hospital (淳安黃鋒康恩醫院) ("Chunan Hospital") and Pujiang Huangfeng Psychiatric Hospital (浦江黃鋒精神專科醫院) ("Pujiang Hospital") in March 2016 respectively. The term of the entrustment management agreement is from March 2016 to February 2045, extendable if both parties agree three months prior to expiration. During the term of the agreement, the Management Company undertakes to provide management services to Chunan Hospital and Pujiang Hospital and is entitled to receive certain percentage of the earnings before interest, taxes, depreciation and amortization (based on statutory accounts of Chunan Hospital and Pujiang Hospital with certain adjustments agreed by two parties upfront in the entrustment management agreements).

The Group considered the transaction as an asset deal, i.e. acquiring the intangible assets of contractual right to manage the hospitals. The intangible assets are measured initially at the attributed fair value of consideration, and subsequently amortize the assets over the term of the entrustment agreements on a straight line basis. The consideration is determined after taking into consideration of contingent consideration, which is dependent on certain future events and hospitals' performance. The management estimated the possibility of each scenario and determined the fair value. In addition, the management has appointed an independent valuer to give fair value of the intangible assets based on discounted future cash flow. The fair value thus determined is close to the value of consideration. The subsequent changes in the contingent consideration fair value will be accounted in profit and loss in the period when the final outcome of the events occur.

(b) The Group entered into an entrustment management agreement with Yanjiao Furen Integrated Traditional Chinese and Western Medicine Hospital (燕郊輔仁中西醫結合醫院) ("Yanjiao Furen Hospital") in March 2015 and a supplemental agreement in April 2015.

The term of the entrustment management agreement is from April 2015 to December 2034, extendable if both parties agree three months prior to expiration. During the term of the agreement, the Group undertakes to provide management services to Yanjiao Furen Hospital and meet a predetermined schedule of annual minimum performance targets. The minimum performance target begins at RMB2.7 million for the period from April 1, 2015 to December 31, 2015, increases to RMB4.0 million for the year 2016, and subsequently increases by a predetermined fixed rate within the range of 4% to 10% until the year of 2034, for which the minimum performance target is RMB14.1 million.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8. INTANGIBLE ASSETS (Continued)

If Yanjiao Furen Hospital fails to meet such target, the Group is required to contribute the shortfall. On the other hand, the Group is entitled to receive any portion of profit (based on statutory accounts of Yanjiao Furen Hospital with certain adjustments agreed by two parties upfront in the entrustment management agreement) exceeding the performance target as its management service fee from Yanjiao Furen Hospital. As a result, the Group is effectively obligated to pay to Yanjiao Furen Hospital a predetermined amount over the term of the agreement in exchange for the contractual rights to provide management services to the hospital over the same period. The Group recognizes such contractual right to manage Yanjiao Furen Hospital and receive management service fees as intangible assets on the balance sheet, measured initially at the amount calculated by discounting the future annual minimum performance target using the prevailing market interest rate, and subsequently amortize the assets over the term of the contract on a straight line basis. At the same time, the Group recognizes corresponding long-term payables for contractual rights to provide management services (Note 18) on the balance sheet for its obligation to pay future annual minimum performance targets, measured subsequently at amortized cost.

9. INVESTMENT IN ASSOCIATE

Beijing Yining Hospital Co., Ltd (北京怡寧醫院有限公司) was set up in August 2015 as an associate of the Company. The capital contribution of RMB14,700,000 by the Company was satisfied in cash.

	Six months ended June 30,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
At beginning of the period	**8,422**	–
Share of losses	**(2,199)**	–
At end of the period	**6,223**	–

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Six months ended June 30,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
At beginning of the period	**–**	–
Additions *(a)*	**50,000**	–
At end of the period	**50,000**	–

(a) On February 22, 2016, the Company entered into a partnership agreement with Jinpu Jianfu, among others, in relation to the establishment of a limited liability partnership ("LLP") to run an investment fund which focuses on the healthcare industry investments in PRC. The Company paid RMB50,000,000 for the subscription to the investment fund. On the same date, the Company and Jinpu Jianfu, the general partner and the managing partner of the LLP, entered into a strategic cooperation agreement in relation to, among others, certain rights of the Company as a limited partner of the LLP. As at June 30, the investment fund has not made any investment. The carrying amount of the investment approximated to its fair value as virtually all capital was held in cash and cash equivalents by the fund.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11. TRADE RECEIVABLES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Trade receivables	**137,879**	130,738
Less: provision for impairment of trade receivables	**(8,416)**	(7,671)
Trade receivables – net	**129,463**	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:

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Aging analysis based on the billing date:		
Bills not presented	**28,478**	9,580
1 – 3 months	**43,877**	74,718
4 – 6 months	**24,207**	19,635
7 – 12 months	**28,493**	19,937
1 – 2 years	**9,394**	5,075
2 – 3 years	**2,484**	1,426
over 3 years	**946**	367
	137,879	130,738

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Other receivables *(a)*	**9,090**	14,337
Deposits *(b)*	**16,671**	17,268
Amount due by third parties *(c)*	**15,103**	12,304
Prepayments for rental	**25,843**	30,007
Deposits for investment in a subsidiary *(Note 28)*	**38,096**	–
Prepayments for purchase of property	**–**	13,000
Prepayments for construction in progress	**3,616**	2,594
Prepayments for goods and services	**1,970**	2,539
Others	**473**	43
Less: provision for impairment of other receivables	**(1,210)**	(1,078)
Total	**109,652**	91,014
Current	**37,313**	42,690
Non-Current	**72,339**	48,324
Total	**109,652**	91,014

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

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. Such advances will be repaid to the Group by Yanjiao Furen 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 ("Sichuan Hongji"), 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 ("Chengdu Jihong", 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 Renyi Hospital Company Limited.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13. TERM DEPOSITS

An analysis of the Group's term deposits denominated in HKD with initial terms over three months as at June 30, 2016 and December 31, 2015 are listed in below.

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Term deposits	**256,401**	251,334

The term deposits principal as at June 30, 2016 and December 31, 2015 is HKD300,000,000.

The effective interest rate for the term deposits of the Group with initial terms over three months for the six months ended June 30, 2016 was 1.45% (for the year ended December 31, 2015 was 1.45%).

14. CASH AND CASH EQUIVALENTS

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cash at banks	**272,264**	368,308
Cash on hand	**105**	149
Total	**272,369**	368,457

14. CASH AND CASH EQUIVALENTS (Continued)

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
HKD	**135,947**	327,862
RMB	**116,233**	40,377
USD	**20,189**	218
Total	**272,369**	368,457

15. SHARE CAPITAL

	Number of Shares	**Share Capital**
	(thousands)	***RMB'000***
(Unaudited)		
Balance at 1 January 2016 and 30 June 2016	**73,040**	**73,040**
(Audited)		
Balance at 1 January 2015	50,000	50,000
Capital contribution by shareholders(a)	2,800	2,800
Balance at 30 June 2015	52,800	52,800

15. SHARE CAPITAL (Continued)

As at 30 June 2016 and 31 December 2015, the total number of authorised ordinary shares is 73,040,000 shares with a par value of RMB1.00 per share. These shares are divided into domestic shares and H shares:

	30 June 2016 and 31 December 2015
	RMB'000
Domestic shares	52,800
Listed H shares	20,240
	73,040

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Company. According to the articles of the association of the Company, ordinary shares rank pari passu with regard to the Company's residual assets.

(a) On 16 March 2015, Guangzhou GL Capital Investment Fund L.P. (廣州德福股權投資基金合夥企業(有限合夥)) injected RMB55,098,000 to the Company to obtain 1,968,000 shares in the Company, of which an amount of RMB1,968,000 was credited to share capital and RMB53,130,000 was recorded as capital reserve. Beijing CDH Weixin Venture Capital L.P. (北京鼎暉維鑫創業投資中心(有限合夥)) and Beijing CDH Weisen Venture Capital L.P. (北京鼎暉維森創業投資中心(有限合夥)) injected RMB23,302,000 to the Company to obtain 832,000 shares in the Company, of which an amount of RMB832,000 was credited to share capital and RMB22,470,000 was recorded as capital reserve.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16. SHARE-BASED PAYMENT

Following the shareholders' approval on July 21, 2014, the Company has adopted an employee share incentive plan (the "Restricted Shares Scheme"). To furnish the Restricted Shares Scheme, three limited liability partnerships were established, namely Ningbo Renai Kangning Investment Management Partnership Enterprise (Limited Partnership) (寧波仁愛康寧投資管理合夥企業（有限合夥)) ("Renai Kangning"), Ningbo Enci Kangning Investment Management Partnership Enterprise (Limited Partnership) (寧波恩慈康寧投資管理合夥企業（有限合夥)) ("Enci Kangning") and Ningbo Xinshi Kangning Investment Management Partnership Enterprise (Limited Partnership) (寧波信實康寧投資管理合夥企業（有限合夥)) ("Xinshi Kangning").

Each partnership has one general partner and the qualified employees under the Restricitve Shares Scheme as limited partners.

On July 15, 2014, Mr. Guan Weili and Ms. Wang Hongyue transferred 4% of the equity investments in the Company to the above three partnerships for a consideration of RMB20,943,998.

The Restricted Shares can be sold or transferred by the employee upon the completion of certain years of services starting from the successful listing of the Company shares in a stock exchange. The Group has no legal or constructive obligation to repurchase or transfer the shares in cash. The above transaction was considered as equity-settled share-based payment to employees. The fair value of the Company's shares granted to employees on grant date, July 21, 2014, as determined by a professional valuation firm was RMB5,905,000 (RMB5.2678 per share), after deduction of consideration paid by the employees of RMB20,943,998 to purchase 4% of the equity investments in the Company.

The vesting period which is the service period commenced from the grant date and ends at 12 or 36 months after the H share IPO of the Company.

Share based payment expense of RMB1,156,000 was recognised for the six months ended June 30, 2016 (for the six months ended June 30, 2015: RMB1,031,000), of which RMB731,000 and RMB425,000 were recognised as "cost of revenue" and "administrative expenses", respectively.

17. RESERVES

Movement of capital reserve and surplus reserve are set out in below.

	Capital reserve RMB'000	Surplus reserve RMB'000	Total RMB'000
(Unaudited)			
Balance at January 1, 2016	**797,510**	**11,342**	**808,852**
Share based payment			
– value of employee services *(Note 16)*	**1,156**	**–**	**1,156**
Balance at June 30, 2016	**798,666**	**11,342**	**810,008**

Movement of capital reserve and surplus reserve are set out in below:

	Capital reserve RMB'000	Surplus reserve RMB'000	Total RMB'000
(Audited)			
Balance at January 1, 2015	159,153	5,708	164,861
Capital contribution by shareholders *(Note 15(a))*	75,600	–	75,600
Share based payment			
– value of employee services *(Note 16)*	1,031	–	1,031
Balance at June 30, 2015	235,784	5,708	241,492

(a) Capital reserve

The capital reserve represents the share premium contributed by the shareholders.

17. RESERVES (Continued)

(b) Surplus reserve

The Company and subsidiaries are required by Company Law of the PRC to appropriate 10% of its after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividends to equity shareholders. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the Company and is non-distributable other than in liquidation.

18. LONG-TERM PAYABLES

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Guarantee deposit received from construction contractor *(a)*	**12,688**	12,688
Long-term payables for contractual rights to provide management services *(Note 8)*	**94,198**	90,489
	106,886	103,177
Current portion of long-term payables for contractual rights to provide management services *(Note 8)*	**4,356**	4,356
Non-current portion	**102,530**	98,821
	106,886	103,177

(a) The amount was provided by the contractor of the new hospital construction work to the Group. The amount will be repaid to the contractor after it discharges all its obligations under the contract, including but not limited to full settlement of construction workers' wages and salaries.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19. BANK BORROWINGS

	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
Current		
– unsecured	**20,000**	50,000
Non-current		
– unsecured *(a)*	**50,000**	–
Total	**70,000**	50,000

(a) The Company obtained a five-year banking facility amounting to RMB130,000,000 in January 2016, and as of June 30, 2016 RMB50,000,000 was drawn down, bearing an interest rate of 4.75% per annum.

As at June 30, 2016 and December 31, 2015, the Group's borrowings were repayable as follows:

	30 June 2016 *RMB'000* (Unaudited)	31 December 2015 *RMB'000* (Audited)
Within 1 year	**20,000**	50,000
4 – 5 years	**50,000**	–
	70,000	50,000

19. BANK BORROWINGS (Continued)

The weighted average effective interest rates (per annum) were as follows:

	30 June 2016 (Unaudited)	31 December 2015 (Audited)
	4.64%	4.49%

The carrying amount of the Group's borrowings are denominated in RMB and approximate to their fair values. The long term loan, though bearing a fixed interests rate, has not seen material change in fair value since its draw down to June 30, 2016.

20. TRADE PAYABLES

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

	30 June 2016 ***RMB'000*** **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
1 – 3 months	**27,471**	16,874
4 – 6 months	**793**	1,030
7 – 12 months	**1,035**	805
1 – 2 years	**1,035**	1,267
	30,334	19,976

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21. BALANCES WITH RELATED PARTIES

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Amounts due from related parties		
Beijing Yining Hospital Co., Ltd	**4,248**	17,658
Not-for-profit organisations established by the Group	**1,400**	2,386
	5,648	20,044

Their carrying amounts as at June 30, 2016 and December 31, 2015 approximate their fair value.

The English names of certain related parties referred to above represented the best efforts by management of the Company in translating their Chinese names, as they do not have official English names.

22. REVENUE

	Six months ended June 30,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Treatments and general healthcare services	**129,416**	111,945
Pharmaceutical sales	**49,563**	42,227
Ancillary hospital services	**1,280**	997
Management service fee *(Note 26)*	**8,837**	5,574
	189,096	160,743

All revenue are 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 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

23. 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,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current income tax:		
– PRC corporate income tax	**13,915**	10,344
Deferred income tax	**(3,384)**	(612)
	10,531	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,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Profit before income tax	**36,817**	37,086
Calculated at the tax rate of 25%	**9,204**	9,272
Expenses not tax deductible	**1,163**	460
Income not subject to tax	**(96)**	–
Over-provision in prior years	**(320)**	–
Tax losses for which no deferred income tax asset was recognised	**580**	–
	10,531	9,732

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

23. INCOME TAX EXPENSE (Continued)

(a) PRC Corporate Income Tax ("CIT")

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.

24. 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 as at the end of each reporting period, is calculated as follows:

Weighted average number of ordinary shares

	Six months ended June 30,	
	2016	2015
	No. of shares	No. of shares
	(Unaudited)	(Audited)
Ordinary shares issued at beginning of the period	**73,040,000**	50,000,000
Effect of issuance of shares	**–**	1,423,000
Weighted average number of ordinary shares at the end of period	**73,040,000**	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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

25. 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 shareholder's meeting on June 1, 2015 and the Company paid out the dividend on July 23, 2015.

26. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed in other notes before, the following significant transactions were carried out between the Group and its related parties. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Names and relationships

Names and relationships with related parties are as follows:

Name	Relationship
Wenzhou Kangning Investment Company Limited (溫州市康寧投資有限公司)	Entity controlled by the original shareholders of the Company
Pingyang Changgeng Hospital Co., Limited (平陽縣長庚醫院有限責任公司)	Entity significantly influenced by the original shareholders of the Company until April 29, 2015
Beijing Yining Hospital Co., Ltd (北京怡寧醫院有限公司)	Associate established by the company on August 17, 2015
Wenzhou Sunshine Shelter Center (溫州市龍灣區康寧殘疾人小康 • 陽光庇護中心)	Not-for-profit organisation established by the Company

26. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Names and relationships (Continued)

Name	Relationship
Pingyang Sunshine Shelter Center (平陽縣康寧殘疾人小康 • 陽光庇護中心)	Not-for-profit organisation established by the Company
Kangning Mental Health Institution (溫州市康寧精神衛生研究所)	Not-for-profit organisation established by the Company
Qingtian Sunshine Shelter Center (青田康寧殘疾人小康陽光庇護中心)	Not-for-profit organisation established by the Company
Cangnan Sunshine Shelter Center (蒼南縣康寧殘疾人小康 • 陽光庇護中心)	Not-for-profit organisation established by the Company
Yongjia Sunshine Shelter Center (永嘉縣康寧殘疾人庇護中心)	Not-for-profit organisation established by the Company

According to the articles of association of the above not-for-profit organisations, the Company cannot exercise control over or obtain return from the not-for-profit organisations, thus they are not considered as subsidiaries of the Group.

Mr. Guan Weili, Ms. Wang Hongyue and Ms. Wang Lianyue disposed all their equity interests in Wenzhou Kangning Investment Company Limited (溫州市康寧投資有限公司), one of the shareholders of the Pingyang Changgeng Hospital Co., Limited (平陽縣長庚醫院有限責任公司) on April 29, 2015, since then Pingyang Changgeng Hospital Co., Limited ceased to be the related party of the Company. The amount of the related party transaction disclosed in 2015 only covers the period from January 1, 2015 to April 29, 2015.

26. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Related party transactions

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
(i) Management service fee		
Beijing Yining Hospital Co., Ltd (北京怡寧醫院有限公司)	**1,700**	–
Pingyang Changgeng Hospital Co., Limited (平陽縣長庚醫院有限責任公司)	**–**	2,871
	1,700	2,871
(ii) Payment of expenses on behalf of related parties		
Beijing Yining Hospital Co., Ltd (北京怡寧醫院有限公司)	**1,654**	–
Not-for-profit organisations established by the Group	**215**	522
	1,869	522
(iii) Purchase of properties from shareholders		
Mr. Guan Weili	**–**	5,000
Ms. Wang Lianyue	**–**	4,510
	–	9,510

The purchase prices were agreed between the Group and the related parties, with reference to a valuation performed by a third party valuer.

(iv) Rental expenses		
Mr. Guan Weili and Ms. Wang Lianyue	**–**	31

(c) Related party balances

Balances with related parties as at June 30, 2016 and December 31, 2015 were disclosed in Note 21.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

Key management includes directors and senior managements. The compensation paid or payable to key management for employee services is shown below:

	Six months ended June 30,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Salaries and bonus	**1,668**	1,360
Contributions to pension plans	**92**	59
Share-based payment	**427**	427
Other staff welfare expenses	**112**	106
	2,299	1,952

27. COMMITMENTS

(a) Capital commitments

	30 June	31 December
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contracted but not provided for		
– construction building	**32,875**	36,635
– leasehold improvements	**45,800**	60,529
– property, plant and equipment	**8,292**	10,935
	86,967	108,099

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

27. COMMITMENTS (Continued)

(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:

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Not later than 1 year	**28,593**	28,593
Later than 1 year and not later than 5 years	**71,270**	74,546
Later than 5 years	**94,811**	105,831
	194,674	208,970

28. EVENT SUBSEQUENT TO BALANCE SHEET DATE

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 creditor's rights from Wenzhou Medical University. Following completion of the public bidding process which is mandatory for the state-owned assets transfers, 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 registeration with the relevant government authorities in the PRC. The acquisition was subsequently completed in August 2016.

DEFINITIONS

"Audit Committee"	the audit committee of the Board
"Beijing Yining Hospital"	Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司), an associate company established in the PRC with limited liability on August 17, 2015 and is held as to 49% by the Company
"Board of Directors" or "Board"	the board of directors of the Company
"Cangnan Kangning" or "Cangnan Kangning Hospital"	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company's wholly-owned subsidiaries
"Chun'an Hospital"	Chun'an Huangfeng Kang'en Hospital (淳安黃鋒康恩醫院)
"Company"	Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2120)
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted Shares which are currently not listed or traded on any stock exchange

DEFINITIONS (Continued)

"Geriatric Hospital"	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a wholly-owned subsidiary of the Company which was referred to as the "Louqiao Medical Area" in the Prospectus and whose principal business is to provide medical services for the geriatric, including geriatric psychiatric and psychological treatment
"Group" or "we" or "our"	the Company and its subsidiaries
"Guoda Investment"	Wenzhou Guoda Investment Company (溫州國大投資有限公司)
"H Share(s)"	overseas listed foreign invested ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Hong Kong Stock Exchange
"Hangzhou Honglan"	Hangzhou Honglan Information Technology Co., Ltd. (杭州宏瀾信息科技有限公司), a company established in the PRC with limited liability on November 25, 2015 and one of the Company's wholly-owned subsidiaries
"HK$" or "HKD" or "Hong Kong dollars"	the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Linhai Kangning" or "Linhai Kangning Hospital"	Linhai Kangning Hospital Co., Ltd. (臨海康寧醫院有限公司), a company established in the PRC with limited liability on February 2, 2015 and one of the Company's non-wholly owned subsidiaries
"Macau"	the Macau Special Administrative Region of the PRC

DEFINITIONS (Continued)

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"Nomination Committee"	the nomination committee of the Board
"Pingyang Kangning" or "Pingyang Kangning Hospital"	Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司), a company established in the PRC with limited liability on November 2, 2015 and one of the Company's wholly-owned subsidiaries
"PRC" or "China"	the People's Republic of China which, for the purpose of this interim report, excludes Hong Kong, Macau and Taiwan
"PRC Company Law"	the Company Law of the People's Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Twelfth National People's Congress on December 28, 2013 and effective on March 1, 2014 (as amended, supplemented or otherwise modified from time to time)
"Prospectus"	the prospectus of the Company dated November 10, 2015
"Pujiang Hospital"	Pujiang Huangfeng Psychiatric Specialty Hospital (浦江黃鋒精神專科醫院)
"Qingtian Kangning"	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011 and one of the Company's non-wholly owned subsidiaries
"Quzhou Yining" or "Quzhou Yining Hospital"	Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司), a company established in the PRC with limited liability on November 20, 2015 and one of the Company's non-wholly owned subsidiaries
"Reporting Period"	the six months ended June 30, 2016
"Remuneration Committee"	the remuneration committee of the Board
"RMB" or "Renminbi"	the lawful currency of the PRC

DEFINITIONS (Continued)

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen Yining" or "Shenzhen Yining Hospital"	Shenzhen Yining Hospital Co., Ltd. (深圳怡寧醫院有限公司, previously known as 深圳市怡寧醫院有限公司), a company established in the PRC with limited liability on September 22, 2014 and one of the Company's non-wholly owned subsidiaries
"Strategy and Risk Management Committee"	the strategy and risk management committee of the Board
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
"substantial shareholder(s)"	has the meaning ascribed thereto in the Hong Kong Listing Rules
"Supervisor(s)"	the members of the Supervisory Committee
"Supervisory Committee"	the Company's supervisory committee established pursuant to the PRC Company Law
"US$"	the lawful currency of the United States
"Yanjiao Furen Hospital"	Yanjiao Furen Hospital of Traditional Chinese and Western Medicine (燕郊輔仁中西醫結合醫院) under the Company's operation and management in accordance with an entrustment management agreement dated March 26, 2015 entered into between Yanjiao Furen Hospital of Traditional Chinese and Western Medicine and the Company
"Yongjia Kangning"	Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2012 and one of the Company's wholly-owned subsidiaries

DEFINITIONS (Continued)

"Yueqing Kangning"	Yueqing Kangning Hospital Co., Ltd. (樂清康寧醫院有限公司), a company established in the PRC with limited liability on September 3, 2013 and one of the Company's wholly-owned subsidiaries
"%"	percentage ratio