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溫州康寧



Wenzhou Kangning Hospital

(A joint stock limited liability company incorporated in the Peo

公司

2 FINANCIAL SUNMMARY

2.1 PRINCIPAL FINANCIAL DATA AND INDICATORS

	For the six months ended June 30,	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue	356,778	283,136
Profit before income tax	59,108	37,076
Income tax expense	(18,256)	(12,014)
Net profit	40,852	25,062
Net profit attributable to equity holders of the Company	41,987	26,467
Non-controlling interests	(1,135)	(1,405)

	As of June 30,	As of December 31,
	2018	2017
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Total assets	1,719,713	1,690,401
Total liabilities	573,638	579,904
Total equity	1,146,075	1,110,497
Equity attributable to owners of the Company	1,083,818	1,051,835
Non-controlling interests	62,257	58,662

3 BUSINESS REVIEW AND OUTLOOK

In the first half of 2018, with further deepened reform of China's medical and health system, the Group fine-tuned several development strategies based on the latest policy guidance which mainly include the concentration of strengths on the development of owned hospital business while controlling and gradually reducing the scale of hospital management business. Specific progress has been made as follows:

In the first half of 2018, the Group's owned hospital business developed rapidly. Three new hospitals, namely Hangzhou Cining Hospital, Hangzhou Yining Hospital and Luqiao Cining Hospital, have been put into operation in succession. Those existing hospitals, such as Linhai Kangning Hospital, Geriatric Hospital, Quzhou Yining Hospital, Pingyang Kangning Hospital and Shenzhen Yining Hospital, which were opened after 2016, entered into a phase of rapid growth. Except for Shenzhen Yining Hospital, all other four hospitals have realized profits in the first half of 2018. After the new building of Wenzhou Kangning Hospital was put in use, the proportion of mid-to-high-end patients gradually increased, driving the growth in the Group's average inpatient spending per bed-day. The service volume of Qingtian Kangning Hospital and Yueqing Kangning Hospital has also increased steadily as compared with the same period of last year. However, Yongjia Kangning Hospital and Cangnan Kangning Hospital have slowed down in business growth due to limited space for expansion, while Cangnan Kangning Hospital is carrying out a relocation project and is expected to add 300 new beds. As of June 30, 2018, the number of the Group's owned hospitals increased to 13 (December 31, 2017: 10) and the number of beds under operation increased to 4,180 (December 31, 2017: 3,420).

In the first half of 2018, in order to concentrate our strength and energy on the development of our owned hospitals, the Group reduced the scale of business of healthcare facilities management, we terminated the business of management of Chengdu Yining Ward, and reduced the business scale of management services for Pingyang Changgeng Ward. However, for agreed management services, the Group continued to strive to provide high quality management services, including the completion of the renovation and upgrading of Yiwu City Psychiatric Health Center, increasing the bed occupancy rate of Beijing Yining Hospital in June 2018 to 57.5%, and striving to maintain stable development of the business of Wenzhou Cining Hospital, Yanjiao Furen Hospital, Pujiang Hospital and Chun'an Hospital. Due to the adjustment of the Group's business strategy, as of June 30, 2018, the healthcare facilities managed by the Group decreased to 7 (December 31, 2017: 8), and the number of beds under management slightly increased to 1,200 (December 31, 2017: 1,130).

In the first half of 2018, while steadily developing our existing hospitals, the Group continued to accelerate network layout through merger and acquisition, self-construction, investment as a minority shareholder and other methods. For mergers and acquisitions, the Group acquired 51% equity interest in Wenling Nanfang Hospital and 51% equity

interest in Nanjing Yining Hospital in July 2018. As for the self-construction hospitals, Taizhou Kangning Hospital self-built by the Group has completed its construction and commenced trial operation in July 2018. As for investment as a minority shareholder, Huainan Kangning Hospital and Heze Yining Hospital invested by the Group have completed construction and were put into operation in April 2018 and July 2018 respectively.

While developing the healthcare business, the Group understands that medical safety and service quality are of vital importance to our reputation and business. Therefore, the Board has positioned 2018 as a “year of solid foundation”, focusing on the improvement of human resources quality, the promotion of standardization in Group’s business, corporate brand building and informationization construction. Looking into the future, we will leverage on the favorable environment brought by the PRC government which encourages the social capital to establish medical facilities to further implement the Group’s medium- and long-term strategic layouts, strengthen medical safety supervision, talent training and informatization construction of the Group, with a view to improving its service level of medical institutions.

4 MANAGEMENT DISCUSSION AND ANALYSIS

4.1 Financial Review

The Group recorded revenue of RMB356.8 million for the Reporting Period. If excluding the revenue of RMB13.5 million for property and other business, the revenue of healthcare business amounted to RMB343.3 million, representing an increase of 44.2% as compared with the same period of 2017, mainly because the revenue from operating the Group’s owned hospitals increased by 46.2% as compared with the same period of 2017. With the increase of the bed utilization rate of hospital newly put into operation in 2017, the gross profit margin of our owned hospitals during the Reporting Period increased to 35.2% (for the six months ended June 30, 2017: 33.1%). As such, the overall gross profit margin of healthcare business of the Group for the Reporting Period increased to 35.7% (for the six months ended June 30, 2017: 34.1%) and the gross profit of healthcare business increased to RMB122.5 million, representing an increase of 50.8% as compared with the same period of 2017. During the Reporting Period, net profit attributable to shareholders of the Company amounted to RMB42.0 million, representing an increase of 58.6% as compared with the same period of 2017, primarily because Geriatric Hospital, Quzhou Yining Hospital and Pingyang Kangning Hospital realised profit during the Reporting Period.

4.1.1 Revenue and Cost of Revenue

The Group generates revenue mainly through the following four ways: (i) revenue from operating its owned hospitals, (ii) management service fees from managing healthcare facilities, (iii) revenue of other healthcare related business, and (iv) revenue of the property business.

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

	For the six months ended June 30,	
	2018	2017
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Revenue from operating the owned hospitals	331,211	226,529
Management service fee income	12,107	11,579
Total revenue of healthcare business	343,318	238,108
Revenue from other healthcare related business	1,123	987
Revenue of the property business	12,337	44,041
Total revenue	356,778	283,136

During the Reporting Period, total revenue of the Group amounted to RMB356.8 million, representing an increase of 26.0% as compared with that of the same period of 2017, of which healthcare business revenue was RMB343.3 million, representing an increase of 44.2% as compared with that of the same period of 2017, mainly due to revenue from operating the Group's owned hospitals increased by 46.2% and management service fee income increased by 4.6%. The proportion of revenue from operating the Group's owned hospitals to healthcare business revenue increased to 96.5% (for six months ended June 30, 2017: 95.1%), while the proportion of management service fee income to healthcare business revenue decreased to 3.5% (for the six months ended June 30, 2017: 4.9%).

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

Revenue from operating the owned hospitals consists of fees charged for the outpatient visits and the inpatient services at the Group's various hospitals, including treatment and general healthcare services and pharmaceutical sales. The table below sets forth a bre

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,	
	2018	2017
Inpatients		
Inpatient bed as at period end	4,180	3,050
Effective inpatient service bed-day capacity	756,580	552,050
Utilization rate (%)	89.5%	85.9%
Number of inpatient bed-days	676,929	474,163
Treatment and general healthcare services revenue attributable to inpatients (RMB'000)	243,876	158,561
Average inpatient spending per bed-day on treatment and general healthcare services (RMB)	360	334
Pharmaceutical sales revenue attributable to inpatients (RMB'000)	40,556	28,427
Average inpatient spending per bed-day on pharmaceutical sales (RMB)	60	60
Total inpatient revenue (RMB'000)	284,432	186,988
Total average inpatient spending per bed-day (RMB)	420	394
Outpatients		
Number of outpatient visits	91,613	75,872
Treatment and general healthcare services revenue attributable to outpatients (RMB'000)	9,082	7,665
Average outpatient spending per visit on treatment and general healthcare services (RMB)	99	101
Pharmaceutical sales revenue attributable to outpatients (RMB'000)	37,697	31,876
Average outpatient spending per visit on pharmaceutical sales (RMB)	412	420
Total outpatient revenue (RMB'000)	46,779	39,541

	For the six months ended June 30,	
	2018	2017
Total average outpatient spending per visit (RMB)	511	521
Total treatment and general healthcare services revenue (RMB'000)	252,958	166,226
Total pharmaceutical sales revenue (RMB'000)	78,253	60,303

During the Reporting Period, inpatient revenue amounted to RMB284.4 million, representing an increase of 52.1% as compared with that of the same period of 2017, primarily due to: (i) the increase of 42.8% in the number of the Group's inpatient bed-days arising from the considerable increase of inpatient beds in Linhai Kangning Hospital, Geriatric Hospital, Quzhou Yining Hospital, Pingyang Kangning Hospital and Shenzhen Yining Hospital, and (ii) the increase of 6.6% in average inpatient spending per bed-day. The proportion of inpatient revenue to our revenue from operating owned hospitals increased to 85.9% (for the six months ended June 30, 2017: 82.5%).

During the Reporting Period, outpatient revenue amounted to RMB46.8 million, representing an increase of 18.3% as compared with that of the same period of 2017, primarily due to: (i) the increase of outpatient visits by 20.7% and (ii) the average outpatient spending per visit decreased by 1.9% due to the government's pharmaceutical price reduction policy. The proportion of outpatient revenue to our revenue from operating owned hospitals decreased to 14.1% (for the six months ended June 30, 2017: 17.5%), mainly due to revenue of outpatient visits of Geriatric Hospital and Shenzhen Yining Hospital accounted for low proportion of their operating revenue.

During the Reporting Period, due to the increase of both inpatient and outpatient business, revenue from treatment and general healthcare services increased by 52.2% as compared with that of the same period of 2017, accounting for 76.4% of our revenue from operating our owned hospitals (for the six months ended June 30, 2017: 73.4%); and revenue from

Cost of revenue of the Group's owned hospitals 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,	
	2018	2017
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Pharmaceuticals and consumables used	80,594	58,173
Employee benefits and expenses	66,324	50,903
Leasing expenses	12,287	9,857
Depreciation and amortization	21,962	13,642
Canteen expenses	12,640	8,120
Testing fees	7,002	4,182
Others	13,695	6,756
Cost of revenue for owned hospitals	214,504	151,633

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB214.5 million, representing an increase of 41.5% as compared with that of the same period of 2017, which was slightly lower than the increase in revenue from owned hospitals. It was mainly due to: (i) the increase of 38.5% in pharmaceutical expenses relating to increase in revenue from pharmaceutical sales; (ii) the increase of 30.3% in employee benefits and expenses arising from the increase in beds in operation of our owned hospitals; (iii) the operation of Hangzhou Yining Hospital has increased the leasing expenses by approximately RMB2.4 million; and (iv) the depreciation and amortization increased by 61.0% as compared with that of the same period of 2017 mainly caused by the usage of the new building of Wenzhou Kangning Hospital.

From the cost structure perspective: the proportion of pharmaceutical and consumables used in the cost of owned hospitals decreased to 37.6% (for the six months ended June 30, 2017: 38.4%), mainly due to the decrease in the proportion of outpatient business revenue accounted for revenue of owned hospitals. The proportion of employee benefits and expenses to cost of revenue of the owned hospitals slightly decreased to 30.9% (for the six months ended June 30, 2017: 33.6%). The proportion of leasing expenses, together with depreciation and amortization to cost of revenue of owned hospitals increased to 16.0% (for the six months ended June 30, 2017: 15.5%). During the Reporting Period, the change of the cost structure mainly due to the increase of the fixed costs which do not vary with the business volume, such as depreciation and amortization, as compared with that of the same period of 2017.

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, cost of revenue and gross profit for the periods indicated:

	For the six months ended June 30,	
	2018	2017
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Revenue	12,107	11,579
Cost of revenue	6,361	5,252
Gross profit	5,746	6,327

During the Reporting Period, management service fee income of the Group amounted to RMB12.1 million, representing an increase of 4.6% as compared with that of the same period of 2017. The slower growth of management service fee income was mainly attributable to the Group's adjustment of its business

4.1.2 Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB129.4 million, representing an increase of 40.7% as compared with that of the same period of 2017. The gross profit of healthcare business after deducting property and other business amounted to RMB122.5 million, representing an increase of 50.8% as compared with that of the same period of 2017. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

	For the six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
d(o)		
Treatment and general healthcare services	40.9%	38.6%
Pharmaceutical sales	16.8%	17.9%
Management services	47.5%	54.6%
Property and other businesses	51.6%	23.9%
Consolidated gross profit margin	36.3%	32.5%

During the Reporting Period, consolidated gross profit margin of the Group increased to 36.3% (for the six months ended June 30, 2017: 32.5%), of which the gross profit margin of treatment and general healthcare services increased by 2.3 percentage points as compared with that of the same period of 2017, mainly due to the fast increase of bed utilization rate of Geriatric Hospital, Quzhou Yining Hospital and Pingyang Kangning Hospital; the gross profit margin of pharmaceutical sales decreased by 1.1 percentage points as compared with that of the same period of 2017, mainly due to the medical insurance department of Zhejiang Province cut down the payment standard for certain pharmaceutical from April 1, 2018.

4.1.3 Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to d(o)

4.1.4 Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB2.6 million (for the six months ended June 30, 2017: RMB0.4 million), which increased a lot as compared with that of the same period of 2017, mainly because in order to better serve the patients, the Group's headquarters has established a customer relationship department to improve communication between its hospitals and patients. The selling expenses accounted for only 0.7% of the Group's revenue of healthcare business (for six months ended June 30, 2017: 0.2%), demonstrating that the Group's business development does not rely on market promotion.

4.1.5 Administrative Expenses

During the Reporting Period, administrative expenses of the Group primarily consist of benefits and expenses for the management and administrative staff, leasing expenses of the hospitals under development, depreciation and amortization, consultancy expenses, travelling expenses and other expenses. The table below sets forth a breakdown of administrative expenses of the Group for the periods indicated:

	For the six months ended June 30,	
	2018	2017
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Employee benefits and expenses	26,332	17,968
Leasing expenses of the hospitals under development	6,584	7,956
Depreciation and amortization	3,932	3,980
Consultancy expenses	4,398	2,667
Travelling expenses	1,623	1,615
Others	8,081	5,628
Total administrative expenses	50,950	39,814

During the Reporting Period, the administrative expenses of the Group amounted to RMB51.0 million, representing an increase of 28.0% as compared with that of the same period of 2017, mainly due to: (i) an increase of 46.5% for our employee benefits and expenses arising from the increase of our management staff; and (ii) professional service fees such as audit and compliance advisor increased by 64.9%. During the Reporting Period, the leasing expenses of hospitals under development decreased by 17.2% as compared with that of the same period of 2017, mainly due to the leasing expenses related to Hangzhou Yining Hospital were recorded in cost of revenue after its operation in March 2018. During the Reporting Period, the proportion of the administrative expenses to the healthcare business revenue of the Group decreased to 14.8% (for the six months ended June 30, 2017: 16.7%), demonstrating that the management efficiency of the Group's headquarter has been improved with the expansion of the Group's business scale.

4.1.6 Finance Expenses– Net

Our finance income includes interest income from bank deposits, and the finance expenses include the interest expenses on bank loans, the losses on foreign exchange and the amortization of unrecognized financial charge 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,	
	2018	2017
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Interest income	1,963	1,907
Exchange loss	(355)	(7,730)
Borrowing interest expense	(4,135)	(1,691)
The amortization of unrecognized financial charge	(2,750)	(2,725)
Others	(253)	(198)
Finance expenses – Net	<u>(5,530)</u>	<u>(10,437)</u>

During the Reporting Period, the net finance expenses of the Group amounted to RMB5.5 million, representing a decrease of RMB4.9 million as compared with that of the same period of 2017, mainly due to: (i) the exchange losses decreased by RMB7.4 million during the Reporting Period, as compared with that of the same period of 2017; (ii) an increase of RMB2.4 million arising from interest expense of bank borrowings as compared with that of the same period of 2017.

4.1.7 Investment Loss

During the Reporting Period, our investment loss amounted to RMB4.3 million, representing an increase of approximately RMB1.5 million as compared with that of the same period of 2017, mainly due to the opening of the Group's investment as a minority shareholder in Chengdu Yining Hospital, Huainan Kangning Hospital and Heze Yining Hospital during the Reporting Period, resulting in an increase in investment losses accounted for using the equity method.

4.1.8 Assets Impairment Losses and Credit Impairment Losses

During the Reporting Period, assets impairment losses and credit impairment losses increased to RMB6.9 million in total (for the six months ended June 30, 2017: RMB2.8 million), of which credit impairment losses amounted to RMB5.7 million, and increased to 1.7% of revenue of healthcare business of the Group (for the six months ended June 30, 2017: 1.2%), mainly due to considerable increase of account receivable at the end of the Reporting Period as compared with the balance of December 31, 2017, and we increased the provisions for bad debts accordingly. As at June 30, 2018 and December 31, 2017, the provisions for bad debts of account receivable of the Group's healthcare business amounted to RMB20.2 million and RMB14.7 million respectively and accounted for 7.5% and 6.7% of total receivables at the corresponding time.

During the Reporting Period, the non-operating income of the Group decreased to RMB1.2 million, primarily due to the government grants of RMB4.8 million arising from the listing of the Company in the same period of 2017, while there is no relevant grants during the Reporting Period; the non-operating expenses of the Group decreased slightly to RMB2.1 million, primarily due to the slight decrease in the donation expenses. Other gain of the Group increased by RMB1.6 million as compared with that of the same period of 2017, primarily due to the increase of the government grants in relation to healthcare business.

4.1.10 Income Tax Expense

During the Reporting Period, income tax expense increased to RMB18.3 million (for the six months ended June 30, 2017: RMB12.0 million), representing an increase of 52.0% as compared with that of the same period of 2017, mainly due to the increase of 59.4% of the Group's profits before income tax during the Reporting Period as compared with that of the same period of 2017. For the six months ended June 30, 2018 and 2017, our actual tax rates were 30.9% and 32.4%, respectively. The slight decrease in actual tax rates for the Reporting Period was mainly due to the decrease in the expenses which cannot be deductible.

4.1.11 Total Comprehensive Income

The table below sets forth the major non-recurring items affecting the total comprehensive income attributable to shareholders of the Company during the Reporting Period and the six months ended June 30, 2017:

	For the six months ended June 30,	
	2018	2017
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Exchange losses	(355)	(7,730)
Donation expenses	(1,370)	(2,247)
Government subsidy	962	5,246
Real estate business	2,709	6,004
Total impact of non-recurring items (before income tax)	1,946	1,273
Total impact of non-recurring items (after income tax)	(415)	368

Excluding the impact of the above non-recurring items, the total comprehensive income attributable to the shareholders of the Company during the Reporting Period was approximately RMB42.4 million, representing an increase of 62.5% as compared with that of the same period of 2017 (after excluding the above non-recurring items), mainly due to the increase in the bed occupancy rate of newly opened Linhai Kangning Hospital, Geriatric Hospital, Quzhou Yining Hospital, Pingyang Kangning Hospital and Shenzhen Yining Hospital, driving the gross profit margin of owned hospitals to increase to 35.2% (for the six months ended June 30, 2017: 33.1%).

4.2 Financial Position

4.2.1 Inventory

As of June 30, 2018, inventory balances amounted to RMB20.4 million (as of December 31, 2017: RMB23.5 million), which mainly includes: (i) the medical inventory and turnover materials amounted to RMB16.9 million (as of December 31, 2017: RMB14.1 million); and (ii) completed properties amounted to RMB3.5 million (as of December 31, 2017: RMB9.4 million), representing Phase II Works of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda. The table below sets forth the details of completed properties held by us during the Reporting Period:

Completed properties	Phase II Works of Business Center of Wenzhou Higher Education Mega Center
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Lot number	Guo Yong (2012) No. 3-289403
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (m.)	30,557.34
Usage	Commercial, office and hotel
Stage	Completed and accepted
Completion date	June 30, 2017

4.2.2 Accounts Receivables

As of June 30, 2018, the balance of accounts receivables amounted to RMB274.7 million (as of December 31, 2017: RMB232.2 million), the balance of accounts receivables for healthcare business amounted to RMB269.9 million, representing an increase of 22.6% as compared with that of December 31, 2017, as the growth of our healthcare business, our revenue of healthcare business increased during the Reporting Period as compared with that of the same period of 2017.

During the Reporting Period, the Group's receivables turnover days for healthcare business were 129 days (for the six months ended June 30, 2017: 125 days).

4.2.3 Other Receivables and Prepayments

As of June 30, 2018, other receivables and prepayments slightly increased to RMB59.3 million (as of December 31, 2017: RMB54.6 million).

4.2.4 Investment Properties

As of June 30, 2018, the balance of investment properties amounted to RMB128.6 million (as of December 31, 2017: RMB128.6 million), representing Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F) and Phase Works of Business Center of Wenzhou Higher Education Mega Center (2F to 11F) held by Wenzhou Guoda. During the Reporting Period, there was no significant change in the fair value of investment properties. The following table sets out the details of our investment properties during the Reporting Period:

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-290602, Wen Guoyong (2012) No. 3-290604, Wen Guoyong (2012) No. 3-290616, Wen Guoyong (2012) No. 3-290617, Zhe (2017) Wenzhou property rights No. 0136790, Zhe (2017) Wenzhou property rights No. 0136791, Zhe (2017) Wenzhou property rights No. 0136792, Zhe (2017) Wenzhou property rights No. 0136793
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	3,722.29

Total floor area (Approx.) (Sq. m.)	12,854.06
Usage	Non-residential
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the properties are freehold properties
Investment property	Phase Works of Business Center of Wenzhou Higher Education Mega Center (2F to 11F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-289403
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	11,850.34
Usage	Commercial, office and hotel
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the properties are freehold properties

4.2.5 Other Non-current Financial Assets

As of June 30, 2018, the other non-current financial assets amounted to RMB51.0 million (as of December 31, 2017: available-for-sale financial assets RMB50.0 million), primarily due to our contribution to the investment fund. During the Reporting Period, the fair value of the other non-current financial assets increased by RMB1.0 million.

4.2.6 Accounts Payable

As of June 30, 2018, accounts payables slightly decreased to RMB75.9 million (as of December 31, 2017: RMB83.8 million), mainly due to the decrease in payables for the property project accrued by Wenzhou Guoda.

4.2.7 Contract Liability

As of June 30, 2018, contract liability slightly decreased to RMB7.0 million (as of December 31, 2017: advances from customers RMB7.5 million).

4.2.8 Other Payables

As of June 30, 2018, other payables decreased to RMB75.9 million (as of December 31, 2017: RMB99.8 million), mainly due to the decrease of payable in the expansion project of Wenzhou Kangning Hospital.

4.3 Liquidity and Capital Resources

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

	For the six months ended June 30,	
	2018	2017
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	25,390	3,472
Net cash used in investing activities	(132,285)	(134,699)
Net cash generated from financing activities	25,735	61,809
Net decrease in cash and cash equivalents	(81,439)	(76,732)

4.3.1 Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB25.4 million, primarily consisting of net profit of RMB40.9 million and adjustments of RMB30.1 million for depreciation of property, plant and equipment as well as adjustments for amortisation of intangible assets and long-term prepaid expense. Changes in working capital resulted in cash outflow of RMB62.0 million. We had cash outflow of RMB24.2 million attributable to our various taxes paid.

4.3.2 Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities amounted to RMB132.3 million, primarily due to the amount of RMB84.0 million for purchasing property, plant and equipment, including the amounts paid for the Wenzhou Kangning Hospital expansion project, the expansion project of Cangnan Kangning Hospital and renovation projects of Hangzhou Yining Hospital and Taizhou Kangning Hospital; and the amount of RMB16.8 million paid for investment as a minority shareholder.

4.3.3 Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities amounted to RMB25.7 million, primarily due to bank borrowings amounted to RMB170.0 million, offsetting the repayment of bank borrowings of RMB135.0 million.

4.3.4 Significant Investment, Acquisition and Disposal

The Group had no significant investment, acquisition or disposal as for the six months ended June 30, 2018.

4.4 Indebtedness

4.4.1 Bank Borrowings

As of June 30, 2018, the balance of bank borrowings of the Group amounted to RMB235.0 million (as of December 31, 2017: RMB200.0 million), primarily attributable to repayment of borrowings of RMB135.0 million and increase in borrowings of RMB170.0 million.

4.4.2 Contingent Liabilities

As of June 30, 2018, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

4.4.3 Asset Pledge

Wenzhou Guoda, a subsidiary of the Group, had pledged its completed properties, Phase II of Business Center of Wenzhou Higher Education Mega Center, in favor of the China Zheshang Bank for bank loan and as of June 30, 2018, the balance of the borrowing amounted to RMB40.0 million.

4.4.4 Contractual Obligations

The contractual obligation of the Group primarily consists of operating lease arrangements. As of June 30, 2018, the future aggregate minimum lease payments under non-cancellable lease agreements were RMB300.3 million.

4.4.5 Financial Instruments

Financial instruments of the Group consist of accounts receivables, other non-current financial assets, other receivables, cash and cash equivalents, bank borrowings, accounts and other payables. The Company's management manages and monitors these exposures to ensure effective measures are implemented on a timely manner.

After the consideration and approval at the AGM, first grant of the grant scheme comprises of 179 persons, the aggregate number of shares first granted was 1,934,097 shares. After the confirmation at the eighth meeting of the second session of Board of the Company convened at August 20, 2018, the actual first grant comprised of 165 persons, as 13 persons voluntarily abstained to subscribe, 1 person was no longer qualified for grant. The actual aggregate number of shares first granted was 1,818,529 shares, represented 2.4898% of total issued share capital of the Company as at the date of this announcement and the details were shown as the following table. The participants shall pay the subscription amounts calculated by the amount of grants multiplied by the grant price (RMB 10.47 per share).

Catestory of personnel	Number of persons granted (person)	Number of Shares granted (Share)	Number of grant representing total issued share capital of the Company
Senior management	4	133,715	0.1831%
Core technical personnel	161	1,684,814	2.3067%
Total	165	1,818,529	2.4898%

The shares granted to the participants are restricted shares of the Company.

The Company set up the Employees' Shareholding Platform through the formation of a limited partnership, and the Employees' Shareholding Platform will hold the incentive shares for an

5 PURCHASE, SALE AND 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.

6 REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the Group's unaudited interim results for the six months ended June 30, 2018 and has opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

The Audit Committee consists of two independent non-executive directors of the Company, Mr. HUANG Zhi (the chairman of the Audit Committee) and Mr. GOT Chong Key Clevin, and one non-executive director of the Company, Mr. LIN Lijun. Among them, Mr. HUANG Zhi has the appropriate professional qualifications (a certified public accountant accredited by the Chinese Institute of Certified Public Accountants).

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2018 (for the six months ended June 30, 2017: nil).

7 COMPLIANCE WITH CG CODE

The Company has complied with all code provisions in the CG Code during the Reporting Period.

8 ACCOUNTING STANDARDS

The Company has been applying the China Accounting Standards for Business Enterprises since the financial year of 2017, and has complied with the disclosure requirements required in the new Companies Ordinance (Chapter 622 of the laws of Hong Kong (the "Companies Ordinance")).

9 FINANCIAL REPORT

9.1 Accounting Policies

9.1.1 Accounting policies

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises - Basic Standard and specific accounting standards and relevant rules issued by the Ministry of Finance of the PRC on February 15, 2006.

The financial statements are prepared on a going concern basis.

The Companies Ordinance has commenced operation in 2016. Some notes in financial statements have been reflected the new requirements of the Companies Ordinance.

9.1.2 Adoption of New Accounting Policies

The Ministry of Finance of the PRC issued ‘Accounting Standard for Business Enterprises No. 14 - Revenue’, ‘Accounting Standard for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments’, ‘Accounting Standard for Business Enterprises No. 23 - Transfer of Financial Assets’, ‘Accounting Standard for Business Enterprises No. 24 - Hedging’ and ‘Accounting Standard for Business Enterprises No. 37 - Presentation of Financial Instruments’ in 2017. The Group has adopted standards above to prepare the financial statements for the year 2018.

During the Reporting Period, the Group adopted the Accounting Standard for Business Enterprises No.22-Recongnition and Measurement of Financial Instruments to reclassify equity investments classified as available-for-sale financial assets in previous years into financial assets at fair value through profit or loss, resulting in increase in retained earnings at the beginning of the year of RMB730,742 based on the fair value of relevant equity investments at the effective date of such standard.

During the Reporting Period, due to adoption of the Accounting Standard for Business Enterprises No.22-Recongnition and Measurement of Financial Instruments, the Group adjusted original provision on impairment of receivables to provision on loss as required by the new standard on financial instruments, resulting in decrease in retained earnings at the beginning of the year of RMB895,043.

Apart from the above, other impacts of implementation of new accounting standards are reclassification among items of the financial statements.

9.1.3 Impact of Change in the Format of Financial Statements

Pursuant to the Notice on Revising and Circulating the Format of Financial Statements of General Enterprises for the year 2018 (Cai Kuai [2018] No.15) promulgated by the Ministry of Finance on June 15, 2018, the Company is required to prepare its financial statements in the format as required by Appendix 2 of such notice due to its implementation of such new revenue standard and new financial instrument standard. The implementation of such new format of financial statements has impact primarily on the reclassification of certain items of assets and liabilities in the financial statements of the Group and has no impact on the net asset and net profit attributable to shareholders of the Company.

9.2 Consolidated Interim Financial Information

The Consolidated Interim Financial Information of the Group prepared in accordance with the China Accounting Standard for Business Enterprises is set out as follows:

9.2.1 Interim Consolidated Statement of Comprehensive Income

	Six months ended June 30,	
	2018	2017
	RMB	RMB
	(Unaudited)	(Unaudited)
1. Revenue	356,778,081	283,136,307
Less: Cost of revenue	(227,375,436)	(191,153,046)
Taxes and surcharges	(3,375,006)	(3,937,078)
Selling and distribution expenses	(2,570,269)	(445,240)
General and administrative expenses	(50,950,061)	(39,814,343)
Financial expenses	(5,530,111)	(10,436,551)
Asset impairment losses	(1,160,929)	(2,823,150)
Credit impairment losses	(5,742,669)	—
Add: Investment losses	(4,318,848)	(2,852,505)
Including: Investment losses from associate and joint ventures	(4,318,848)	(2,852,505)
Losses on disposal of assets	(6,378)	(95,691)
Other gains	4,253,548	2,692,900
2. Operating profit	60,001,922	34,271,603
Add: Non-operating income	1,197,342	5,377,451
Less: Non-operating expenses	(2,091,319)	(2,573,220)
3. Total profit	59,107,945	37,075,834
Less: Income tax expenses	(18,256,405)	(12,013,726)

Six months ended June

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9.2.2 Interim Consolidated Statement of Financial Position

ASSETS	June 30, 2018 RMB (Unaudited)	December 31, 2017 RMB (Audited)
Current assets		
Cash at bank and on hand	229,254,617	279,334,159
Accounts receivable	274,738,114	232,179,323
Other receivables	44,979,280	43,447,939
Advances to suppliers	14,270,587	11,132,676
Inventories	20,389,497	23,532,469
Non-current assets due within one year	12,688,704	12,688,704
Total current assets	596,320,799	602,315,270
Non-current assets		
Available-for-sale financial assets	—	50,000,000
Other non-current financial assets	50,974,323	—
Long-term equity investments	99,065,613	89,683,865
Investment properties	128,568,963	128,568,963
Fixed assets	438,341,684	502,649,528
Construction in progress	94,365,404	22,290,670
Intangible assets	159,971,854	151,842,863
Goodwill	3,662,628	4,823,557
Long-term prepaid expenses	109,488,329	96,335,653
Deferred tax assets	24,758,465	22,571,944
Other non-current assets	14,194,418	19,318,211
Total non-current assets	1,123,391,681	1,088,085,254
TOTAL ASSETS	1,719,712,480	1,690,400,524

LIABILITIES AND OWNERS' EQUITY	June 30, 2018 RMB (Unaudited)	December 31, 2017 RMB (Audited)
Current liabilities		
Short-term borrowings	130,000,000	90,000,000
Accounts payable	75,904,091	83,787,338
Advances	—	7,511,284
Contract liability	6,983,899	—
Employee benefits payable	16,498,460	23,714,318
Taxes payable	35,659,445	34,912,381
Other payables	75,942,440	99,796,754
Non-current liabilities due in one year	17,959,504	22,751,104
Total current liabilities	358,947,839	362,473,179
Non-current liabilities		
Long-term borrowings	105,000,000	110,000,000
Long-term payables	89,682,400	86,932,300
Deferred revenue	10,404,955	10,556,851
Deferred tax liabilities	9,602,236	9,941,379
Total non-current liabilities	214,689,591	217,430,530
Total liabilities	573,637,430	579,903,709
Owners' equity		
Share capital	73,040,000	73,040,000
Capital surplus	809,361,182	808,244,186
Surplus reserve	23,710,012	23,710,012
Retained earnings	177,706,807	146,840,254
Total equity attributable to owners of the parent company	1,083,818,001	1,051,834,452
Non-controlling interests	62,257,049	58,662,363
Total owners' equity	1,146,075,050	1,110,496,815
TOTAL LIABILITIES AND OWNERS' EQUITY	1,719,712,480	1,690,400,524

9.2.3 Interim Consolidated Statements of Cash Flow

		For the six months ended June 30,	
		2018	2017
		RMB	RMB
		(Unaudited)	(Unaudited)
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		305,515,384	218,044,330
Cash received relating to other operating activities		31,297,616	16,104,834
Sub-total of cash inflows		336,813,000	234,149,164
Cash paid for goods and services		(116,359,237)	(84,493,508)
Cash paid to and on behalf of employees		(103,723,092)	(74,861,390)
Payments of taxes and surcharges		(24,181,735)	(33,608,262)
Cash paid relating to other operating activities		(67,158,842)	(37,714,356)
Sub-total of cash outflows		(311,422,906)	(230,677,516)
Net cash flows generated from operating activities		25,390,094	3,471,648
2. Cash flows generated from investing activities			
Cash received from disposal of investments		—	3,225,000
Cash received relating to other investing activities		230,042,378	91,007,687
Sub-total of cash inflows		230,042,378	94,232,687
Cash paid to acquire fixed assets and other long-term assets		(83,978,177)	(158,053,650)
Cash paid to acquire investments		(16,790,000)	(37,878,286)
Cash paid relating to other investing activities		(261,559,650)	(33,000,000)
Sub-total of cash outflows		(362,327,827)	(228,931,936)
Net cash flows used in investing activities		(132,285,449)	(134,699,249)



9.2.4 Interim Consolidated Statement of Changes In Equity

(All amounts in RMB Yuan unless otherwise stated)

	Equity attributable to owners of the parent company				Non-controlling interests	Total owners' equity
	Share capital	Capital surplus	Surplus reserve	Retained earnings		
Balance at December 31, 2017	73,040,000	808,244,186	23,710,012	146,840,254	58,662,363	1,110,496,815
Add: Change in accounting policies	—	—	—	(164,301)	—	(164,301)
Balance at January 1, 2018	73,040,000	808,244,186	23,710,012	146,675,953	58,662,363	1,110,332,514
Net profit	—	—	—	41,986,854	(1,135,314)	40,851,540
Capital contribution by owners	—	—	—	—	4,730,000	4,730,000
Share-based payment	—	206,400	—	—	—	206,400
Dilution gain on equity shares	—	910,596	—	—	—	910,596
Profit distribution to equity owners	—	—	—	(10,956,000)	—	(10,956,000)
Balance at June 30, 2018	<u>73,040,000</u>	<u>809,361,182</u>	<u>23,710,012</u>	<u>177,706,807</u>	<u>62,257,049</u>	<u>1,146,075,050</u>

	Equity attributable to owners of the parent company				Non-controlling interests	Total owners' equity
	Share capital	Capital surplus	Surplus reserve	Retained earnings		
Balance at January 1, 2017	73,040,000	795,604,861	18,548,942	121,190,550	32,985,630	1,041,369,983
Net profit	—	—	—	26,466,936	(1,404,828)	25,062,108
Capital contribution by owners	—	—	—	—	14,100,000	14,100,000
Share-based payment	—	206,400	—	—	—	206,400
Transactions with non-controlling shareholders	—	5,351,628	—	—	(108,251)	5,243,377
Profit distribution to equity owners	—	—	—	(18,260,000)	—	(18,260,000)
Balance at June 30, 2017	<u>73,040,000</u>	<u>801,162,889</u>	<u>18,548,942</u>	<u>129,397,486</u>	<u>45,572,551</u>	<u>1,067,721,868</u>

9.3 Notes to the Consolidated Interim Financial Information prepared in accordance with the China Accounting Standard for Business Enterprises

9.3.1 Accounts receivable

	June 30, 2018 <i>RMB</i> <i>(Unaudited)</i>	December 31, 2017 <i>RMB</i> <i>(Audited)</i>
Accounts receivable from related parties	3,750,000	2,250,000
Accounts receivable from non-related parties	291,498,883	245,277,585
Subtotal	295,248,883	247,527,585
Less: Provision for bad debts	(20,510,769)	(15,348,262)
	<u>274,738,114</u>	<u>232,179,323</u>

The ageing of accounts receivable as of December 31, 2017 and June 30, 2018 is analysed as follows:

	June 30, 2018 <i>RMB</i> <i>(Unaudited)</i>	December 31, 2017 <i>RMB</i> <i>(Audited)</i>
Not overdue - Unbilled	29,554,769	20,954,840
Within 3 months	119,363,595	125,675,094
Within 1 year	110,565,857	68,749,939
1 - 2 years	30,090,256	29,274,942
2 - 3 years	4,680,533	2,441,995
Over 3 years	993,873	430,775
	<u>295,248,883</u>	<u>247,527,585</u>

According to the credit policy of the Group, the customer should pay when the bill is delivered.

9.3.2 Accounts payable

The ageing of accounts payable as of June 30, 2018 and December 31, 2017 is analysed as follows:

	June 30, 2018 RMB (Unaudited)	December 31, 2017 RMB (Audited)
Within 3 months	39,523,345	42,078,771
3 - 6 months	4,184,991	7,390,442
6 months - 1 year	3,267,814	20,557,648
1 - 2 years	28,579,812	13,579,346
2 - 3 years	202,122	27,315
Over 3 years	146,007	153,816
	75,904,091	83,787,338

9.3.3 Revenue and cost of revenue

	For the six months ended June 30, 2018 RMB (Unaudited)	2017 RMB (Unaudited)
Revenue from main operations	343,318,252	238,108,930
Revenue from other operations	13,459,829	45,027,377
	356,778,081	283,136,307
Cost of revenue from main operations	220,865,063	156,885,868
Cost of revenue from other operations	6,510,373	34,267,178
	227,375,436	191,153,046

Revenue and cost of sales from main operations

	For the six months ended June 30, 2018	
	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>
	Revenue from main operations	Cost of revenue from main operations
Pharmaceutical sales	78,253,106	65,087,164
Treatments and general healthcare services	252,958,034	149,416,996
Management service fee	12,107,112	6,360,903
	<u>343,318,252</u>	<u>220,865,063</u>

	For the six months ended June 30, 2017	
	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>
	Revenue from main operations	Cost of revenue from main operations
Pharmaceutical sales	60,303,304	49,515,173
Treatments and general healthcare services	166,226,213	102,118,496
Management service fee	11,579,413	5,252,199
	<u>238,108,930</u>	<u>156,885,868</u>

9.3.4 Earnings per share

(a) Basic earning per share

	For the six months ended June 30,	
	2018	2017
	RMB	RMB
	(Unaudited)	(Unaudited)
The consolidated net profit attributed to the ordinary shareholders of the parent company	41,986,854	26,466,936
Weighted average number of ordinary outstanding shares	73,040,000	73,040,000
Basic earning per share	0.57	0.36

(b) Diluted earning per share

Diluted earning per share is calculated by the consolidated net profit attributed to the ordinary shareholders of the parent company adjusted by the potential shares divided by the adjusted weighted average number of ordinary shares. The Company did not have any potential dilutive shares throughout the six months ended June 30, 2018. Accordingly, diluted earnings per share are the same as the basic earnings per share.

9.3.5 Income tax expenses

	For the six months ended June 30,	
	2018	2017
	RMB	RMB
	(Unaudited)	(Unaudited)
Current income tax	20,483,722	14,743,399
Deferred income tax	(2,227,317)	(2,729,673)
	18,256,405	12,013,726

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the statement of comprehensive income to the income tax expenses:

	Six months ended June 30,	
	2018	2017
	RMB	RMB
	(Unaudited)	(Unaudited)
Total profit	59,107,945	37,075,834
Income tax expenses calculated at the standard tax rate of 25%	14,776,986	9,268,959
Expenses not deductible for tax purposes	1,802,675	1,814,073
Adjustment of income tax	1,639,542	579,395
Income not subject to tax	(393,562)	(181,937)
Tax effect of unrecognized tax losses	345,368	637,437
Tax effect of unrecognized temporary differences	85,396	128,826
Utilization of previous unrecognized tax losses	—	(233,027)
Income tax expenses	18,256,405	12,013,726

9.3.6 Dividends

On March 23, 2018, the Board declared a final dividend of RMB10,956,000 for the year ended December 31, 2017 which is calculated based on 73,040,000 issued shares of the Company as at December 31, 2017. The proposed dividend was approved at the AGM. The proposed dividend is reflected as other payables in the consolidated interim financial information for the six months ended June 30, 2018.

On March 24, 2017, the Board declared a final dividend of RMB18,260,000 for the year ended December 31, 2016. The proposed dividend was approved by the shareholder at the annual general meeting for the year 2016 of the Company on June 14, 2017 and the Company paid out the dividend on July 14, 2017.

10 DEFINITIONS

“AGM”	the annual general meeting of the Company for the year 2017 convened and held on June 13, 2018
“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 40% by the Group
“Board of Directors” or “Board”	the board of directors of the Company
“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
“Chengdu Yining Hospital”	Chengdu Yining Hospital Co., Ltd. (成都怡寧醫院有限公司, previously known as Chengdu Renyi Hospital Company Limited (成都仁一醫院有限公司)), an associate company established in the PRC with limited liability on June 29, 2010 and is held as to 24% by the Group
“Chengdu Yining Ward”	the psychiatric healthcare department of Chengdu Yining Hospital Co., Ltd. (成都怡寧醫院有限公司)
“Chun’an Hospital”	Chun’an Huangfeng Kang’en Hospital (淳安黃鋒康恩醫院)
“Company” or “Wenzhou Kangning Hospital”	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 Stock Exchange of Hong Kong Limited (Stock Code: 2120)
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
“Geriatric Hospital”	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a wholly-owned subsidiary indirectly held by the Company, 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

“Hangzhou Anken”	Hangzhou Anken Medical Technology Co., Ltd. (杭州安肯醫療科技有限公司, previously known as Hangzhou Honglan Information Technology Co., Ltd. (杭州宏瀾信息科技有限公司)), an associate company established in the PRC with limited liability on November 20, 2015 and is held as to 25.94% by the Company
“Hangzhou Cining Hospital”	Hangzhou Cining Hospital Co., Ltd. (杭州慈寧醫院有限公司), a company established in the PRC with limited liability on November 18, 2017, one of the Company’s indirect wholly owned subsidiaries
“Hangzhou Yining Hospital”	Hangzhou Yining Hospital Co. Ltd. (杭州怡寧醫院有限公司), a company established in the PRC with limited liability on August 25, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“Heze Yining Hospital”	Heze Yining Hospital Co., Ltd. (荷澤怡寧醫院有限公司), an associate company established in the PRC with limited liability on April 6, 2017 and is held as to 31% by the Group
“HK\$” or “HKD” or “Hong Kong dollars”	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
“Huainan Kangning Hospital”	Huainan Kangning Hospital Co., Ltd. (淮南康寧醫院有限公司), an associate company established in the PRC with limited liability on September 22, 2017 and is held as to 45% by the Group
“Langfang Yining Hospital”	Langfang Yining Hospital Management Co., Ltd. (廊坊市怡寧醫院管理有限公司), a company established in the PRC with limited liability on December 2, 2015, one of the Company’s wholly-owned subsidiaries
“Nanjing Yining Hospital”	Nanjing Yining Hospital Co., Ltd. (南京怡寧醫院有限公司), a company established in the PRC with limited liability on June 22, 2018, one of the Company’s indirect non-wholly owned subsidiaries
“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, one of the Company’s non-wholly owned subsidiaries

“Luqiao Cining Hospital”	Taizhou Luqiao Cining Hospital Co., Ltd. (台州市路橋慈寧醫院有限公司, previously known as Taizhou Luqiao Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司)), a company established in the PRC with limited liability on December 12, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“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, one of the Company’s indirect wholly-owned subsidiaries
“Pingyang Changgeng Ward”	the psychiatric healthcare department of Pingyang Changgeng Hospital Co., Ltd (平陽縣長庚醫院有限責任公司)
“PRC” or “China”	the People’s Republic of China which, for the purpose of this interim results announcement, excludes Hong Kong, Macau and Taiwan
“Pujiang Hospital”	Pujiang Huangfeng Psychiatric Specialty Hospital (浦江黃鋒精神專科醫院)
“Qingtian Kangning Hospital”	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, one of the Company’s wholly-owned subsidiaries
“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, one of the Company’s indirect non-wholly owned subsidiaries
“RMB”	the lawful currency of the PRC
“Shenzhen Yining Hospital”	Shenzhen Yining Hospital (深圳怡寧醫院, previously known as Shenzhen Yining Hospital Co., Ltd. (深圳市怡寧醫院有限公司)), a company established in the PRC with limited liability on September 22, 2014, one of the Company’s indirect non-wholly owned subsidiaries
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)

“the Reporting Period”	For the six months ended June 30, 2018
“Taizhou Kangning Hospital”	Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“Wenzhou Cining Hospital”	Wenzhou Cining Hospital Co., Ltd. (溫州慈寧醫院有限公司), an independent third party established in the PRC with limited liability on January 25, 2006
“Wenling Nanfang Hospital”	Nanfang Specialized Psychiatric Hospital of Wenling (溫嶺南方精神疾病專科醫院有限公司), a company established in the PRC with limited liability on June 20, 2018, one of the Company’s indirect non-wholly owned subsidiaries
“Wenzhou Guoda”	Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司), a company established in the PRC with limited liability on February 9, 2002, one of the Company’s indirect non-wholly owned subsidiaries
“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 Hospital”	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, one of the Company’s wholly-owned subsidiaries
“Yueqing Kangning Hospital”	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, one of the Company’s wholly-owned subsidiaries
“%”	percentage ratio

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

Zhejiang, the PRC
August 20, 2018

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