INTERIM REPORT 2018

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

Contents

Corporate Information

Board of Directors

Executive Directors

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

Non-executive Directors

Mr. YANG Yang
Mr. LIN Lijun

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
Mr. LIN Lijun

Nomination Committee

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

Remuneration Committee

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

Strategy and Risk Management Committee

Mr. GUAN Weili *(Chairman)*
Mr. HUANG Zhi
Mr. YANG Yang

Supervisory Committee

Mr. SUN Fangjun *(Chairman)*
Ms. HUANG Jingou
Mr. XIE Tiefan
Mr. QIAN Chengliang
Mr. MA Jinlong

Joint Company Secretaries

Mr. WANG Jian
Ms. NG Wing Shan

Authorized Representatives

Ms. WANG Hongyue
Ms. NG Wing Shan

Auditor

PricewaterhouseCoopers Zhong Tian LLP

Legal Advisors as to Hong Kong Laws

Clifford Chance

Registered Office and Head Office in the PRC

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Corporate Information

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Stock Code

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Company's Website

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Investor Relations

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Financial Highlights

Principal Financial Data and Indicators

	For the six months ended June 30, 2018 (RMB'000) (Unaudited)	2017 (RMB'000) (Unaudited)
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 shareholders of the Company	**41,987**	26,467
Non-controlling interests	**(1,135)**	(1,405)

	As of June 30, 2018 (RMB'000) (Unaudited)	As of December 31, 2017 (RMB'000) (Audited)
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 shareholders of the Company	**1,083,818**	1,051,835
Non-controlling interests	**62,257**	58,662

Management Discussion and Analysis

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 included 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.

Management Discussion and Analysis

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.

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.

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.

Management Discussion and Analysis

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

	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 breakdown of our revenue, cost of revenue and gross profit for the owned hospitals for the periods indicated:

	For the six months ended June 30,	
	2018	2017
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Treatment and general healthcare services		
Revenue	**252,958**	166,226
Cost of revenue	**149, 417**	102,118
Gross profit	**103,541**	64,108
Pharmaceutical sales		
Revenue	**78,253**	60,303
Cost of revenue	**65,087**	49,515
Gross profit	**13,166**	10,788
Owned hospitals		
Revenue	**331,211**	226,529
Cost of revenue	**214,504**	151,633
Gross profit	**116,707**	74,896

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB331.2 million, representing an increase of RMB104.7 million as compared with that of the same period of 2017, mainly due to the fast business growth of Linhai Kangning Hospital, Geriatric Hospital, Quzhou Yining Hospital and Shenzhen Yining Hospital. Revenue of the aforementioned four hospitals for the Reporting Period amounted to RMB79.5 million (for the six months ended June 30, 2017: RMB22.8 million). During the Reporting Period, the gross profit of the Group's owned hospitals increased by 55.8% as compared with that of the same period of 2017, which drove the overall gross profit margin of the Group's owned hospitals increasing to 35.2% (for the six months ended June 30, 2017: 33.1%; for the six months from July 1, 2017 to December 31, 2017: 34.7%).

Management Discussion and Analysis

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
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 pharmaceutical sales increased by 29.8% as compared with that of the same period of 2017, decreased to 23.6% of our revenue from operating our owned hospitals (for the six months ended June 30, 2017: 26.6%), of which: the ratio of inpatient pharmaceutical sales to total inpatient revenue reduced to 14.3% (for the six months ended June 30, 2017: 15.2%), the ratio of outpatient pharmaceutical sales to total outpatient revenue remained at 80.6% (for the six months ended June 30, 2017: 80.6%).

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:

	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

Management Discussion and Analysis

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 development strategy, reducing of the scale of hospital management business and giving more efforts on owned hospital business, which led to the decrease of the management services income of Pingyang Changgeng Ward during the Reporting Period.

Management Discussion and Analysis

Cost of the Group for rendering management services primarily includes benefits and expenses for management staff assigned and amortization of operation rights acquired for obtaining operation rights. During the Reporting Period, cost of revenue of management service fee of the Group increased by 21.1% as compared with that of the same period of 2017, which is higher than the increase of management service fee income. Accordingly, gross profit margin of the management service business decreased to 47.5% (for the six months ended June 30, 2017: 54.6%).

Revenue and cost of revenue of the property business

The Group's revenue of the property business includes leasing income and property sales income and others. During the Reporting Period, revenue of the property business decreased to RMB12.3 million (for the six months ended June 30, 2017: RMB44.0 million), mainly due to property sales income of only RMB8.5 million were recorded by Wenzhou Guoda during the Reporting Period. The corresponding cost and expense of property business were RMB9.6 million, therefore the profit before tax in property business contributed by Wenzhou Guoda during the Reporting Period only amounted to RMB2.7 million.

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)
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.

Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB3.4 million (for the six months ended June 30, 2017: RMB3.9 million), mainly included property tax related to the new building of Wenzhou Kangning Hospital and the property of Cangnan Kangning Hospital as well as taxes related to Wenzhou Guoda property business.

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.

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.

Finance Expense - 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	**(5,530)**	(10,437)

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.

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.

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.

Non-Operating Income (Expenses) and Other Gain

Our non-operating income mainly consists of government grants not relating to daily operation, and non-operating expenses mainly consist of donation and losses on disposal of non-current assets. The table below sets forth a breakdown of our non-operating income, non-operating expresses and other gain for the periods:

	For the six months ended June 30,	
	2018	2017
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Government grants	**962**	5,246
Other non-operating income	**235**	131
Non-operating income	**1,197**	5,377
Donation	**(1,370)**	(2,247)
Other non-operating expenses	**(721)**	(422)
Non-operating expenses	**(2,091)**	(2,669)
Other gain	**4,254**	2,693

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.

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 before tax.

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	**(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%).

Financial Position

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.) (Sq. m.)	30,557.34
Usage	Commercial, office and hotel
Stage	Completed and accepted
Completion date	June 30, 2017

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), among which 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).

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).

Management Discussion and Analysis

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 II 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 II 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

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.

Accounts Payables

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.

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).

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.

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)

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.

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.

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.

Significant Investment, Acquisition and Disposal

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

Indebtedness

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 an increase in borrowings of RMB170.0 million.

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.

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.

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.

Financial Instruments

Financial instruments of the Group consist of trade receivables, other non-current financial assets, other receivables, 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 HKD against RMB. The Group is exposed to foreign exchange risks accordingly.

As for the six months ended June 30, 2018, 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, 2018, the Group's gearing ratio (total liabilities divided by total assets) was 33.4% (as of December 31, 2017: 34.3%).

Employees and Remuneration Policy

As of June 30, 2018, the Group had a total of 2,047 full-time employees (as of December 31, 2017: 1,860 full-time employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB96.5 million (for the six months ended June 30, 2017: RMB71.3 million). The average employees' remuneration is RMB98.3 thousand per year (including social medical insurance scheme and housing grant scheme bored by the Group).The remuneration is determined with reference to the salary level in the same industry and the qualifications, experience and performance of an employee.

In order to fully mobilize the enthusiasm of senior management and core technical personnel of the Group, the Company drafted the Equity Incentive Scheme for the Year 2018 of Wenzhou Kangning Hospital Co., Ltd., which was considered and approved at the AGM. Unless otherwise specified, capitalized terms used below shall have the same meanings those defined in the announcement of the Company dated May 29, 2018 and the supplementing circular of the Company dated May 30, 2018.

Scope of the Participants includes senior management of the Company, core technical personnel and other persons who, in the opinion of the Board, shall be incentivized.

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 the 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 report 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 (RMB10.47 per Share).

Category 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 and on behalf of the participants. Participants shall subscribe for and contribute capital at the grant price and become a limited partner of the partnership. The general partner of the partnership is a participant of the incentive scheme and will be appointed by the Board when the Partnership is formed. The general partner concurrently serves as the executive partner of the Partnership.

The incentive Shares under the incentive scheme comprise the non-tradable and non-listed Domestic Shares to be issued to the Employees' Shareholding Platform by the Company.

The locked-up period of the incentive Shares granted to the participants is 48 months, calculated from the date the participants are granted the incentive Shares.

Incentive Shares under the first grant shall be unlocked in one go after 48 months from the date of the first grant; incentive Shares under the reserved grant shall be unlocked concurrently with those under the first grant.

Corporate Governance and Other Information

CORPORATE GOVERNANCE

The Board is of opinion that the Company has complied with all code provisions in the CG Code during the Reporting Period.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as a code of conduct of the Company for its Directors' and Supervisors' securities transactions. Based on specific enquiries to 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, 2018 to June 30, 2018. The Company minimizes the scope of insiders before publication of such inside information. 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. The Company will file relevant information of such employees, including but not limited to the inside information, personal identity, securities account, the department such employees serve and their responsibilities, for Company's internal check and relevant regulatory authorities' inquiries. If such employees violate relevant laws and regulations, the Company will make the punishment decisions or transfer them to the judicial organs for handling in accordance with the law, in accordance with the seriousness of the case.

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 Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance").

ACCOUNTING POLICIES

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.

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-Recongnisition 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-Recongnisition and Measurement of Financial Instruments, the Group adjusted original provision on impairment of receivables to provision on expected loss model 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 line items of the financial statements.

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.

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), Mr. GOT Chong Key Clevin, and one non-executive Director, Mr. LIN Lijun. The Audit Committee has reviewed this interim report and the Group's financial information for the six months ended June 30, 2018, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made.

INTERIM DIVIDEND

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).

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.

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 the period of January 1, 2018 to June 30, 2018 and up to the date of this interim report, which are required to be disclosed pursuant to Rule 13.51B of the Hong Kong Listing Rules:

	Position held with other members of the Group and term of office		
Name	**Member of the Group**	**Positions held at members of the Group**	**Term of office**
Mr. GUAN Weili	Wenzhou Yining Geriatric Hospital Co., Ltd.	General manager	From November 2015 to January 2018
Mr. GUAN Weili	Linhai Kangning Hospital Co., Ltd.	Executive director	From February 2015 to January 2018
Mr. WANG Qian	Wenzhou Yining Geriatric Hospital Co., Ltd.	General manager	From January 2018 to present
Ms. ZHANG Feixue	Linhai Kangning Hospital Co., Ltd.	Executive director	From January 2018 to present
Mr. XU Yi	Wenzhou Tianzhentang Traditional Chinese Medicine Clinic Co., Ltd.	Executive director, General manager	From January 2018 to present
Ms. WANG Hongyue	Wenzhou Yining Pension Service Co., Ltd.	Executive director	From May 2018 to present
Mr. WANG Qian	Wenzhou Yining Pension Service Co., Ltd.	Manager	From May 2018 to present
Mr. WANG Jian	Wenzhou Yining Pension Service Co., Ltd.	Supervisor	From May 2018 to present

Name	Position held in the Company	Change in biographical details
Mr. YANG Yang	Non-executive Director	Mr. YANG Yang was appointed as the director of Bontec Investment Limited (邦達投資有限公司), effective from January 2018

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.

Corporate Governance and Other Information

Relocation of Cangnan Kangning Hospital

On July 7, 2016, the Company entered into a letter of intent with Wenzhou Dongjing Packaging Company Limited (as the vendor), pursuant to which the Company intended to acquire the vendor's land and property located in Lingxi Village, Cangnan County. However, the government did not approve the land and property to be used for hospital operation. In September 2016, the letter of intent was terminated by both parties without any further liability.

On February 28, 2017, Cangnan Kangning Hospital successfully bidded for land and plants located in Cangnan County at the online judicial auction held by the People's Court of Cangnan County. On July 13, 2017, the Company has completed the registration of the transfer of such land and property and obtained the real estate title certificate numbered Zhe (2017) Cangnan County Real Estate Title No.0018361.

At present, Cangnan Kangning Hospital has signed an agreement and is undergoing renovation and reconstruction.

Further disclosure will be made in the Company's annual reports as and when appropriate in relation to the developments of the above matter.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The H Shares were listed on the Main Board of the Hong Kong Stock Exchange on November 20, 2015. As of June 30, 2018, the Company's net proceeds from the initial public offering amounted to approximately HK$693.2 million (equivalent to RMB580.7 million) after deducting underwriting commissions and all related expenses.

On March 30, 2017, the Board of Directors of the Company resolved a resolution to change the use of the net proceeds, deducted the allocation to finance renovation and upgrades for Wenzhou Kangning Hospital by RMB58.1 million, and increased the allocation to expand and ramp up healthcare facilities network and operating capacity by RMB58.1 million. Details please refer to the announcement of the Company dated March 31, 2017.

On March 23, 2018, the Board of Directors of the Company resolved a resolution to change the use of the net proceeds again, deducted the allocation to research, teaching and personnel training purposes by RMB17.4 million, deducted the allocation to develop mobile and online platform for medical consultation and upgrade information technology infrastructure by RMB29.1 million, and increased the allocation to expend and ramp up healthcare facilities network and operating capacity by RMB46.5 million. Details please refer to the announcement of the Company dated March 26, 2018.

As of June 30, 2018, the Group applied the net proceeds in the followings:

- RMB345.2 million for expanding and ramping up our healthcare facilities network and operating capacity;
- RMB80.0 million for renovation and upgrades for Wenzhou Kangning Hospital;
- RMB37.5 million for research, teaching and personnel training purposes;
- RMB15.4 million to develop mobile andonline platform for medical consultation and upgrade information technology infrastructure; and
- RMB27.4 million for working capital and other general corporate purposes.

DISCLOSURE OF INTEREST

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

As of June 30, 2018, 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	18,350,250(L)	22,144,750 (L)	41.94%	30.32%
		Interest of spouse	3,794,500(L) [2]			
Ms. WANG Lianyue	Domestic Shares	Beneficial owner	3,794,500(L)	22,144,750 (L)	41.94%	30.32%
		Interest of spouse	18,350,250(L) [2]			
Ms. WANG Hongyue	Domestic Shares	Beneficial owner	3,984,350(L)	5,527,350(L)	10.47%	7.57%
		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, 2018.

(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.

(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 17.75% 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, 2018, 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, 2018, 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%
Mr. XU Yi [4]	Domestic Shares	Interest of spouse	5,527,350 (L)	10.47%	7.57%
Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥))	Domestic Shares	Beneficial owner	3,253,180 (L)	6.16%	4.45%
Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥)) [5]	Domestic Shares	Interest in a controlled corporation	3,253,180 (L)	6.16%	4.45%
Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥))	Domestic Shares	Beneficial owner	3,253,179 (L)	6.16%	4.45%
Mr. ZHAO Yongsheng [6]	Domestic Shares	Interest in a controlled corporation	3,253,179 (L)	6.16%	4.45%

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]
Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) [7]	Domestic Shares	Interest in a controlled corporation	6,506,359 (L)	12.32%	8.90%
Qindao Jinshi Haorui Investment Co., Ltd. (青島金石灝汭投資有限公司)	Domestic Shares	Beneficial owner	2,780,000 (L)	5.27%	3.81%
Jinshi Investment Co., Ltd. (金石投資有限公司) [8]	Domestic Shares	Interest in a controlled corporation	2,780,000 (L)	5.27%	3.81%
Citigroup Inc.	H Shares	Interest in a controlled corporation/Person having a security interest	2,822,966 (L) 58,266 (S)	13.95% 0.29%	3.86% 0.08%
Baring Asset Management Limited	H Shares	Investment manager	3,052,400 (L)	15.08%	4.18%
Barings LLC (formerly known as Babson Capital Management LLC)	H Shares	Investment manager	3,034,200 (L)	14.99%	4.15%
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, L.P.	H Shares	Beneficial owner	1,052,000 (L)	5.20%	1.44%
Morgan Stanley	H Shares	Interest in a controlled corporation	1,208,534 (L) 1,143,634 (S)	5.97% 5.65%	1.65% 1.57%
UBS Group AG	H Shares	Interest in a controlled corporation	3,880,900 (L)	19.17%	5.31%

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, 2018.

(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.

(4) 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.

(5) Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥)) holds 99.99% equity interest in Shanghai Tanying Investment L.P..Ð(上海檀英投資合夥企業(有限合夥))Therefore, by virtue of Part XV of the SFO, Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥))is deemed to be interested in all the Domestic Shares held by Shanghai Tanying Investment L.P.(上海檀英投資合夥企業(有限合夥))in the Company.

(6) Mr. ZHAO Yongsheng holds 99.90% equity interest in Shanghai Qiangang Investent Management L.P.. (上海乾剛投資管理合夥企業(有限合夥)) Therefore, by virtue of Part VX of the SFO, Mr. ZHAO Yongsheng is deemed to be interested in all the Domestic Shares held by Shanghai Qiangang Investent Management L.P (上海乾剛投資管理合夥企業(有限合夥)) in the Company.

(7) Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) is the general partner of Shanghai Qiangang Investent Management L.P. (上海乾剛投資管理合夥企業(有限合夥)) and Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)). Therefore, by virtue of Part XV of the SFO, Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) is deemed to be interested in all the Domestic Shares held by Shanghai Qiangang Investent Management L.P. (上海乾剛投資管理合夥企業（有限合夥）) and Shanghai Tanying Investment L.P. (上海檀英投資合夥企業（有限合夥）)in the Company.

(8) Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝內投資有限公司) is wholly held by Jinshi Investment Co., Ltd. (金石投資有限公司). Therefore, Jinshi Investment Co., Ltd. (金石投資有限公司) is deemed to be interested in the Domestic Shares held by Qindao Jinshi Haorui Investment Co., Ltd. (青島金石灝內投資有限公司) in the Company by virtue of Part XV of the SFO.

Save as disclosed above, as of June 30, 2018, 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 20, 2018

Consolidated Balance Sheet

As at 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Current assets			
Cash at bank and on hand	4(1)	**229,254,617**	279,334,159
Accounts receivable	4(2)	**274,738,114**	232,179,323
Other receivables	4(3)	**44,979,280**	43,447,939
Advance to suppliers	4(4)	**14,270,587**	11,132,676
Inventories	4(5)	**20,389,497**	23,532,469
Current portion of non-current assets	4(6)	**12,688,704**	12,688,704
Total current assets		**596,320,799**	602,315,270
Non-current assets			
Available-for-sale financial assets	4(7)	**—**	50,000,000
Other non-current financial assets	4(7)	**50,974,323**	—
Long-term equity investments	4(8)	**99,065,613**	89,683,865
Investment properties	4(9)	**128,568,963**	128,568,963
Fixed assets	4(10)	**438,341,684**	502,649,528
Construction in progress	4(11)	**94,365,404**	22,290,670
Intangible assets	4(12)	**159,971,854**	151,842,863
Goodwill	4(13)	**3,662,628**	4,823,557
Long-term prepaid expenses	4(14)	**109,488,329**	96,335,653
Deferred tax assets	4(15)	**24,758,465**	22,571,944
Other non-current assets	4(16)	**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

Consolidated Balance Sheet

As at 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
Current liabilities			
Short-term borrowings	4(18)	**130,000,000**	90,000,000
Accounts payable	4(19)	**75,904,091**	83,787,338
Advances from customers	4(20)	**—**	7,511,284
Contract liability	4(20)	**6,983,899**	—
Employee benefits payable	4(21)	**16,498,460**	23,714,318
Taxes payable	4(22)	**35,659,445**	34,912,381
Other payables	4(23)	**75,942,440**	99,796,754
Non-current liabilities due within one year	4(24)	**17,959,504**	22,751,104
Total current liabilities		**358,947,839**	362,473,179
Non-current liabilities			
Long-term borrowings	4(25)	**105,000,000**	110,000,000
Long-term payables	4(26)	**89,682,400**	86,932,300
Deferred income	4(27)	**10,404,955**	10,556,851
Deferred tax liabilities	4(15)	**9,602,236**	9,941,379
Total non-current liabilities		**214,689,591**	217,430,530
Total liabilities		**573,637,430**	579,903,709

Consolidated Balance Sheet

As at 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Owners' equity			
Share capital	4(28)	**73,040,000**	73,040,000
Capital surplus	4(29)	**809,361,182**	808,244,186
Surplus reserve	4(30)	**23,710,012**	23,710,012
Retained earnings	4(31)	**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

The accompanying notes form an integral part of these financial statements.

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Balance Sheet

As at 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Current assets			
Cash at bank and on hand		**183,929,812**	226,701,946
Accounts receivable	15(1)	**113,537,747**	92,294,344
Advances to suppliers		**3,011,336**	2,549,714
Other receivables	15(2)	**509,382,354**	440,908,039
Inventories		**8,134,042**	6,905,196
Dividends receivable		**—**	18,000,000
Current portion of non-current assets		**12,688,704**	12,688,704
Total current assets		**830,683,995**	800,047,943
Non-current assets			
Available-for-sale financial assets	4(7)	**—**	50,000,000
Other non-current financial assets	4(7)	**50,974,323**	—
Long-term equity investments	15(3)	**122,983,508**	124,740,272
Fixed assets	15(4)	**323,383,108**	327,445,436
Construction in progress	15(5)	**4,358,340**	3,294,872
Intangible assets	15(6)	**99,064,908**	101,238,786
Long-term prepaid expenses		**15,939,725**	14,645,580
Deferred tax assets		**5,607,970**	5,126,991
Total non-current assets		**622,311,882**	626,491,937
TOTAL ASSETS		**1,452,995,877**	1,426,539,880

Balance Sheet

As at 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Current liabilities			
Short-term borrowings		**90,000,000**	50,000,000
Accounts payable		**24,509,439**	31,368,328
Advances from customers		**—**	2,560,379
Contract liability		**4,042,090**	—
Employee benefits payable		**9,334,593**	14,111,913
Taxes payable		**5,338,211**	4,266,616
Other payables		**46,836,646**	53,048,128
Non-current liabilities due in one year		**17,959,504**	22,751,104
Total current liabilities		**198,020,483**	178,106,468
Non-current liabilities			
Long-term borrowings		**105,000,000**	110,000,000
Long-term payables		**89,682,400**	86,932,300
Deferred income		**10,404,955**	10,556,851
Total non-current liabilities		**205,087,355**	207,489,151
Total liabilities		**403,107,838**	385,595,619

Balance Sheet

As at 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
Owners' equity			
Share capital		**73,040,000**	73,040,000
Capital surplus	15(8)	**807,315,874**	807,109,474
Surplus reserve		**23,710,012**	23,710,012
Retained earnings	15(9)	**145,822,153**	137,084,775
Total owners' equity		**1,049,888,039**	1,040,944,261
TOTAL LIABILITIES AND OWNERS' EQUITY		**1,452,995,877**	1,426,539,880

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	WANG Hongyue	XU Qunyan

Consolidated Income Statement

For the six months ended 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
1. **Revenue**	4(32)	**356,778,081**	283,136,307
Less: Cost of sales	4(32)、4(34)	**(227,375,436)**	(191,153,046)
Taxes and surcharges	4(33)	**(3,375,006)**	(3,937,078)
Selling and distribution expenses	4(34)	**(2,570,269)**	(445,240)
General and administrative expenses	4(34)	**(50,950,061)**	(39,814,343)
Finance (expenses)/income-net	4(35)	**(5,530,111)**	(10,436,551)
Asset impairment losses	4(36)	**(1,160,929)**	(2,823,150)
Credit impairment losses	4(37)	**(5,742,669)**	—
Add: Investment losses	4(38)	(4,318,848)	(2,852,505)
Including: Share of losses of associates	4(38)	(4,318,848)	(2,852,505)
Losses on disposal of assets		**(6,378)**	(95,691)
Other gains	4(39)	**4,253,548**	2,692,900
2. **Operating profit**		**60,001,922**	34,271,603
Add: Non-operating income	4(40)	**1,197,342**	5,377,451
Less: Non-operating expenses	4(41)	**(2,091,319)**	(2,573,220)
3. **Total profit**		**59,107,945**	37,075,834
Less: Income tax expenses	4(42)	**(18,256,405)**	(12,013,726)
4. **Net profit**		**40,851,540**	25,062,108
Net profit generated from			
Continuing operation		**40,851,540**	25,062,108
Discontinued operation		**—**	—
Attributable to			
Owners of the parent company		**41,986,854**	26,466,936
Non-controlling gains and losses		**(1,135,314)**	(1,404,828)
5. **Total comprehensive income**		**40,851,540**	25,062,108
Attributable to			
Shareholder of the Company		**41,986,854**	26,466,936
Non-controlling interests		**(1,135,314)**	(1,404,828)
6. **Earnings per share**			
(expressed in RMB per share)			
– Basic	4(43)	**0.57**	0.36
– Diluted	4(43)	**0.57**	0.36

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	WANG Hongyue	XU Qunyan

Income Statements

For the six months ended 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Six months ended 30 June 2018 (Unaudited)	 2017 (Unaudited)
1. Revenue	15(10)	**171,643,917**	148,646,233
Less: Cost of sales	15(10)、15(12)	**(110,483,484)**	(99,151,206)
Taxes and surcharges		**(1,378,772)**	(576,431)
Selling and distribution expenses	15(12)	**(1,263,237)**	(150,812)
General and administrative expenses	15(12)	**(24,574,489)**	(19,463,125)
Finance (expenses)/income-net	15(11)	**(6,228,634)**	(9,850,566)
Asset impairment losses		**—**	(1,441,742)
Credit impairment losses	15(13)	**(1,966,117)**	—
Add: Investment loss	15(14)	**(1,756,764)**	(613,847)
Losses on disposal of assets		**(123)**	(88,205)
Other gains		**2,185,000**	2,692,900
2. Operating profit		**26,177,297**	20,003,199
Add: Non-operating income		**1,387,597**	5,342,360
Less: Non-operating expenses		**(1,176,588)**	(1,005,922)
3. Total profit		**26,388,306**	24,339,637
Less: Income tax expenses	15(15)	**(7,040,048)**	(6,718,547)
4. Net profit		**19,348,258**	17,621,090
Net profit generated from			
Continuing operation		**19,348,258**	17,621,090
Discontinued operation		**—**	—
5. Total comprehensive income		**19,348,258**	17,621,090

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	WANG Hongyue	XU Qunyan

Consolidated Cash Flow Statement

For the six months ended 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (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	4(44) (a)	**25,390,094**	3,471,648
2. Cash flows used in 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)

Consolidated Cash Flow Statement

For the six months ended 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Six months ended 30 June 2018 (Unaudited)	 2017 (Unaudited)
3. Cash flows generated from financing activities			
Cash received from capital contributions		**4,430,000**	14,100,000
Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries		**4,430,000**	14,100,000
Cash received from borrowings		**170,000,000**	90,000,000
Cash received relating to other financing activities		**—**	300,000
Sub-total of cash inflows		**174,430,000**	104,400,000
Cash repayments of borrowings		**(139,791,600)**	(37,700,000)
Cash payments for interest expenses and distribution of dividends or profits		**(5,934,843)**	(2,133,206)
Cash payments relating to other financing activities		**(2,968,171)**	(2,758,166)
Sub-total of cash outflows		**(148,694,614)**	(42,591,372)
Net cash flows generated from financing activities		**25,735,386**	61,808,628
4. Effect of changes in foreign exchange rate		**(279,073)**	(7,312,748)
5. Net decrease in cash and cash equivalents		**(81,439,042)**	(76,731,721)
Add: Cash and cash equivalents at beginning of the period	4(44) (a)	**237,538,659**	407,163,542
6. Cash and cash equivalents at end of the period	4(44) (a) (b)	**156,099,617**	330,431,821

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	WANG Hongyue	XU Qunyan

Cash Flow Statement

For the six months ended 30 June 2018

(All amounts in RMBYuan unless otherwise stated)

Item		Note	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)
1.	**Cash flows used in operating activities**			
	Cash received from sales of goods or rendering of services		**149,018,109**	138,290,861
	Cash received relating to other operating activities		**25,043,603**	12,987,817
	Sub-total of cash inflows		**174,061,712**	151,278,678
	Cash paid for goods and services		**(65,933,275)**	(51,345,969)
	Cash paid to and on behalf of employees		**(54,090,336)**	(48,111,926)
	Payments of taxes and surcharges		**(7,943,244)**	(20,784,880)
	Cash paid relating to other operating activities		**(108,382,712)**	(164,067,042)
	Sub-total of cash outflows		**(236,349,567)**	(284,309,817)
	Net cash flows used in operating activities		**(62,287,855)**	(133,031,139)
2.	**Cash flows used in investing activities**			
	Cash received from disposal of investments		**—**	3,225,000
	Cash received from returns on investments		**18,000,000**	10,000,000
	Cash received relating to other investing activities		**229,066,598**	91,533,764
	Sub-total of cash inflows		**247,066,598**	104,758,764
	Cash paid to acquire fixed assets and other long-term assets		**(23,518,704)**	(54,850,765)
	Cash paid relating to other investing activities		**(258,372,650)**	(30,000,000)
	Sub-total of cash outflows		**(281,891,354)**	(84,850,765)
	Net cash flows (used in)/generated from investing activities		**(34,824,756)**	19,907,999

Cash Flow Statement

For the six months ended 30 June 2018

(All amounts in RMBYuan unless otherwise stated)

Item		Note	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
3.	**Cash flows generated from financing activities**			
	Cash received from borrowings		**130,000,000**	50,000,000
	Cash repayments of borrowings		**(99,791,600)**	(1,000,000)
	Cash payments for interest expenses and distribution of dividends or profits		**(3,980,179)**	(1,348,500)
	Cash payments relating to other financing activities		**(2,968,171)**	(2,758,166)
	Sub-total of cash outflows		**(106,739,950)**	(5,106,666)
	Net cash flows generated from financing activities		**23,260,050**	44,893,334
4.	**Effect of changes in foreign exchange rate**		**(279,073)**	(7,312,748)
5.	**Net decrease in cash and cash equivalents**		**(74,131,634)**	(75,542,554)
	Add: Cash and cash equivalents at beginning of the period		**184,906,446**	356,529,786
6.	**Cash and cash equivalents at end of the period**		**110,774,812**	280,987,232

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	WANG Hongyue	XU Qunyan

Consolidated Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2018

(All amounts in RMBYuan unless otherwise stated)

		Equity attributable to owners of the parent company					
	Note	Share capital	Capital surplus	Surplus reserve	Retained earnings	Non-controlling interests	Total owners' equity
Balance at 31 December 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	2(29)	—	—	—	(164,301)	—	(164,301)
Balance at 1 January 2018(Restated)		73,040,000	808,244,186	23,710,012	146,675,953	58,662,363	1,110,332,514
Movements for the six months ended 30 June 2018							
Total comprehensive income							
Net profit		—	—	—	41,986,854	(1,135,314)	40,851,540
Capital contribution and withdrawal by owners							
Capital contribution by shareholders		—	—	—	—	4,730,000	4,730,000
Share-based payment	9	—	206,400	—	—	—	206,400
Dilution gain on equity shares	4(29)	—	910,596	—	—	—	910,596
Profit distribution							
Profit distribution to equity owners	4(31)	—	—	—	(10,956,000)	—	(10,956,000)
Balance at 30 June 2018		73,040,000	809,361,182	23,710,012	177,706,807	62,257,049	1,146,075,050

The accompanying notes form an integral part of these financial statements.

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Consolidated Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2018

(All amounts in RMBYuan unless otherwise stated)

	Note	Equity attributable to owners of the parent company Share capital	Capital surplus	Surplus reserve	Retained earnings	Non-controlling interests	Total owners' equity
Balance at 1 January 2017		73,040,000	795,604,861	18,548,942	121,190,550	32,985,630	1,041,369,983
Movements for the six months ended 30 June 2017							
Total comprehensive income							
Net profit		—	—	—	26,466,936	(1,404,828)	25,062,108
Capital contribution and withdrawal by owners							
Capital contribution by shareholders		—	—	—	—	14,100,000	14,100,000
Share-based payment	9	—	206,400	—	—	—	206,400
Transaction with non-controlling shareholders		—	5,351,628	—	—	(108,251)	5,243,377
Profit distribution							
Profit distribution to equity owners	4(31)	—	—	—	(18,260,000)	—	(18,260,000)
Balance at 30 June 2017		73,040,000	801,162,889	18,548,942	129,397,486	45,572,551	1,067,721,868

The accompanying notes form an integral part of these financial statements.

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2018

(All amounts in RMBYuan unless otherwise stated)

	Note	Share capital	Capital surplus	Surplus reserve	Retained earnings	Total owners' equity
Balance at 31 December 2017		73,040,000	807,109,474	23,710,012	137,084,775	1,040,944,261
Add:change in accounting policies		—	—	—	345,120	345,120
Balance at 1 January 2018		73,040,000	807,109,474	23,710,012	137,429,895	1,041,289,381
Movements for the six months ended 30 June 2018						
Total comprehensive income						
Net profit		—	—	—	19,348,258	19,348,258
Capital contribution and withdrawal by owners						
Share-based payment	9	—	206,400	—	—	206,400
Profit distribution						
Profit distribution to equity owners	4(31)	—	—	—	(10,956,000)	(10,956,000)
Balance at 30 June 2018		73,040,000	807,315,874	23,710,012	145,822,153	1,049,888,039

The accompanying notes form an integral part of these financial statements.

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2018

(All amounts in RMBYuan unless otherwise stated)

	Note	Share capital	Capital surplus	Surplus reserve	Retained earnings	Total owners' equity
Balance at 1 January 2017		73,040,000	799,821,777	18,548,942	108,895,141	1,000,305,860
Movements for the six months ended 30 June 2017						
Total comprehensive income						
Net profit		—	—	—	17,621,090	17,621,090
Capital contribution and withdrawal by owners						
Share-based payment	9	—	206,400	—	—	206,400
Profit distribution						
Profit distribution to equity owners	4(31)	—	—	—	(18,260,000)	(18,260,000)
Balance at 30 June 2017		73,040,000	800,028,177	18,548,942	108,256,231	999,873,350

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	WANG Hongyue	XU Qunyan

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

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 7 February 1996. The address of the Company's registered office is at Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, PRC.

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

The principle activities of the Company and its subsidiaries (the "Group") are operating psychiatric hospitals and providing management services to hospitals in the PRC, also the Group has property development and investment property holding operation.

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

The Group has expanded its network of operation during the year through operating new subsidiaries (Note 5) comprehensively, investing in associates (Note 4(8)) and providing management services to other hospitals (Note 4(12)).

The financial statements have been approved for issue by the Company's Board of Directors on 20 August 2018.

2. Summary of significant accounting policies and accounting estimates

(1) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises - Basic Standard and 38 specific accounting standards issued by the Ministry of Finance on 15 February 2006 (hereafter collectively referred to as "the Accounting Standards for Business Enterprises" or "CAS").

The financial statements are prepared on a going concern basis.

The new "Companies Ordinance" of Hong Kong became effective in 2016. Certain disclosures in this financial statement have been adjusted according to requirements of the Companies Ordinance.

2. Summary of significant accounting policies and accounting estimates (continued)

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for six months ended 30 June 2018 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and company's financial position of the Company as at 30 June 2018 and their financial performance and cash flows for the six months then ended.

(3) Accounting year

The Company's accounting year starts on 1 January and ends on 31 December.

(4) Recording currency

The recording currency is Renminbi (RMB).

(5) Business combination

Business combination involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

2. Summary of significant accounting policies and accounting estimates (continued)

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated statement of comprehensive income.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' shareholders' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as non-controlling interests, net profit attributed to non-controlling interests and total comprehensive incomes attributed to non-controlling interests and presented separately in the consolidated financial statements under shareholders' equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction which concerns the Group as an accounting entity is different from that concerns the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

2. Summary of significant accounting policies and accounting estimates (continued)

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign currency translation

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the statement of cash flows.

(9) Financial instruments

Financial instruments are the contracts that form one party's financial assets and the other party's financial liabilities or equity. When the Group becomes a party to the contractual provisions of the financial instruments, it recognizes the relevant financial assets or financial liabilities.

(a) Financial assets

(i) Classification of financial assets

According to on the entity's business model for managing the financial assets and the contractual terms of the cash flows, the Group classifies its financial assets in (1) those to be measured at amortized cost., (2) those to be measured subsequently at fair value through profit or loss.

At initial recognition, the Group measures a financial asset at its fair value. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognized in profit or loss for the current period. For other financial assets, transaction costs that attributable to the acquisition of the financial assets are included in their initially recognized amounts. For the accounts and notes receivable which result from product sales or service rendering, which do not contain nor are expected a significant financial component, the Group initially measured the amount at their transaction price that the Group are entitled to collect.

2. Summary of significant accounting policies and accounting estimates (continued)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(i) Classification of financial assets (continued)

Debt instruments

The debt instruments held by the Group refer to instruments that conform to the definition of financial liabilities from the perspective of issuers. There are two measurement categories into which the Group classifies its debt instruments:

Measured at amortized cost:

The financial assets will fall within this category when the Group's business model is to collect contractual cash flow. The characteristics of the contractual cash flow in such financial assets are consistent with the basic loan arrangements. Therefore, the cash flow incurred on the specific date represents solely the payment of principal and interest. The Group recognizes interest income for such financial assets using the effective interest method. Such financial assets mainly include cash at bank and on hand, notes receivable and accounts receivable, other receivables, and long-term receivables. The Group presents long-term receivables maturing within one year (inclusive) from the balance sheet date as non-current assets maturing within one year, and those with the original mature period within one year (inclusive) as other current assets.

Measured at fair value through profit or loss:

For the debt instruments held by the Group which do not meet the criteria for measured at amortized cost or fair value through comprehensive income, they are measured at fair value through profit or loss and presented as financial assets held for trading. However, the financial assets maturing over one year and expected to be held over one year are classified as other non-current assets.

Equity instrument

The investment in equity instruments which are not controlled, or jointly controlled by the Group or have significant influence for the Group are measured by fair value through profit or loss and are classified as transactional financial assets. The financial assets maturing over one year and expected to be held over one year are classified as other non-current assets.

2. Summary of significant accounting policies and accounting estimates (continued)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment

For financial assets measured at amortized cost such as accounts receivable and other receivables, the Group recognizes loss provisions on the basis of expected credit losses.

The Group assess expected credit losses by calculating the probability - weighted present value of the cash shortfalls (i.e. the difference between the contractual cash flow and the cash flow expected to be received) using the probability of default as the weight factor with reference to reasonable and supportable information of past events, current conditions, and forecast for future economic conditions.

At each balance sheet date, the Group measures the expected credit losses of financial instruments by different stages. If the credit risk of the financial instrument does not increase significantly after the initial recognition, it would be classified in 'Stage 1', the Group would recognised the 12-month expected credit losses. If the credit risk of a financial instrument has significantly increased since its initial recognition but not yet credit-impaired, it would be classified in 'Stage 2', the Group would recognised the lifetime expected credit losses. If the financial instrument has credit-impaired since initial recognition, it would be classified in 'Stage 3', and the Group would recognised the lifetime expected credit losses.

For financial instruments with low credit risk on the balance sheet date, the Group assumes that its credit risk has not increased significantly since initial recognition, and recognised the 12-month expected credit losses.

For the financial instruments classified in 'Stage 1' and 'Stage 2' and those with lower credit risk, the Group would calculate interest revenue by applying effective interest on gross carrying amount of the asset (that is, without deduction for credit allowance). For financial instruments classified in 'Stage 3', the Group would calculate the interest revenue by applying effective interest on the net carrying amount (that is, net of credit allowance).

For accounts receivable, regardless whether it has significant financial components or not, the Group measures creidt loss provisions according to lifetime expected credit losses.

2. Summary of significant accounting policies and accounting estimates (continued)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment (continued)

For the accounts receivable grouped to assess impairment, the Group refers to the experience of historical credit loss, combined with the current situation and the forecast of the future economic situation and uses provision matrix specifiying the overdue days and the corresponding expected credit loss rate to calculate lifetime expected credit loss.

For other receivables grouped to assess impairment, the Group refers to the experience of historical credit loss, combined with the current situation and the forecast of the future economic situation to calculate expected credit loss with exposure at default and expected credit loss rate in the next 12 months or the lifetime.

The Group recognize the provision and write back of credit loss in current profit and loss account.

(iii) Derecognition

A financial asset is derecognized when any of the below criteria is met: (1) the contractual rights to receive the cash flows from the financial asset expire; (2) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (3) the financial asset has been transferred and The Group has not retained control of the financial asset, although The Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of other equity instruments, the difference between the carrying amount and the consideration received and the cumulative changes in fair value that had been recognised directly in owner's equity, is recognised in retained earnings. On derecognition of other financial assets, such difference is recognised in profit or loss.

2. Summary of significant accounting policies and accounting estimates (continued)

(9) Financial instruments (continued)

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss.

The financial liabilities of the Group mainly comprise financial liabilities measured at amortised cost, including accounts payable, other payables, long-term payables and borrowings, which are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Financial liabilities of which the repayment period is within one year (inclusive) are classified as current liabilities; the period is over one year while will be due within one year (inclusive) since the balance sheet date are classified as current portion of non-current liabilities; and the others are classified as non-current liabilities.

(c) Determination of fair value

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. In the valuation, the Group adopted applicable valuation techniques with adequate available data and other information support in the circumstances, and selected inputs that have consistent characteristics with assets and liabilities in the transactions which are also considered by other market participants, and give priority to the use of relevant observable inputs. When relevant observable inputs cannot be obtained or obtaining the observable inputs is not feasible in the circumstances, unobservable inputs are adopted.

2. Summary of significant accounting policies and accounting estimates (continued)

(10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivables are amounts due from patients, governments' social insurance schemes and others for pharmaceutical sales and services rendered in the ordinary course of business, along with amounts due from the buyers for real estate properties sales.

(a) Accounts receivables

Trade and other receivable are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

For the six-month period ended 30 June 2018, the expected credit losses rate for the accounts receivables is as follows:

	Expected credit loss rate for the entire duration
Not overdue – unbilled	1%
Within 3 months	5%
Within 1 year	6%
1 – 2 years	11%
2 – 3 years	50%
Over 3 years	100%

2. Summary of significant accounting policies and accounting estimates (continued)

(10) Receivables (continued)

(b) Other receivables

At each balance sheet date, the Group measures the expected credit losses of financial instruments by different stages.

The other receivables in the Group are mainly included loans to third parties, prepayments, receivable from related parties, deposit and guarantee, which should be repaid on demand. And based on historical experiences, most of other receivables would be repaid in 12 months, so most of other receivables are classified in 'Stage 1'. However, certain other receivables could not be repaid within 90 days after the due date and continuous default without an agreed repayment schedule, and those other receivables are considered at 'Stage 3'.

Based on the credit risk characteristics, the Group put other receivables in 'Stage 1' into several groups, and calculated the expected credit losses by the group. The policies of calculating the bad debt loss with the expected credit losses in the next 12 months as follows:

	Expected Credit Loss within 12 months (Individual)
Loans to third parties	7%
Prepayments	7%
Receivable from related parties – Outside the Group	5%
Receivable from related parties – Inside the Group	0%
Deposit and guarantee	3%
Others	1%

2. Summary of significant accounting policies and accounting estimates (continued)

(11) Inventories

(a) Classification

Inventories comprised pharmaceuticals, medical consumables and properties (including the relating land use right) and are stated at the lower of cost and net realisable value

(b) Valuation method for inventory issued

Inventories are accounted using the method of first-in first-out when issued.

Inventories are measured initially at cost. The developing cost of properties under development includes the cost of land, construction cost and other costs. The borrowings costs that meet the capitalized conditons can also be counted into the cost of properties under development.

(c) Basis for determining the net realisable value of inventories and provision for decline in the value of inventories

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) The Group adopts the perpetual inventory system.

2. Summary of significant accounting policies and accounting estimates (continued)

(12) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in associates.

Subsidiaries are the investees over which the Company is able to exercise control. An associate is the investee over which the Group has significant influence by participating in the financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements, and investments in joint ventures and associates are accounted for using the equity method.

(a) Determination of investment costs

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the acquirer's share of the carrying amount of owners' equity of the acquiree at the combination date; for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

2. Summary of significant accounting policies and accounting estimates (continued)

(12) Long-term equity investments (continued)

(b) Subsequent measurement and recognition methods of gains and losses

For long-term equity investments accounted for using the cost method, cash dividend or profit distribution declared by the investees is recognised as investment income in profit or loss.

For long-term equity investments that are accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

Under the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of the net losses of an investee after the carrying amounts of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, The Group continues recognising the investment losses and the provisions. The changes of the Group's share of the investee's owner's equity other than those arising from the net profit or loss, other comprehensive income and profit distribution, are recognised in the Group's equity and the carrying amounts of the long-term equity investment are adjusted accordingly. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the transactions between the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, to arrive the amount on which the investment gain or losses are recognised. Any losses resulting from transactions between the Group and its investees attributable to asset impairment losses are not eliminated.

(c) Basis for determining existence of control and significant influence over investees

Control means having power over an investee, enjoying variable returns through involvement in relevant activities of the investee, and being able to impact the amount of such variable returns by using the power over the investee.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

2. Summary of significant accounting policies and accounting estimates (continued)

(12) Long-term equity investments (continued)

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(19)).

(13) Investment properties

Investment properties, including land use rights that have already been leased out, buildings that are held for the purpose of leasing and buildings that are being constructed or developed for future use for leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

The Group adopts the fair value model for subsequent measurement of investment properties and does not provide depreciation or amortision. The carrying amount of investment properties is adjusted to their fair value at the balace sheet date and the difference between the fair value and the original carrying amount is recognised in profit or loss for the current period.

When investment properties are transferred to owner-occupied property, they are reclassified to fixed assets or intangible assets with the carrying amount determined at the fair value of the investment properties at the date of transfer and the difference between the fair value and the original carrying amount of the investment properties is recognized in profit or loss for the current period. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed assets or intangible assets are transferred to investment properties with the carrying amount determined at the fair value at the date of transfer. If the fair vaue at the date of transfer is less than the original carrying amount of the fixed asset or the intangible asset, the difference is recognised in profit or loss for the current period, otherwise, it is included in other comprehensive income.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

2. Summary of significant accounting policies and accounting estimates (continued)

(14) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, medical equitments, motor vehicles, electronic equipments and other equipment, etc.

Fixed assets are recognised when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

(b) Depreciation method for fixed assets

Depreciation of fixed assets is calculated using the straight-line method to allocate cost of each asset to their residual values over their estimated useful lives. For the fixed assets for which impairments have been made, the amount of depreciation are determined by the book value after deducting the impairment provision over the useful lives in the future.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	35 years	5%	2.7%
Medical equitments	3-10 years	0%~5%	9.5%-33.3%
Motor vehicles	4-10 years	5%	9.5%-23.8%
Electronic and other equipment	3-10 years	0%~5%	9.5%-33.3%

2. Summary of significant accounting policies and accounting estimates (continued)

(14) Fixed assets (continued)

(b) Depreciation method for fixed assets (continued)

The estimated useful life and the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

The carrying amounts of fixed assets are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(19)).

(c) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(15) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowings costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below its carrying amount (Note 2(19)).

2. Summary of significant accounting policies and accounting estimates (continued)

(16) Borrowings costs

The borrowings costs that are directly attributable to the acquisition and construction of a asset that needs a substantially long period of time for its intended use is capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowings costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowings costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowings costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowings costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For special borrowings for the acquisition and construction of qualifying assets, the capitalised amount of the special borrowings is determined by the interest expenses incurred in the period less interest income of the unused borrowings deposited at bank or investment income from temporary investment.

For general borrowings occupied for the acquisition or construction of qualifying assets, the capitalised amount of the general borrowings is determined by the weighted average of the difference between accumulated capital expenditure and capital expenditure of the special borrowings multiplies by the weighted average effective interest rate of the occupied general borrowings. The effective interest rate is the interest rate used when the future cash flows of the borrowings over the estimated remaining deposit period or a shorter applicable period are discounted into the initial recognised amount of the borrowings.

(17) Intangible assets

Intangible assets include land use rights, software use rights, contractual rights to provide management services and concession intangible assets and licences are measured at cost.

(a) Land use rights

Land use rights are amortised on the straight-line basis over their approved use period 50 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

(b) Software use rights

Software use rights are amortised on the straight-line basis on 5 years.

2. Summary of significant accounting policies and accounting estimates (continued)

(17) Intangible assets (continued)

(c) Contractual rights to provide management services

Contractual rights to provide management services is the right to manage a hospital that are carried at costs less accumulated amortization and any accumulated impairment losses.

Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over the contractual terms as below:

	Contractual terms
Yanjiao Furen Integrated Traditional Chinese and Western Medicine Hospital(“Yanjiao Furen Hospital”)	19.75 years
Pujiang Huangfeng Psychiatric Hospital(“Pujiang Hospital”)	30 years
Chunan Huangfeng Kangen Hospital (“Chunan Hospital”)	30 years
Yiwu Mental Health Center(“Yiwu Health Center”)	20 years

(d) Licences

The licences acquired are recognized by fair value at the date of asset acquisition. These licences have limited useful life and are measured by cost and accumulated amortization. Amortization of licences is calculated using the straight-line method to allocate cost of each asset to their residual values over their estimated useful lives.

(e) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

(f) Impairment of intangible assets

The carrying amounts of intangible assets are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(19)).

2. Summary of significant accounting policies and accounting estimates (continued)

(18) Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets held under operating leases, and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

(19) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, and long-term equity investments in subsidiaries and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

2. Summary of significant accounting policies and accounting estimates (continued)

(20) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

(a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which The Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, The Group's post-employment benefits mainly include basic pensions and unemployment insurance, both of which belong to the defined contribution plans.

(c) Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

2. Summary of significant accounting policies and accounting estimates (continued)

(21) Dividend distribution

Cash dividends distribution is recognised as a liability in the period in which the dividends are approved by the shareholders' meeting.

(22) Share-based payments

(a) The types of share-based payments

Share-based payment transactions include equity-settled share-based payments and cash-settled share-based payments. Where the Group uses shares or other equity instruments as consideration for services received from the employees at the grant date, the share-based payments are classified to equity-settled share-based payments. Where the Group receives services from employees by incurring a liability to deliver cash or other equity intruments, the share-based payments are classified to cash-settled share-based payments. For the six months ended 30 June 2018, the Group did not hold any cash-settled share-based payments.

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments(restricted shares) of the Group. The payment is measured at the fair value of the equity instruments granted to employees at the grant date. The equity instruments granted to employees do not vest until the completion of services for a vesting period, the Group, at each balance sheet date during the vesting period, makes the best estimation according to the latest information of the number of employees who are granted to vest and revises the number of equity instruments expected to vest. Based on such estimation, the Group recognises the services received for the current period as related costs or expenses, with a corresponding increase in capital reserve, at an amount equal to the fair value of the equity instruments at the grant date.

(b) Method to determine the fair value of equity instruments

The restricted shares are recognized for the difference between the grant price and the fair value of the restricted shares at the grant date.

(c) Basis of the best estimate of the number of equity instruments expected to vest

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2. Summary of significant accounting policies and accounting estimates (continued)

(23) Revenue recognition

The group recognised the revenue according to the price of consideration which expected to recover, when the customers obtain the control power of the relevant goods or services.

(a) Service income - Treatments and general healthcare services and ancillary hospital services

Revenue from service income including medical treatments income, general healthcare services and ancillary hospital services income. For the revenue recognized according to the measure of hospital service rendered, the portion that the group has obtained the unconditional rights to consideration is recognized as accounts receivable, while the rest is recognized as contract assets, and loss provisions is recognized on the basis of expected credit losses of the accounts receivable and contract assets recognized(Note 2(9)); And where the amount of contract consideration received or receivable exceeds the measure of service rendered, the difference is recognized as contract liability. The group presents the net of contract asset and contract liability of one same contract. Transactions are settled by payment of social security card, bank card or cash.

(b) Pharmaceutical sales

Pharmaceuticals are sold at retail. Revenue from pharmaceutical sales is recognized at the point of the transaction.

(c) Management service fee

Management service fee is recognized according to the measure of hospital service rendered when such benefit could be reliably measured.

(d) Rental income

Rental income from properties leasing under operating leases is recognised on a straight-line basis over the lease terms.

(e) Sales of properties

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet as contract liabilities under current liabilities.

2. Summary of significant accounting policies and accounting estimates (continued)

(24) Government grants

Government grants are transfers of monetary or non-monetary assets from the government to the Group at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant is recognised when the conditions attached to it can be complied with and the government grant can be received. A government grant in monetary asset is recognised at the amount received or to be received. A government grant in non-monetary asset is recognised at its fair value; if the fair value is not reliably measured, the grant is measured at nominal amount.

A government grant related to an asset is recognised as a deduction of related asset, or recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss for the current period. The group use same presentation for the same type of government grant.

If a government grant is related to the normal operation, it would be recognised before operating profit, otherwise would be recognised as non-operating income.

The government loans with preferential interest rate are initially recognised at the amounts received by the Group, and borrowing costs are calculated based on the principal and the preferential interest rate. The government subsidies towards interest directly received by the Group should be offset the related borrowing costs.

2. Summary of significant accounting policies and accounting estimates (continued)

(25) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where The Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within The Group and the same taxation authority; and,
- that tax payer within The Group has a legally enforceable right to offset current tax assets against current tax liabilities.

2. Summary of significant accounting policies and accounting estimates (continued)

(26) Leases

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. An operating lease is a lease other than a finance lease.

(a) Operating leases

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

Lease income from operating leases are recognized on a straight-line basis over the period of the lease.

(b) Finance leases

The leased asset is recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge and is amortised using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognised finance charge.

(27) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenue and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to The Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

2. Summary of significant accounting policies and accounting estimates (continued)

(28) Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

(a) Critical accounting estimates and key assumptions

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(i) Estimated impairment of contractual rights to provide management services

As at 30 June 2018, the carrying amounts of contractual right to provide management services to Yanjiao Furen Hospital was RMB 77,819,100(31 December 2017: RMB80,177,100). Management performs review for impairment of such assets whenever events or changes in circumstances indicate that the carrying amounts of contractual rights to provide management services may not be recoverable. For the six months ended 30 June 2018, Yanjiao Furen Hospital did not meet the minimum performance target, so the manangement tested the impairment of the operational rights to provide management service. The recoverable amount of the contractual right to provide management service was recognized based on the discounted cash flow method and the calculations of this method required the use of significant estimates and assumptions on the projections of cash flows from the continuous use of contractual rights to provide management services.

As at six months ended 30 June 2018, the key assumptions adopted to recognise the recoverable amount of the the contractual right to provide management service include mainly:

Average number of beds in operation *	443
Average in patient spending per day per bed *	335
Gross profit rate*	41.3%
Discount rate	14.0%

2. Summary of significant accounting policies and accounting estimates (continued)

(28) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions (continued)

(i) Estimated impairment of contractual rights to provide management services (continued)

As at year ended 31 December 2017, the key assumpitons adopted to recognise the recoverable amount of the the contractual right to provide management service include mainly:

Average number of beds in operation *	430
Average in patient spending per day per bed *	317
Gross profit rate *	40.3%
Discount rate	14.0%

* It represents the average number in upcoming five years.

As for the six months ended 30 June 2018 and the year ended 31 December 2017, the management did not make any provision for impairment based on the impairment estimating result.

(ii) Provision of bad debts for accounts receivable and other receivables

The Group assess expected credit losses by calculating the probability-weighted present value of the cash shortfalls (i.e. the difference between the contractual cash flow and the cash flow expert to be received) using the probability of default as the weight factor with to reasonable and supportable information of past events, current reference conditions, and forecast for future economic conditions. When determining the expected credit loss rate, the Group refers to the experience of historical credit loss, and makes adjustments considering the current situation and forward-looking informations, which is measured with indicators including the macroeconomic conditions and the Chinese government revenue growth. The Group monitors and reviews the assumptions used in the calculation of expected credit loss on a regular basis.

For the accounts receivable grouped, the Group refers to the experience of historical credit loss, combined with the current situation and the forecast of the future economic situation and use provision matrix specifying the overdue days of accounts receivable and corresponding provision rate to calculate lifetime expected credit loss.

For other receivables grouped, the Group refers to the experience of historical credit loss, combined with the current situation and the forecast of the future economic situation to calculate expected credit loss with exposure at default and expected credit loss rate in the next 12 months or the lifetime.

The amount of provision for bad debts in accounts receivable for the six months ended 30 June 2018 is RMB 20,510,769, and the amount of provision for bad debts in other receivables for the six months ended 30 June 2018 is RMB 4,121,949.

2. Summary of significant accounting policies and accounting estimates (continued)

(28) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions (continued)

(iii) Measurement of investment property at fair value

For investment property, the fair value was determined by using income approach. The Group engaged Wenzhou Huaxin Assets Evaluation Co.,Ltd to estimate the fair value of the investment properties and the method of estimating adopted is the income modal. The input value adopted were the growth rate of rental, the return on rental and vacancy rate, etc.

The related information of fair value measurement is as followings:

			Unobservable materially inputs			
	30 June 2018 Fair value	technical of valuation	Item	Scope/ Weighted Average	Relationship with the fair value	Observable/ Unobservable
Phase I of Business Center in Higher Education Park	62,546,153	Income approach	Return rate/ capitalization rate	5.05%	(a)	Unobservable
			Monthly rental (RMB/square/ month)	33.6-42.88		
			Vacancy rate	2.74%		
Phase II of Business Center in Higher Education Park	66,022,810	Income approach	Return rate/ capitalization rate	4.75%	(a)	Unobservable
			Monthly rental (RMB/square/ month)	30-30.5		
			Vacancy rate	—		

(a) The relationship between the unobservable inputs and the fair value

- The higher of the final return rate/capitalization rate, the lower of the fair value
- The higher of the estimated vacancy rate, the lower of the fair value
- The higher of the monthly rental, the higher of the fair value

2. Summary of significant accounting policies and accounting estimates (continued)

(28) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions (continued)

(iv) Determination of the fair value of investment fund

The Group consistently measures its own investment fund (Note4(7)) based on fair value model, determined by the external valuer engaged by the Group. The fair value of a financial instruments traded in an active market is determined at the quoted price in the active market; The fair value of a financial instrument not traded in an active market is determined by using a valuation technique, which are mainly discounted cashflow model and comparable company model based on inputs including risk-free interest rate, benchmark interest rate, exchange rate, quality spread, liquidity premium, EBITDA factor and marketability discount, etc.

(b) Critical judgments in applying the Company's accounting policies

(i) Judgments on credit risk that significantly increases

The Group judges credit risk of financial instrument as significant increase based on the criteria that whether the overdue days are above 30, or whether one or more indicators listed below are significantly changing: the business environment that debtors situated in, internal and external credit rating, marked change of actual or expected business performance, dramatically drop in collateral value or credit downgrades of the guarantor, etc.

The Group judges financial instrument as credit impaired based on the criteria that whether the overdue days are above 90(namely in default), or whether one or more situations below happened: the debtor is subject to serious financial difficulties, debt restructuring is undertaken or bankrupt is highly probable, etc.

2. Summary of significant accounting policies and accounting estimates (continued)

(28) Critical accounting estimates and judgements (continued)

(b) Critical judgments in applying the Company's accounting policies (continued)

(ii) Control over the hospitals with which the Group has management contracts

The Group entered into agreements with hospitals which Group obtain contractual rights to provide management services of relevant hospitals for certain periods. The Group is entitled to receive performance-based management fees during the periods.

In making their judgment, the management considered the composition of the internal governance bodies and also certain committees which oversee the operations of those hospitals and power attained by those committee and granted to the Group respectively. After assessment, the management concluded that the Group does not obtain the decision making power over these bodies and committees to direct the relevant activities of the hospitals, so the Group does not control and thus does not consolidate those hospitals. Instead, agreements are considered as management contracts to generate management service income.

(iii) Determination of the minimum lease term in lease contract

The Group leased several properties from third parties as operating premises. The lease contracts usually contain break clause, where the Group is allowed to terminate the lease agreement by paying certain amount of penalties to the lessor, usually ranging from one to three months rentals.

The Group determined the minimum non-cancellable terms of lease by considering the following factors:

– the amount of penalties to be paid;

– the balance of leasehold improvements to be written off;

– the availability of alternative operating premises and the competitiveness of the rentals comparable to existing leasing contracts;

If any of these factors changes in the futures, the minimum non-cancellable lease term will be revised and accordingly impact the Group's accounting for these operating lease.

2. Summary of significant accounting policies and accounting estimates (continued)

(29) Change in accounting policies

(a) Format of General Enterprise Financial Statements

The Ministry of Finance issued'Circular of the Ministry of Finance on Revising and Issuing the Format of General Enterprise Financial Statements '(Cai Kuai [2018] No. 15) in 2018. The Group has prepared financial statements for the six-month period ended 30 June 2018 in accordance with the above notification. Comparative financial statements have been adjusted accordingly. Influence of the Group's financial statements is as follows:

The content and reason for change in accounting policies	Impacted financial statement item	Amount of impact 30 June 2018	31 December 2017
The Group combined dividends payable and other payables to other payables.	Dividends payable	**(10,956,000)**	—
	Other payables	**10,956,000**	—

(b) Revenue

The Group adopts the revised 'Accounting Standard for Business Enterprises No. 14 - Revenue'(The following is referred to as the "new revenue standards") issued by the Ministry of Finance in 2017 to prepare the financial statements for the year 2018. The impacts on the Group's are as follows:

According to relevant regulations in new revenue standards, the Group evaluate the influence of the 2018 opening retained earnings and other accounts in financial statements with first first adopt those standards. No significant influence founded.

The content and reason for change in accounting policies	Impacted financial statement item	Amount ofimpact
As a result of the application of the new revenue standard, the Group reclassify the receivables related to medical services, which do not meet the unconditional collection right, to the contract assets, and reclassify the advances from customers related to medical services to the contract liabilities.	Contract liability	7,511,284
	Advances from customers	(7,511,284)

2. Summary of significant accounting policies and accounting estimates (continued)

(29) Change in accounting policies (continued)

(c) Financial instruments

The Ministry of Finance issued 'Accounting Standard for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments', 'Accounting Standard for Business Enterprises No. 23 - Transfer of Financial Assets' and 'Accounting Standard for Business Enterprises No. 37 - Presentation of Financial Instruments' (The following is referred to as the "new financial instrument standards") in 2017 and issued 'Circular of the Ministry of Finance on Revising and Issuing the Format of General Enterprise Financial Statements' (Cai Kuai [2018] No. 15) in 2018. The Group has adopted standards above to prepare the financial statements for the year 2018 and influence of the Group's financial statements is as follows:

(i) The following is the comparison form of results of classification and calculation of financial assets in accordance with the original Financial Instruments Standards and the new Financial Instruments Standards on 1 January, 2018:

	Original financial instrument standards			New financial instrument standards	
Subjects	Measurement categories	Balance	Subject	Measurement categories	Book value
Available-for-sale financial assets	Measured at fair value through other comprehensive income (debt instruments)	50,974,323	Debt investment	Amortized costs	—
			Other debt investment	Measured at fair value through other comprehensive income	—
	Measured at fair value through other comprehensive income (equity instruments)	—	Other non-current financial assets	Measured at fair through profit and loss	50,974,323

As at 31 December 2017 and 1 January 2018, the Group did not have financial assets designated at fair value through profit and loss.

2. Summary of significant accounting policies and accounting estimates (continued)

(29) Change in accounting policies (continued)

(c) Financial instruments (continued)

(ii) As at 1 January 2018, the reconciliation sheet of balance of original financial assets adjusted to new financial instruments according to measurement category in new financial instrument standards.

Financial assets measured at fair value through other comprehensive income

	Notes	Balance
Available-for-sale financial assets		
31 December 2017		50,974,323
Less: Financial assets transferred to fair value through profits or losses	i)	50,974,323
1 January 2018		—

(a) Investment fund

As at 31 December 2017, the investment fund owned by the group was valued at book value of RMB50,000,000. After the new financial instrument standards is adopted, as the characteristics of contractual terms of the cash flow of the investment fund does not conform to the basic loan arrangements, the Group reclassified the investment fund as financial instruments measured at fair value through profit or loss under other non-current financial assets rather than available-for-sale financial assets. Accordingly, the Group recognizes the difference of RMB974,323 between fair value and original book value as adjustment to the retained earnings at beginning of period.

2. Summary of significant accounting policies and accounting estimates (continued)

(29) Change in accounting policies (continued)

(c) Financial instruments (continued)

(ii) As at 1 January 2018, the reconciliation sheet of balance of original financial assets adjusted to new financial instruments according to measurement category in new financial instrument standards. (continued)

(b) As at 1 January 2018, the reconciliation sheet of impairment provision of original financial assets adjusted to loss provision of new financial instruments according to new financial instrument standards:

Measurement category	Impairment provision recognized of original financial assets	Remeasurement	Loss provision of new financial instruments
Financial instruments measured at amortized cost-			
Impairment provision of accounts receivable	15,348,262	1,193,391	16,541,653

(c) Due to the impact of applying new financial instrument standards, the Group adjusted deferred income tax assets and deferred income tax liabilities amounting to RMB298,348 and RMB243,581 respectively, which had a impact of RMB164,301 on equity attributable to owners of the parent company, including RMB164,301 on retained earnings of beginning of the period.

3. Taxation

The main categories and rates of taxes applicable to the Group are set out below:

Category	Tax rate	Tax base
Corporate income tax	25%	Taxable profit
Value-added tax (a)	3%,5% or 6%	Taxable turnover amount
Business tax (b)	5%	Taxable turnover amount
City maintenance and construction tax	7%	The amount of turnover tax actually paid
Educational surcharge	3%	The amount of turnover tax actually paid
Local educational surcharge	2%	The amount of turnover tax actually paid
Property tax	1.2% or12%	The 70% of the original value of the property or the rental income
Land use tax(c)	5 per square metre	The square of the land
Land value-added tax	30%-60%	The amount of value-added

(a) Pursuant to the "Circular on the Overall Promotion of Pilot Program of Levying VAT in Place of Business Tax" (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, since 1 May 2016, the revenue from providing medical service of the Company and its subsidiary, Qingtian Kangning Hospital Co., Ltd ('Qingtian Kangning Hospital'), Cangnan Kangning Hospital Co., Ltd (Cangnan Kangning Hospital),Yongjia Kangning Hospital Co., Ltd (Yongjia Kangning Hospital), Yueqing Kangning Hospital Co., Ltd (Yueqing Kangning Hospital), Linhai Kangning Hospital Co., Ltd (Linhai Kangning Hospital), Wenzhou Yining Geriatric Hospital Co., Ltd (Wenzhou Yining Geriatric Hospital), Shenzhen Yining Hospital Co., Ltd (Shenzhen Yining Hospital), Pingyang Kangning Hospital Co., Ltd (Pingyang Kangning Hospital), Quzhou Yining Hospital Co., Ltd (Quzhou Yining Hospital), Taizhou Luqiao Cining Hospital Co., Ltd (Luqiao Cining Hospital), Hangzhou Yining Hospital Co., Ltd (Hangzhou Yining Hospital) and Hangzhou Cining Hospital Co., Ltd (Hangzhou Cining Hospital) were exempted from value-added tax.

Pursuant to the relevant tax regulations, the revenue of judicial forensic service from the Company's subsidiary, Wenzhou Kangning Judicial Forensic Center(Judicial Forensic Center) was subject to value-added tax with a tax rate of 3%.

3. Taxation (continued)

(a) (continued)

Pursuant to the relevant tax regulations, since 1 May 2016, the rental income of the Company's subsidiary, Wenzhou Guoda Investment, arising from the rental of the properties purchased before 30 April 2016 was subject to the simple value-added tax calculation method with the rate of 5%, the sales of the properties built before 30 April 2016 was subject to the simple value-added tax rate of 5%. The advance proceeds from the sales of real estate is subject to the advance tax rate of 3% and should be prepaid.

Pursuant to the "Circular on the Overall Promotion of Pilot Program of Levying VAT in Place of Business Tax" (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, the management service income is subject to 6% rate value-added tax.

(b) Pursuant to the "Provisional Regulations of the People's Republic of China on Business Tax"(the State Council Decree No 540), the income of providing medical service from the Company, Qingtian Kangning Hospital, Cangnan Kangning Hospital,Yongjia Kangning Hospital and Leqing Kanging Hospital were exempted from business tax from 1 January 2013 to 30 April 2016.

(c) Pursuant to the "Notice on Taxation Affairs" (Ping Di Shui Kun Tong [2017] No. 930 and Ping Di Shui Kun Tong [2017] No. 931) issued by Pingyang County Local Tax Bureau Kunyang Branch on 13 April 2017, Pingyang Kangning Hospital Limited Liability Company enjoyed exemption of real-estate tax for 3 years since 1 July 2016.

(d) Pursuant to the "Implementation plan on adjustment of urban land use tax policy in Wenzhou city to promote land intensive use and utilization" issued by Wenzhou Municipal People 's Government Office on 9 May 2016 and the Notice of tax matters(Wen Dishui Tong [2017] No.45068) issued by Wenzhou Local Taxation Bureau Lucheng Tax Branch, the Company enjoyed 100% exemption on urban land use tax for the year ended 2016 and 2017.

4. Notes to the consolidated financial statements

(1) Cash at bank and on hand

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Cash on hand	**717,966**	466,947
Cash at bank	**228,353,033**	278,829,862
Other cash balances	**183,618**	37,350
	229,254,617	279,334,159

As at 30 June 2018,the term deposits that over three months was RMB31,000,000 and HKD50,000,000, equivalent to RMB73,155,000 (30 June 2017: HKD50,000,000, equivalent to RMB41,795,500).

(2) Accounts receivable

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Due from related parties(Note8(5) (a))	**3,750,000**	2,250,000
Due from third 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)
	274,738,114	232,179,323

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

4. Notes to the consolidated financial statements (continued)

(2) Accounts receivable (continued)

(a) Provision for bad debts

(i) As at 30 June 2018, no provision for bad debts of account receviables was made individually.

(ii) As at 30 June 2018, the aging analysis of accounts receivable based on the billing date by group is as follows:

	30 June 2018		
	Balance	Provision for bad debts	
	Amount	Lifetime estimated credit loss rate	Amount
Not overdue – unbilled	29,554,769	1%	295,547
Within 3 months	119,363,595	5%	6,486,446
Within 1 year	110,565,857	6%	7,098,318
1 - 2 years	30,090,256	11%	3,296,318
2 - 3 years	4,680,533	50%	2,340,267
Over 3 years	993,873	100%	993,873
Total	295,248,883	7%	20,510,769

(iii) Accrued provision for bad debts during this period is 5,712,142 with no reversed or recovered provision.

(b) The actual amount of accounts receivable write-off is RMB1,743,026, mainly for medical insurance deduction.

4. Notes to the consolidated financial statements (continued)

(3) Other receivables

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Loans to third parties(i)	**19,157,000**	16,020,000
Prepayments(ii)	**12,870,448**	16,770,285
Receivable from related parties (Note8(5) (a))	**4,483,124**	3,393,867
Deposit and guarantee	**7,997,178**	6,818,311
Others	**4,593,479**	4,536,898
	49,101,229	47,539,361
Less: Provision for bad debts	**(4,121,949)**	(4,091,422)
	44,979,280	43,447,939

(i) As at 30 June 2018, the amount that the Company lent to the Pujiang Hospital and Chunan Hospital was RMB11,847,000and RMB7,310,000 (31 December 2017: RMB8,660,000 and RMB7,360,000) respectively, bearing an interest rate of 7.2% per annum.

(ii) Included in prepayments were mainly the payments to Housing Maintenance Fund and the receivables from Yanjiao Furen Hospital.

As at 30 June 2018, the Housing Maintenance Fund of RMB 2,286,713(31 December 2017: RMB 3,420,200) were paid by Wenzhou Guoda Investment to Wenzhou Ouhai Real Estate Administrative Bureau before obtaining legal title of properties it developed. Such amount was a one-off contribution at a rate of RMB53 per square, which would be recovered from property buyers when the property is sold.

As at 30 June 2018, the Group had an advance payment amounting to RMB 6,569,230 (31 December 2017: RMB 8,301,901) to Yanjiao Furen. Such advance will be repaid to the Group by Yanjiao Furen when its cash flow allows as agreed by both parties.

4. Notes to the consolidated financial statements (continued)

(3) Other receivables (continued)

(a) Movement of balance and provision for bad debt

	Stage 1 Expected Credit Loss within 12 months(grouped)		Stage 3 Lifetime expected Credit loss (Credit-impaired)		Total
	Balance	Provision for bad debt	Balance	Provision for bad debt	Provision for bad debt
31 December 2017	45,189,903	2,688,049	2,349,458	1,403,373	4,091,422
Addition	1,561,868	30,527	—	—	30,527
30 June 2018	46,751,771	2,718,576	2,349,458	1,403,373	4,121,949

(i) As at 30 June 2018, the analysis of other receivables classified in "Stage 1" was as follow:

	Balance	Expected Credit Loss rate within 12 months	Provision for bad debt
by group:			
Loans due by third parties	19,157,000	7%	1,417,618
Prepayments	10,714,333	7%	796,752
Receivable from related parties-outside the Group	4,483,124	5%	224,156
Deposit and guarantee	7,803,835	3%	234,115
Others	4,593,479	1%	45,935
	46,751,771		2,718,576

(ii) As at 30 June 2018, there was no other receivables classified in "Stage 2".

4. Notes to the consolidated financial statements (continued)

(3) Other receivables (continued)

(a) Movement of balance and provision for bad debt (continued)

(iii) As at 30 June 2018, the analyse of other receivables classified in "stage 3" was as follow:

	Balance	Lifetime expected Credit loss rate	Provision for bad debt
Guoxiu Hong and Honggen Min	2,156,115	56%	1,210,030
Wenzhou Mingou Real Estate Development Co., Ltd	193,343	100%	193,343
	2,349,458		1,403,373

(b) The provision accrued for the six months ended 30 June 2018 was RMB30,527, of which there was no recovery and reversal of provision for bad debt.

(c) There was no write-off of other receivables during this period.

(4) Advances to suppliers

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Amount	**%**	Amount	%
Within 1 year	**13,746,574**	**96%**	11,089,576	100%
1 - 2 years	**524,013**	**4%**	43,100	—
	14,270,587	**100%**	11,132,676	100%

4. Notes to the consolidated financial statements (continued)

(5) Inventories

(a) Inventories are summarised by category as follows:

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Pharmaceuticals	**13,372,287**	11,272,632
Medical consumables	**3,540,968**	2,865,031
Properties held for sale (i)	**3,476,242**	9,394,806
	20,389,497	23,532,469

As at 30 June 2018 and 31 December 2017, the management assessed and are of view that no provision for the inventories is required.

During the six months ended 30 June 2018, there was no capitalized interest included in the properties held for sale (during the six months ended 30 June 2017: RMB 883,356).

(i) Properties held for sale

Project Name	Commencing Date	Completion Date	Total budgeted cost	Opening balance	Additions	Cost of revenue (Note4(32))	Transfer to Fixed assets (Note4(10))	Transfer to Investment property (Note4(9))	Ending balance
Phase II of Business Center in Higher Education Park	November 2012	June 2017	173,507,594	9,394,806	–	(5,918,564)	–	–	3,476,242

4. Notes to the consolidated financial statements (continued)

(5) Inventories (continued)

(b) Analysis of book balance movement of inventory for the year is as follows:

	31 December 2017 (Audited)	Increase	Decrease	**30 June 2018 (Unaudited)**
Pharmaceuticals	11,272,632	67,186,819	(65,087,164)	**13,372,287**
Medical consumables	2,865,031	19,020,504	(18,344,567)	**3,540,968**
Properties held for sale	9,394,806	—	(5,918,564)	**3,476,242**
	23,532,469	86,207,323	(89,350,295)	**20,389,497**

(6) Current portion of non-current assets

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Deposits(i)	**12,688,704**	12,688,704

(i) Included in deposits as of 31 December 2017 and 30 June 2018 was a deposit of RMB 12,688,704 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, the management are of view that such settlement will be completed in the second half of the year of 2018.

4. Notes to the consolidated financial statements (continued)

(7) Other non-current financial assets

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Measured at fair value		
– Others(a)	**50,974,323**	50,000,000

(a) On 22 February 2016, the Company entered into a partnership agreement with Shanghai Jinpu Jianfu Equity Investment Management Co., Ltd("Jinpu Jianfu") 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. As at 30 June 2018, the total asset managed by the investment fund was RMB1,406,000,000. The Company, being a limited partner of the LLP, injected RMB50,000,000 as the subscription to the investment fund, owning 3.56% interest of LLP.

(8) Long-term equity investment

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Associates (a)	**99,065,613**	89,683,865
Less: Provision for impairment of long-term equity investments	**—**	—
	99,065,613	89,683,865

The Group did not have significant restrictions on the realization of long-term equity investments.

4. Notes to the consolidated financial statements (continued)

(8) Long-term equity investment (continued)

(a) Associates

	31 December 2017 (Audited)	Initial investment	Share of net profit/(loss) under equity method	Other equity movement	30 June 2018 (Unaudited)
Shandong Yining Hospital Co., Ltd ("Shandong Yining")	14,892,452	—	(790,946)	—	**14,101,506**
Beijing Yining Hospital (i)	5,434,738	7,330,000	(1,505,369)	—	**11,259,369**
Hangzhou Anken Information Technology Co., Ltd ("Hangzhou Anken")	8,464,141	—	(965,818)	—	**7,498,323**
Chongqing Hechuan Kangning Hospital Co., Ltd ("Hechuan Kangning")	11,111,689	—	624,999	—	**11,736,688**
Shanxi Shanda Hospital Management Co., Ltd("Shanxi Shanda")	25,303,120	—	949,250	—	**26,252,370**
Heze Yining Hospital Co.,Ltd ("Heze Yining Hospital) (ii)	6,927,243	1,860,000	(596,620)	—	**8,190,623**
Chengdu Yining Hospital Co., Ltd("Chengdu Yining") (iii)	17,550,482	—	(1,416,735)	910,596	**17,044,343**
Huainan Kangning Hospital Co., Ltd("Chengdu Yining")	—	3,600,000	(617,609)	—	**2,982,391**
	89,683,865	12,790,000	(4,318,848)	910,596	**99,065,613**

4. Notes to the consolidated financial statements (continued)

(8) Long-term equity investment (continued)

(a) Associates (continued)

(i) Beijing Yining was set up in August 2015 as an associate of the Group. The capital contribution of RMB14,700,000 by the Group was settled in cash, representing 49% equity. In January 2017, the Company entered into a capital increase agreement with Beijing Yining Hospital, Ningbo Meishan Bonded Port Kuanzhan Investment Management Partnership (Limited Liabilties Partnership) (hereinafter referred to as "Ningbo Meishan Kuanzhan") and Chongqing Jinpu Medical&Health Service Industry Equity Investment Fund Partnership (Limited Liabilities Partnership) (hereinafter referred to as "Chongqing Jinpu"), to inject capital into Beijing Yining with Chongqing Jinpu Fund subscribing additional registered capital RMB15,000,000, accounting for 33.33% of equity interest,at a price of RMB20,000,000. The transaction diluted the Group's equity holding in Beijing Yining from 49% to 32.67%, but the Group retained significant influence on it. In the year 2018, all shareholders entered into a capital increase agreement that Zhejiang Kangning injects capital into Beijing Yining at a price at RMB7,330,000 and the registered capital increased by RMB5,497,500, other shareholders voluntarily waive the right to preempt capital contribution. After the transaction, Zhejiang Kangning held 40% equity of Beijing Yining, retained significant influence on it.

(ii) Heze Yining Hospital Co.,Ltd was set up in April 2017, as at 30 June 2018, the Group had contributed RMB9,300,000 for its 31% equity interest.

(iii) The Group acquired 41.67% equity interest of Chengdu Yining Hospital at a cash consideration of RMB15,000,000 in September 2017. RMB8,000,000 of the consideration was satisfied by net-off with the amounts the investee due to the Group (Note 4(3)). Consequently, in December 2017, the Group entered into a capital increase agreement with Chengdu Yining Hospital, Ningbo Meishan Kuanzhan and Chongqin Jinpu and further injected RMB3,000,000 in Chengdu Yining Hospital, while others agreed to acquire 52% equity interest of Chengdu Yining Hospital from another existing shareholder at a cash consideration of RMB39,000,000. In January 2018, the capital transfer and increase was completed and the Group's equity interest in Chengdu Yining was diluted from 41.67% to 24%, but the Group retained significant influence on it.

4. Notes to the consolidated financial statements (continued)

(9) Investment properties

	Properties and land use right
Fair value	
31 December 2017 and 30 June 2018	**128,568,963**

As at 30 June 2018, the Group's investment property with amount of RMB66,022,810 was pledged, alongside with a certain fixed asset (Note 4(10)), against the loan of RMB 40,000,000 of Zhejiang Kangning Hospital Management Ltd. (a subsidiary of the Group, "Zhejiang Kangning") from Zheshang Bank in May 2018 (Note 4(18)). The maximum amount of debt secured over the property in the contract is RMB120,000,000. The loan period is from 9 May 2018 to 9 May 2019. As at 30 June 2018, the outstanding loan was RMB 40,000,000.

Please refer to Note2(28(a) (iii)) about the main assumption and judgment of investment property at fair value.

4. Notes to the consolidated financial statements (continued)

(10) Fixed assets

	Bulidings	Medical equipment	Motor vehicles	Electronic and other equitment	Total
Cost					
31 December 2017(Audited)	470,189,549	63,161,125	4,139,482	34,668,410	572,158,566
Addition					
Purchase	887,926	7,354,066	617,463	2,705,064	11,564,519
Transferred from construction in progress	332,312	—	—	—	332,312
Decrease					
Disposal	—	—	(98,946)	(30,750)	(129,696)
Other(i)	(63,543,235)	—	—	—	(63,543,235)
30 June 2018(Unaudited)	407,866,552	70,515,191	4,657,999	37,342,724	520,382,466
Accumulated depreciation					
31 December 2017(Audited)	23,134,171	27,322,772	2,135,095	16,917,000	69,509,038
Addition					
Charge for the year	6,729,839	4,794,128	246,825	2,888,151	14,658,943
Decrease					
Disposal	—	—	(93,998)	(29,320)	(123,318)
Other(i)	(2,003,881)	—	—	—	(2,003,881)
30 June 2018(Unaudited)	27,860,129	32,116,900	2,287,922	19,775,831	82,040,782
Net book value					
30 June 2018(Unaudited)	380,006,423	38,398,291	2,370,077	17,566,893	438,341,684
31 December 2017(Audited)	447,055,378	35,838,353	2,004,387	17,751,410	502,649,528

4. Notes to the consolidated financial statements (continued)

(10) Fixed assets(continued)

The depreciation charged during the six months ended 30 June 2018 was RMB 14,658,943 (six months ended 30 June 2017: RMB 7,605,063) and the amount charged to cost of sales and general and administrative was RMB 11,566,254 and RMB 3,092,689, respectively (six months ended 30 June 2017: RMB 4,123,194 and RMB 3,481,869).

As at 30 June 2018, buildings of Wenzhou Guoda Investment with amount of RMB 28,041,170, alongside with certain investment property(Note 4(9)), was pledged against the loan of RMB 40,000,000. As at 31 December 2017, buildings of Wenzhou Guoda Investment with amount of RMB9,645,719, alongside with certain investment property(Note 4(9)), was pledged against the loan of RMB40,000,000.

During the six months ended 30 June 2018, the cost of fixed assets transferring from construction in progress was RMB 332,312(the six months ended 30 June 2017: RMB 24,034,569).

(i) Cangnan Kangning Hospital started expansion project of the purchased building in 2018. It is estimated to highly improve the quality of the building. Therefore, the related building was transferred into the construction in progress by meeting the requirements for the improvement of the fixed asset.

4. Notes to the consolidated financial statements (continued)

(11) Construction in progress

(a) The movement of construction in progress

Project name	31 December 2017 (Audited)	Increase in the six months ended 30 June 2018	Transfer to fixed assets/ long-term prepaid expenses	30 June 2018 (Unaudited)	Accumulative amount of capitalised borrowings costs	Including: Borrowings costs capitalised in the six months ended 30 June 2018	Capitalisation rate
The expansion project of Cangnan Kangning Hospital	295,662	74,492,913	—	74,788,575	1,487,399	1,487,399	4.83%
The decoration project of Wenzhou Kangning Hospital	2,313,767	3,629,017	(3,364,969)	2,577,815	—	—	—
The decoration project of Shenzhen Yining Hospital	144,000	—	(144,000)	—	—	—	—
The decoration project of Langfang Yining Hospital Management	3,236,627	445,379	—	3,682,006	—	—	—
The decoration project of Taizhou Kangning Hospital	2,022,773	5,972,605	—	7,995,378	—	—	—
The decoration project of Hangzhou Yining Hospital	12,841,349	1,695,510	(14,500,859)	36,000	—	—	—
Others	1,436,492	3,849,138	—	5,285,630	—	—	—
	22,290,670	90,084,562	(18,009,828)	94,365,404	1,487,399	1,487,399	4.83%

As at 30 June 2018 and 31 December 2017, the management of the Group considered that there did not exist the objective evidence that indicated the construction in progress was impaired and no provision for impairment was required.

4. Notes to the consolidated financial statements (continued)

(12) Intangible assets

	Land use rights	Software	Contractual right to provide management service	Licences	Total
Cost					
31 December 2017	23,602,729	4,794,565	145,054,013	—	173,451,307
Addition	5,560,000	1,713,333	—	5,200,000	12,473,333
30 June 2018	29,162,729	6,507,898	145,054,013	5,200,000	185,924,640
Accumulated amortisation					
31 December 2017	3,808,329	2,555,478	15,244,637	—	21,608,444
Addition	236,027	546,264	3,480,385	81,666	4,344,342
30 June 2018	4,044,356	3,101,742	18,725,022	81,666	25,952,786
Net book value					
30 June 2018 (Unaudited)	25,118,373	3,406,156	126,328,991	5,118,334	159,971,854
31 December 2017 (Audited)	19,794,400	2,239,087	129,809,376	—	151,842,863

The amortisation charge during the six months ended 30 June 2018 was RMB 4,344,342(six months ended 30 June 2017: RMB 3,662,798) and the amount charges to cost of sales and general and administrative RMB 3,823,531 and RMB 520,811 respectively (six months ended 30 June 2017: RMB 3,224,603 and RMB 438,195).

As at 30 June 2018 and 31 December 2017, the Group had no intangible assets pledged.

4. Notes to the consolidated financial statements (continued)

(13) Goodwill

	31 December 2017 (Audited)	Addition	**30 June 2018 (Unaudited)**
Goodwill — Wenzhou Guoda Investment	8,533,389	—	**8,533,389**
Less:impairment provision	(3,709,832)	(1,160,929)	**(4,870,761)**
	4,823,557	(1,160,929)	**3,662,628**

The management has performed the impairment test on 30 June 2018 and recognised an impairment loss of RMB 1,160,929. The key assumpitons adopted to determine the recoverable amount of the asset portfolio include mainly rental growth rate and discount rate.

(14) Long-term prepaid expense

	31 December 2017 (Audited)	Addition	Amortization	**30 June 2018 (Unaudited)**
Leasehold improvements	95,760,053	24,285,632	(11,093,356)	**108,952,329**
Others	575,600	—	(39,600)	**536,000**
	96,335,653	24,285,632	(11,132,956)	**109,488,329**

4. Notes to the consolidated financial statements (continued)

(15) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deductible tax losses	**62,097,537**	**15,524,384**	58,340,142	14,585,036
Provision for asset impairments	**24,632,716**	**6,158,179**	19,413,884	4,853,471
Payroll accrual expenses	**2,151,612**	**537,903**	3,151,612	787,903
Share-based payment	**5,927,213**	**1,481,803**	5,720,813	1,430,203
Amortization of intangible assets	**4,224,782**	**1,056,196**	3,534,669	883,667
Advances received from real estate sales	**—**	**—**	126,654	31,664
	99,033,860	**24,758,465**	90,287,774	22,571,944
Including:				
Expected to be recovered within one year (inclusive)		**6,189,841**		9,630,231
Expected to be recovered after one year		**18,568,624**		12,941,713
		24,758,465		22,571,944

4. Notes to the consolidated financial statements (continued)

(15) Deferred tax assets and deferred tax liabilities (continued)

(b) Deferred tax liabilities

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Appreciation of assets revalued	**38,408,944**	**9,602,236**	39,765,516	9,941,379
Including:				
Expected to be recovered within one year (inclusive)		**187,818**		554,037
Expected to be recovered after one year		**9,414,418**		9,387,342
		9,602,236		9,941,379

(c) Deductible temporary differences and deductible losses for which that no deferred tax assets recognised are analysed as follows:

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Deductible temporary differences	**1,172,933**	831,348
Deductible losses	**2,018,334**	1,672,966
	3,191,267	2,504,314

4. Notes to the consolidated financial statements (continued)

(15) Deferred tax assets and deferred tax liabilities (continued)

(d) Deductible losses for which no deferred tax assets are recognized will be expired as follows:

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
2021	**—**	11,973
2022	**1,672,966**	1,660,993
2023	**345,368**	—
	2,018,334	1,672,966

(16) Other non-current assets

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Prepaid tax	**—**	300,773
Prepaid rental	**6,733,568**	9,550,288
Prepayments for construction and fixed assets	**1,460,850**	2,267,150
Prepayments for investment(i)	**6,000,000**	7,200,000
	14,194,418	19,318,211

(i) The Group signed a cooperative agreement with Wenling Southern Psychiatric Specialist Hospital on 4 Feb 2018, to agree the subscription of 51% equity of Wenling Southern Psychiatric Specialist Hospital at a price of RMB13,530,000. As at 30 Jun 2018, the Group had paid RMB 6,000,000.and the trade was completed in August, 2018.

4. Notes to the consolidated financial statements (continued)

(17) Provision for assets impairment

	31 December 2017 (Audited)	Change in accounting policy	1 January 2018	Addition	Decrease Recovery	Decrease Written-off	30 June 2018 (Unaudited)
Provision for accounts receivable	15,348,262	1,193,391	16,541,653	**5,712,142**	**—**	**(1,743,026)**	**20,510,769**
Provision for other receivables	4,091,422	—	4,091,422	**30,527**	**—**	**—**	**4,121,949**
Goodwill impairment	3,709,832	—	3,709,832	**1,160,929**	**—**	**—**	**4,870,761**
	23,149,516	1,193,391	24,342,907	**6,903,598**	**—**	**(1,743,026)**	**29,503,479**

(18) Short-term borrowings

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Guaranteed borrowings (Note8(4) (h))	**90,000,000**	50,000,000
Pledged borrowings(i)	**40,000,000**	40,000,000
	130,000,000	90,000,000

(i) The guaranteed borrowing amounting to RMB90,000,000 was guaranteed by Guan Weili, Wang Lianyue and Wang Hongyue, the shareholders of the Company. The pledged borrowings amounting to RMB40,000,000 was guaranteed by Wenzhou Guoda, a subsidiary of the Group, along with Guan Weili, Wang Lianyue, the shareholders of the Company. In addition, the loan was secured by the investment property (Note 4(9)) with carrying amount of RMB 66,022,810 and fixed assets (Note 4(10)) of RMB28,041,170 owned by Wenzhou Guoda.

As at 30 June 2018, the interest rate of short-term borrowings was 4.83%-6.50% annually (31 December 2017: 4.35%-6.003%).

4. Notes to the consolidated financial statements (continued)

(19) Accounts payable

The aging analysis of accounts payable is as follows:

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Within 3 months	**39,523,345**	42,078,771
3- 6 months	**4,184,991**	7,390,442
6-12 months	**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

(20) Contract liability

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Advance from goods and services	**6,983,899**	7,511,284

4. Notes to the consolidated financial statements (continued)

(21) Employee benefits payable

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Short-term employee benefits payable (a)	**13,439,878**	19,679,161
Defined contribution plans payable (b)	**3,058,582**	4,035,157
	16,498,460	23,714,318

(a) Short-term employee benefits payable

	31 December 2017 (Audited)	Increase	Decrease	**30 June 2018 (Unaudited)**
Wages and salaries, bonus, allowances and subsidies	19,182,501	83,757,946	(90,020,174)	**12,920,273**
Staff welfare	600	1,761,016	(1,761,616)	**—**
Social security contributions	495,748	3,271,219	(3,247,962)	**519,005**
Including: Medical insurance	444,812	2,915,112	(2,892,157)	**467,767**
Work injury insurance	16,218	128,925	(130,283)	**14,860**
Maternity insurance	34,718	227,182	(225,522)	**36,378**
Housing funds	312	3,991,420	(3,991,132)	**600**
	19,679,161	92,781,601	(99,020,884)	**13,439,878**

4. Notes to the consolidated financial statements (continued)

(21) Employee benefits payable (continued)

(b) Defined contribution plans

	31 December 2017 (Audited)	Increase	Decrease	**30 June 2018 (Unaudited)**
Basic pensions	4,012,938	3,573,990	(4,551,326)	**3,035,602**
Unemployment insurance	22,219	151,643	(150,882)	**22,980**
	4,035,157	3,725,633	(4,702,208)	**3,058,582**

(c) Termination benefits payable

During the six months ended 30 June 2018 and 2017, the Group had no termination benefits incurred for termination of employment contracts.

(22) Taxes payable

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Corporate income tax payable	**13,346,797**	13,480,775
Property tax payable	**2,298,697**	1,373,863
Valued-added tax payable	**741,816**	1,518,242
Land value-added tax payable	**18,350,551**	17,937,693
Others	**921,584**	601,808
	35,659,445	34,912,381

4. Notes to the consolidated financial statements (continued)

(23) Other payables

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Payables for construction	**40,082,906**	57,374,586
Payables to related party (Note 8(5) (b))	**1,367,066**	16,199,172
Advance received from a non-controlling shareholder (Note 8(5) (b)) (i)	**3,410,000**	3,410,000
Rental payables	**3,571,848**	6,058,569
Borrowings from individual (ii)	**6,000,000**	6,000,000
Guarantee deposits (iii)	**3,845,097**	2,318,220
Deposits for sales of real estate	**502,687**	2,200,234
Interest payable	**24,000**	336,902
Dividends payable (Note 4(31))	**10,956,000**	—
Others	**6,182,836**	5,899,071
	75,942,440	99,796,754

As at 30 June 2018 and 31 December 2017, The Group had no other significant payables aged over one year except note(i)、(ii)、(iii).

(i) It represented the interest-free advances received from a non-controlling shareholder of one of Group's subsidiaries.

(ii) It represented the borrowings of Wenzhou Guoda Investment from its employees. The interest rate is 6.16% per year.

(iii) It represented the rental guarantee deposits received by Wenzhou Guoda Investment from the tenants.

(24) Current portion of non-current liabilities

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Current portion of long-term payables (Note 4(26))	**17,959,504**	22,751,104

4. Notes to the consolidated financial statements (continued)

(25) Long-term borrowings

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Guaranteed borrowings	**105,000,000**	110,000,000

In January 2016, the Company obtained the fixed assets loan credit line of RMB130,000,000 with fixed interest rate of 4.75%. The loan period is from 5 January 2016 to 5 January 2021. As at 30 June 2018, the balance of the loan is RMB105,000,000 (31 December 2017:RMB110,000,000), and was guaranteed jointly by Guan Weili, Wang Lianyue and Wang Hongyue, shareholders of the Company (Note8(4) (e)).

As at 30 June 2018, the weighted average interest rate for long-term borrowings was 4.75% ((31 December 2017: 4.86%)

(26) Long-term payable

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Guarantee payable(i)	**12,688,704**	12,688,704
Long-term payable to the contractual right to provide management service	**94,953,200**	96,994,700
	107,641,904	109,683,404
Less: Current portion of long-term payables	**(17,959,504)**	(22,751,104)
	89,682,400	86,932,300

(i) The amount was provided by the contractor of the new hospital construction 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.

4. Notes to the consolidated financial statements (continued)

(27) Deferred income

	30 June 2018 (Audited)	31 December 2017 (Unaudited)
Government grants	**10,556,851**	10,404,955

Government grants projects	31 December 2017 (Audited)	Amount charged to other operation revenue/ other gains	**30 June 2018 (Unaudited)**	**Related to assets/income**
The expansion project of the inpatient building (i)	10,556,851	(151,896)	**10,404,955**	**Related to assets**

(i) The deferred income related to the assets is the government grant of RMB 10,632,800 for the expansion project of the inpatient building of the Company received from Wenzhou Financial Bureau in 2013. The Company credited it into the deferred income when receiving the grant and allocate it over the useful life of the assets to the income statements since the buildings was in use.

(28) Share capital

	31 December 2017 (Audited)	Increase	**30 June 2018 (Unaudited)**
Share capital	73,040,000	—	**73,040,000**

4. Notes to the consolidated financial statements (continued)

(29) Capital surplus

	31 December 2017 (Audited)	Increase	Decrease	**30 June 2018 (Unaudited)**
Share premium	760,572,782	—	—	**760,572,782**
Other capital surplus				
– Share-based payment (Note 9)	5,720,813	206,400	—	**5,927,213**
– Others (i)	41,950,591	910,596	—	**42,861,187**
	808,244,186	1,116,996	—	**809,361,182**

(i) The increase during the year representated the dilution gain on equity shares in Chengdu Yining (Note 4(8)) as a result of other investors' injection capital.The dilution gain from the associates is record in capital reserve under Chinese Accounting Standard, and will be recycled to profit and loss upon disposal of associates entity.

(30) Surplus reserve

	31 December 2017 (Audited)	Appropriation	Decrease	**30 June 2018 (Unaudited)**
Statutory surplus reserve	23,710,012	—	—	**23,710,012**

In accordance with the Company Law of PRC and the Articles of Association of the Company, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the losses or transferred to capital upon approval.

4. Notes to the consolidated financial statements (continued)

(31) Retained earning

	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Retained earnings at beginning of period (before adjustment)	**146,840,254**	121,190,550
Adjustment(Note2(29))	**(164,301)**	—
Retained earnings at beginning of year(after adjustment)	**146,675,953**	121,190,550
Add: Net profit attributable to shareholders of the parent company	**41,986,854**	26,466,936
Ordinary share dividends payable	**(10,956,000)**	(18,260,000)
Retained earnings at end of the period	**177,706,807**	129,397,486

Pursuant to the shareholders' approval on 13 June 2018, the Company declared a 2017 final cash dividend of RMB10,956,000, being RMB 0.15 per share for issued and outstanding shares of 73,040,000. The dividend was not paid yet.

(32) Revenue and cost of sales

	Six months ended 30 June 2018		Six months ended 30 June 2017	
	Revenue (Unaudited)	**Cost (Unaudited)**	Revenue (Unaudited)	Cost (Unaudited)
Main businesses	**343,318,252**	**220,865,063**	238,108,930	156,885,868
Other businesses	**13,459,829**	**6,510,373**	45,027,377	34,267,178
	356,778,081	**227,375,436**	283,136,307	191,153,046

(a) Revenue and cost of sale from main businesses

	Six months ended 30 June 2018		Six months ended 30 June 2017	
	Revenue (Unaudited)	**Cost (Unaudited)**	Revenue (Unaudited)	Cost (Unaudited)
Pharmaceutical sales	**78,253,106**	**65,087,164**	60,303,304	49,515,173
Treatments and general healthcare services	**252,958,034**	**149,416,996**	166,226,213	102,118,496
Management service fee	**12,107,112**	**6,360,903**	11,579,413	5,252,199
	343,318,252	**220,865,063**	238,108,930	156,885,868

4. Notes to the consolidated financial statements (continued)

(32) Revenue and cost of sales (continued)

(b) Revenue and cost of sale from other businesses

	Six months ended 30 June 2018		Six months ended 30 June 2017	
	Revenue (Unaudited)	**Cost (Unaudited)**	Revenue (Unaudited)	Cost (Unaudited)
Real estate sales	**8,531,185**	**5,918,564**	41,353,888	33,683,175
Rental income	**3,806,032**	**—**	2,686,536	—
Others	**1,122,612**	**591,809**	986,953	584,003
	13,459,829	**6,510,373**	45,027,377	34,267,178

(33) Taxes and surcharges

	Six months ended 30 June		
	2018 (Unaudited)	2017 (Unaudited)	Basis
Land value-added tax	**652,750**	2,765,489	Referred to Note3
Property tax	**2,268,505**	884,304	Referred to Note3
City maintenance and construction tax	**71,924**	115,922	Referred to Note3
Educational surcharge	**30,823**	48,397	Referred to Note3
Land use tax	**35,825**	41,925	Referred to Note3
Local educational surcharge	**20,548**	32,264	Referred to Note3
Others	**294,631**	48,777	
	3,375,006	3,937,078	

4. Notes to the consolidated financial statements (continued)

(34) Expenses by nature

The cost of sales, selling and distribution expenses, and general and administrative expenses in the income statement are listed as follows by nature:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Employee and welfare benefits	**96,507,234**	70,625,136
Pharmaceutical and medical consumables used	**81,252,389**	59,291,198
Cost of real estate sold	**5,918,564**	33,683,175
Depreciation of fixed assets	**14,658,943**	7,605,063
Amortisation of intangible assets	**4,344,342**	3,662,798
Amortisation of long-term prepayment	**11,132,956**	9,598,874
Operating lease expenses	**18,871,420**	17,812,635
Canteen expenditure	**12,640,206**	8,120,070
Utilities expenses	**6,541,605**	3,911,618
Outsourcing expenses	**2,158,237**	665,154
Testing fee	**7,002,178**	4,181,975
Consulting expense	**4,447,878**	2,758,580
Promotion expenses	**1,284,407**	516,940
Travelling expenses	**2,813,564**	2,065,846
Office expenses	**3,527,167**	1,301,775
Share-based payment(Note 9)	**206,400**	206,400
Others	**7,588,276**	5,405,392
	280,895,766	231,412,629

4. Notes to the consolidated financial statements (continued)

(35) Finance expenses-net

	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Net exchange	**355,273**	7,730,248
Interest income	**(1,962,528)**	(1,907,398)
Interest expense	**5,621,941**	5,689,153
Less: capitalised interest	**(1,487,399)**	(3,998,564)
The amortization of unrecognized financial expenses(i)	**2,750,100**	2,724,600
Others	**252,724**	198,512
	5,530,111	10,436,551

(i) The amount represented the unwinding of discount on long-term payables being calculated using effective interest rate method. (Note 4(26)).

(36) Assets impairment losses

	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Bad debts provision	**—**	2,823,150
Goodwill impairement losses	**1,160,929**	—
	1,160,929	2,823,150

4. Notes to the consolidated financial statements (continued)

(37) Credit impairment losses

	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)
Bad debts provision	**5,742,669**	—

(38) Investment losses

	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)
Share of losses of investees under the equity accounting method (Note 4(8))	**4,318,848**	2,852,505

(39) Other gains

	Six months ended 30 June 2018 (Unaudited)	Six months ended 30 June 2017 (Unaudited)	Relevant to assets/income
Subsidy for resident doctors standardized training (i)	**2,010,000**	1,020,000	Relevant to income
Private medical institutions award (ii)	**2,000,000**	1,672,900	Relevant to income
Others	**243,548**	—	Relevant to income
	4,253,548	2,692,900	

(i) The Company received the government grant of RMB 2,010,000 from Wenzhou Finance Bureau in April 2018, according to the Notes on Payment of General Transfer Subsidy for Health and Family Planning in 2018 issued by Wenzhou Health and Family Planning Commission.

(ii) According to the 'Implementation opinion of Qingtian County on Accelerate the development of private medical institutions', the Company received government award of RMB 2,000,000 for hospital beds in May 2018.

4. Notes to the consolidated financial statements (continued)

(40) Non-operating income

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Government grants	**961,796**	5,245,868
Others	**235,545**	131,583
	1,197,342	5,377,451

(41) Non-operating expenses

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Donation to charities	**1,369,660**	2,247,255
Medical liability compensation cost	**707,040**	260,000
Others	**14,619**	65,965
	2,091,319	2,573,220

4. Notes to the consolidated financial statements (continued)

(42) Income tax expenses

	Six months ended 30 June	
	2018	2017
	(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 is listed below:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Profit before tax	**59,107,945**	37,075,834
Income tax expenses calculated at the effect 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

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(43) Earning per share

(a) Basic earning per share

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
The profit attributed to the ordinary shareholders of the Company	**41,986,854**	26,466,936
Weighted average number of outstanding ordinary shares of the Company	**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 profit attributed to the ordinary shareholders of the 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 30 June 2018 and 2017. Accordingly, diluted earning per share is the same as the basic earnings per share.

4. Notes to the consolidated financial statements (continued)

(44) Supplementary information to the statement of cash flows

(a) Supplementary information to the statement of cash flows

Reconciliation from net profit to cash flows from operating activities

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Net profit	**40,851,540**	25,062,108
Add: Asset impairment losses	**1,160,929**	2,823,150
Credit impairment losses	**5,742,669**	—
Depreciation of fixed assets	**14,658,943**	7,605,063
Amortisation of intangible assets	**4,344,342**	3,662,798
Amortisation of long-term prepaid expenses	**11,132,956**	9,598,874
Net losses on disposal of fixed assets,intangible assets and other long-term assets	**6,378**	95,691
Finance expenses	**4,184,487**	9,820,539
Investment loss	**4,318,848**	2,852,505
Decrease in deferred income	**(151,896)**	—
Increase in deferred tax assets	**(1,888,173)**	(407,598)
Decrease in deferred tax liabilities	**(339,143)**	(2,976,091)
Decrease/(increase) in inventories	**3,142,972**	(13,739,715)
Share-based payment expense	**206,400**	206,400
Increase in operating receivables	**(44,251,714)**	(47,078,441)
(Decrease) /increase in operating payables	**(17,729,444)**	5,946,365
Net cash flows generated from operating activities	**25,390,094**	3,471,648

4. Notes to the consolidated financial statements (continued)

(44) Supplementary information to the statement of cash flows (continued)

(a) Supplementary information to the statement of cash flows (continued)

Significant non-cash transactions in relation to investing and financing activities.

For the six months ended 30 June 2018, there is no significant non-cash transactions in investing and financing activities.

The net change of the cash

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Cash at end of the period	**156,099,617**	330,431,821
Less: Cash at beginning of the period	**(237,538,659)**	(407,163,542)
Net decrease in cash and cash equivalents	**(81,439,042)**	(76,731,721)

(b) Cash and cash equivalents

	30 June 2018	31 December 2017
	(Unaudited)	(Audited)
Cash on hand		
Including: Cash	**717,966**	466,947
Cash at bank that can be readily drawn on demand	**155,198,033**	237,034,362
Other cash balances	**183,618**	37,350
Cash at end of the year	**156,099,617**	237,538,659

5. Changes in the consolidation scope

The wholly-owned subsidiaries Wenzhou Tianzhentang Chinese Medicine Clinic Co., Ltd ("Tianzhentang") was set up on 23 January 2018 with a registered capital of RMB5,000,000.

The paid-in capital of the subsidiaries above-mentioned were stated in Note15(3).

6. Interests in other entities

(1) Interests in subsidiaries

(a) The Group structure

Name of the subsidiaries	Category	Major business location	Place of registration	Nature of business	Shareholding (%)		Method of acquisition
					Direct	Indirect	
Qingtian Kangning Hospital	Business entity	Qingtian	Qingtian	Medical service	100%	—	Incorporation
Cangnan Kangning Hospital	Business entity	Cangnan	Cangnan	Medical service	100%	—	Incorporation
Yongjia Kangning Hospital	Business entity	Yongjia	Yongjia	Medical service	100%	—	Incorporation
Nanchang Kangning Hospital	Business entity	Nanchang	Nanchang	Medical service	51%	—	Incorporation
Yueqing Kangning Hospital	Business entity	Leqing	Leqing	Medical service	100%	—	Incorporation
Linhai Kangning Hospital	Business entity	Linhai	Linhai	Medical service	80%	—	Incorporation
Langfang Yingning Hospital Management	Business entity	Langfang	Langfang	Hospital Management	100%	—	Incorporation
Zhejiang Huangfeng	Business entity	Hangzhou	Hangzhou	Hospital Management	51.22%	—	Asset acquisition
Judicial Forensic Center	Business entity	Wenzhou	Wenzhou	Forensic psychiatric identification	100%	—	Incorporation
Shenzhen Yining Medical Investment	Business entity	Shenzhen	Shenzhen	Investment	100%	—	Incorporation
Shenzhen Yining Hospital	Business entity	Shenzhen	Shenzhen	Medical service	—	52%	Incorporation
Sihui Kangning Hospital	Business entity	Sihui	Sihui	Medical service	—	51%	Incorporation
Zhejiang Kangning	Business entity	Ningbo	Ningbo	Hospital Management	100%	—	Incorporation
Hangzhou Yining Hospital	Business entity	Hangzhou	Hangzhou	Medical service	—	60%	Incorporation
Quzhou Yining Hospital	Business entity	Quzhou	Quzhou	Medical service	—	60%	Incorporation

6. Interests in other entities (continued)

(1) Interests in subsidiaries (continued)

(a) The Group structure (continued)

Name of the subsidiaries	Category	Major business location	Place of registration	Nature of business	Shareholding (%) Direct	Shareholding (%) Indirect	Method of acquisition
Wenzhou Yining Geriatric Hospital	Business entity	Wenzhou	Wenzhou	Medical service	—	100%	Incorporation
Pingyang Kangning Hospital	Business entity	Pingyang	Pingyang	Medical service	—	100%	Incorporation
Taizhou Kangning Hospital	Business entity	Taizhou	Taizhou	Medical service	—	51%	Business combinations involving enterprises not under common control
Wenzhou Guoda Investment	Business entity	Wenzhou	Wenzhou	Real estate	—	75%	Business combinations involving enterprises not under common control
Luqiao Cining Hospital (previously known as "Taizhou Luqiao Yining Hospital Co., Ltd")·	Business entity	Taizhou	Taizhou	Medical service	—	51%	Incorporation
Yiwu Kangning Hospital Management	Business entity	Yiwu	Yiwu	Hospital Management	—	100%	Incorporation
Hangzhou Cining Hospital	Business entity	Hangzhou	Hangzhou	Medical service	—	100%	Incorporation
Tianzhentang	Business entity	Wenzhou	Wenzhou	Medical service	—	100%	Incorporation

6. Interests in other entities (continued)

(1) Interests in subsidiaries (continued)

(b) Subsidiaries with significant non-controlling interests

Subsidiaries	Shareholding % of non-controlling shareholders	Net profit or loss attributable to non-controlling shareholders for six months ended 30 June 2018	Dividends paid to non-controlling shareholders for six months ended 30 June 2018	Non-controlling interests as at 30 June 2018
Zhejiang Huangfeng	48.78%	1,079,314	—	14,856,549
Wenzhou Guoda Investment	25%	39,337	—	14,650,123
Hangzhou Yining	40%	(1,701,621)	—	12,142,999
		(582,970)	—	41,649,671

The summarised financial information of the above subsidiaries of the Group is listed below:

	30 June 2018					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Zhejiang Huangfeng	35,324,718	20,389,891	55,714,609	2,637,427	—	2,637,427
Wenzhou Guoda Investment	20,904,150	165,315,559	186,219,709	117,808,624	9,602,236	127,410,860
Hangzhou Yining	8,722,252	22,280,134	31,002,386	644,884	—	644,884
	64,951,120	207,985,584	272,936,704	121,090,935	9,602,236	130,693,171

	Six months ended 30 June 2018			
	Revenue	Net profit/(loss)	Total comprehensive income	Cash flows from operating activities
Zhejiang Huangfeng	2,997,651	1,567,586	1,567,586	2,176,722
Wenzhou Guoda Investment	12,291,930	157,347	157,347	52,679,365
Hangzhou Yining	50,531	(4,254,052)	(4,254,052)	(7,195,223)
	15,340,112	(2,529,119)	(2,529,119)	47,660,864

6. Interests in other entities (continued)

(2) Interests in associates

(a) Summarised information of significant associates

	Principal Place of Business	Registry Place	Business Nature	Is it Strategic to Group Business	Shareholding ratio	
					Direct	Indirect
Chengdu Yining	Chengdu	Chengdu	Medical Service	No	—	24%
Shanxi Shanda	Xi'an	Xi'an	Hospital management	No	—	30%

The Group adopted the equity model as accounting method for the equity investments above.

(b) Financial information of significant associates

	30 June 2018	
	Chengdu Yining (Unaudited)	Shanxi Shanda (Unaudited)
Current assets	8,605,259	34,658,486
Non-current assets	89,571,263	48,092,801
Total assets	98,176,522	82,751,287
Total liabilities	14,507,236	10,224,339
Equity attributable to shareholders of company	83,669,286	72,526,948
Net asset proportion calculated by shareholding ratio(i)	20,080,629	21,758,084
Adjustment		
– Goodwill	5,024,000	4,494,286
– Other	99,975	—
The Carrying amount of equity investment in the associates	25,204,604	26,252,370

6. Interests in other entities (continued)

(2) Interests in associates (continued)

(b) Financial information of significant associates (continued)

	30 June 2018	
	Chengdu Yining (Unaudited)	**Shanxi Shanda (Unaudited)**
Revenue	**412,549**	**8,929,500**
Net Profit and total comprehensive income	**(5,903,061)**	**3,164,168**

(i) The Group calculated asset proportion by shareholding ratio based on the amount attributable to the parent in the associates's consolidated financial statements. The amounts on the associate's consolidated financial statement take into account adjustments on the fair value of identifiable assets and liabilities when obtaining the investment and the effects of the uniform accounting policies into consideration.

(c) Summarised information of insignificant associates

The name of the associates of the Company were stated as in Note4(8) and there were non significant associates in the Group.

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Aggregated carrying amount of investments	**55,768,900**	34,291,387
Aggregated of the following items in proportion:		
Net loss (i)	**(3,851,363)**	(2,659,950)
Total comprehensive loss	**(3,851,363)**	(2,659,950)

(i) Net profits or losses and other comprehensive income have taken into the account the adjustment of the fair value of the identifying assets and liabilities at the time of acquisition and the accounting policy.

7. Segment information

The reportable segments of the Group are the business units that provide different services. Different businesses require different technologies and marketing strategies. The Group, therefore, independently manages the productions and operations of reportable segments and evaluates their operating results, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Group has two operating segments:

– Healthcare service, specialised in providing healthcare and related service; and

– Property investment and development, specialised in providing the property development, leasing and rental service.

There is no inter-segment sales during the year.

The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Indirect income attributed to each segment are allocated based on the revenue ratio of the segment.

(a) The segment information for the six months ended 30 June 2018 is as bellow:

	Healthcare and related service	**Property investment and development**	**Total**
Revenue from external customers	344,486,151	12,291,930	356,778,081
Cost of revenue	(221,607,961)	(5,767,475)	(227,375,436)
Interest income	1,955,707	6,821	1,962,528
Interest expenses	(5,131,043)	(490,898)	(5,621,941)
Investing profit in associates	(4,318,848)	—	(4,318,848)
Impairment of assets	(5,886,627)	(1,016,971)	(6,903,598)
Depreciation and amortisation	(29,542,148)	(594,093)	(30,136,241)
Profit before income tax	57,559,782	1,548,163	59,107,945
Income tax expense	(15,704,660)	(2,551,745)	(18,256,405)
Net profit	41,855,122	(1,003,582)	40,851,540
Total assets	1,534,653,700	185,058,780	1,719,712,480
Total liabilities	(446,226,570)	(127,410,860)	(573,637,430)
Investment in associates	99,065,613	—	99,065,613
Additions of non-current assets (i)	24,523,805	(1,759,970)	22,763,835

(i) The amount exclude the financial assets, long-term equity investment and deferred tax assets.

(b) The Group did not have the revenue generated from other countries or regions.

8. Related parties and related party transactions

(1) General information of the Company

The Company doesn't not have a parent company. In the reporting period, the equity of the Company held by Guan Weili and his spouse Wang Lianyue were over 30%, therefore they were regarded as actual controlling persons.

(2) The information of the subsidiaries

The basic information of the subsidiaries was stated as in Note 6(1).

(3) The information of other related party

The related parties of the company except those disclosed in other place of the financial statement are as follows:

	Relationship
Qingtian Sunshine Shelter Center	Not-for-profit organisation established by the Company
Wenzhou Kangning Medical Health Institute	Not-for-profit organisation established by the Company
Hangzhou Yuhang Yining Disabled Care Center	Not-for-profit organisation established by the Company
Yiwu Mental Health Center	Not-for profit organisation invested and council members nominated by the Company
Chen Xianfa	Non-controlling shareholders of subsidiaries
Qu Kaisheng	Non-controlling shareholders of subsidiaries

(4) Related party transactions

(a) Pricing policies

The price of providing service or rental payment to the related party is determined based on the negotiation.

8. Related parties and related party transactions (continued)

(4) Related party transactions (continued)

(b) Payments on behalf of related parties

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Non-for-profit organisation established by the Company	**855,806**	1,405,303
Beijing Yining Hospital	**97,169**	328,964
Chengdu Yining Hospital	**3,204,090**	—
Huainan Kangning Hospital	**11,600**	—
	4,168,665	1,734,267

(c) Payments by the related parties on behalf of the Group

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Hangzhou Anken	**67,894**	60,221
Chengdu Yining Hospital	**13,470,000**	—
	13,537,894	60,221

(d) Key management compensation

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Salaries and bonus	**2,117,730**	2,021,756
Share-based payment expense	**115,471**	115,471
	2,233,201	2,137,227

8. Related parties and related party transactions (continued)

(4) Related party transactions (continued)

(e) Accepting the guarantee

	Six months ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Guan Weili\Wang Lianyue\Wang Hongyue	**252,000,000**	252,000,000
Guan Weili\Wang Lianyue	**44,000,000**	44,000,000
	296,000,000	296,000,000

(5) Balances with related parties

(a) Receivables

	30 June 2018 (Unaudited) Balances	Provision for bad debts	31 December 2017 (Audited) Balances	Provision for bad debts
Accounts receivable				
Yiwu Mental Health Center	**3,750,000**	**(217,500)**	2,250,000	(112,500)
Other receivables				
Beijing Yining Hospital	**97,169**	**(4,858)**	—	—
Chengdu Yining Hospital	**1,146,618**	**(57,331)**	955,686	83,315
Huainan Kangning Hospital	**11,600**	**(580)**	—	—
Not-for-profit organisations established by the Group	**3,227,737**	**(161,387)**	2,438,181	(98,458)
	4,483,124	**(224,156)**	3,393,867	(181,773)

Chengdu Yining Hospital became an associate company of the Group since September 2017 (Note 4(8) (a) (iii).

8. Related parties and related party transactions (continued)

(5) Balances with related parties (continued)

(b) Other Payables

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Hangzhou Anken	**102,121**	34,227
Chen Xianfa	**—**	300,000
Qu Kaisheng	**4,274,945**	4,274,945
Chengdu Yining Hospital	**400,000**	—
Yiwu Mental Health Center	**—**	15,000,000
	4,777,066	19,609,172

(6) The five individuals whose emoluments were the highest in the Group for the six months ended 30 June 2018 included one directors (six months ended 30 June 2017: two)whose emouluments were reflected in the analysis shown in Note 8(4) (d). The emoluments payable to the remaining four (six months ende 30 June 2017: three) individuals during the period are as follows:

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Salaries, bonus and other allowance	**1,110,781**	828,742
Contributions to pension plans	**15,547**	20,332
	1,126,328	849,074

The emoluments fell within the following bands

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Range:		
RMB0 – 500,000	**—**	—
RMB500,000 – 1,000,000	**4**	3

9. Share-based payment

Following the shareholders' approval on 21 July 2014, the Company has adopted an employee share incentive plan (the "Restricted Shares Scheme").

The main terms of the Restricted Shares Scheme are set out below:

(1) Instruments granted under the Scheme: To furnish the Restricted Shares Scheme, three limited liability partnerships ("LLP") were established, namely Ningbo Renai Kangning Investment Management Partnership(Limited Partnership) ("Renai Kangning"), Ningbo Enci Kangning Investment Management Partnership (Limited Partnership) ("Enci Kangning") and Ningbo Xinshi Kangning Investment Management Partnership (Limited Partnership) ("Xinshi Kangning"). The general partner of Renai Kangning and Enci Kangning is Ms. Wang Biyu (the relative of the actual controlling persons and the employee of the Company); the general partner of Xinshi Kangning is Ms. Wang Hongyue. The qualified employees participating the Restricted Shares Scheme contributed the capital at the grant price and become the limited partner of the LLP. After the establishment of the LLPs mentioned above, the original shareholder of the Company, Guan Weili and Wang Hongyue, transferred their share capital of RMB1,120,959 (4% of the equity of the Company) to the above three LLPs at price of RMB18.684 per share.

(2) Vesting period: since the day becoming the partners of the LLP, those participating employees who will contributed the capital over RMB150,000 committed to serve the Company for 36 months while those contributed below RMB150,000 for 12 months from the date the Company was listed in a stock exchange. They would not resign during this period.

(3) If any employee resign before the end of the selling restricted period set by CSRC after the shares of the Company listed in the stock exchange, the following rules will be applied:

   (i) The employees with 12 month vesting period resigning before the expiration of the selling restricted period do not have to withdraw from the LLP but their equity is freezed. After the expiration of the selling restricted period, the general partner or the third party designated by the general partner acquire their equity shares.

   (ii) The employees with 36 month vesting period resigning within 12 months after listing, the same rule as above will be applied. If resigning between 12 month and 36 month, the general partner or the third party designated by the general partner acquire the equity share. The purchase price is set at 60% of the average stock price of 20 transaction days preceding the day approval for the resignation.

   The Group does not have any repurchase arrangement or commitment with the LLPs or the employees.

   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, 21 July 2014, as determined by a professional valuation firm, was RMB5,869,000. Share-based payment expense of RMB 206,400 was recognized for the six months ended 30 June 2018(six months ended 30 June 2017: RMB 206,400).

10. Commitments

(1) Capital commitments

Capital expenditures contracted for by The Group at the balance sheet date but are not yet necessary to be recognised on the statement of financial position are as follows:

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Buildings, machinery and equipments	**75,943,802**	81,578,700
Intangible assets	**1,563,290**	654,970
	77,507,092	82,233,670

(2) Operating lease commitments

The future minimum lease payments due under the signed irrevocable operating leases contracts are summarised as follows:

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Within 1 year	**20,306,925**	24,701,992
1 to 2 years	**23,191,538**	30,390,094
2 to 3 years	**22,918,038**	29,861,213
Over 3 years	**233,912,407**	249,229,427
	300,328,908	334,182,726

(3) External investment commitments

As at 30 June 2018, there are no external investment commitments in the Group.

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB Yuan unless otherwise stated)

11. Events after the balance sheet date

On August 20, 2018, the Board of Directors of the Group reviewed and approved the plan of issuing shares of domestic shares and implementing share based payment plan for the company. The company will issue 2,460,000 domestic shares at issue price of RMB 10.47 per share to the employee stock ownership platform, which includes Wenzhou Zhenyan Kangning Investment Management Partnership(Limited Liabilities Partnership), Wenzhou Jiamei Kangning Investment Management Partnership(Limited Liabilites Partnership), Wenzhou Enquan Kangning Investment Management Partnership(Limited Liabilites Partnership), Wenzhou Jiate Kangning Investment Management Partnership(Limited Liabilites Partnership) and Wenzhou Shouwang Kangning Investment Management Partnership(Limited Liabilites Partnership). The fund raised will reach RMB25,756,200 in total, among which RMB2,460,000 is to be injected in share capital and RMB23,296,200 will be credited to capital surplus. After the issurance, the share capital of the Company will increase to RMB 75,500,000 from RMB73,040,000.

12. Financial risk

The Group's activities expose it to a variety of financial risks: market risk (primarily interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB.The Group's finance department at its headquarter is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, to reduce foreign exchange risk to the greatest extent.

12. Financial risk (continued)

(1) Market risk (continued)

(a) Foreign exchange risk (continued)

As at 30 June 2018 and 31 December 2017, the foreign currency financial assets hold by the Group was analysed below(presented in RMB):

	30 June 2018(Unaudited)		
	HKD	**USD**	**Total**
Financial assets denominated in foreign currency - Cash at bank and on hand	**92,600,103**	**14,621,019**	**107,221,122**

	31 December 2017(Audited)		
	HKD	USD	Total
Financial assets denominated in foreign currency - Cash at bank and on hand	142,173,662	14,995,675	157,169,337

As at 30 June 2018, had RMB strengthened/weakened by 3% against the HKD while all other variables had been held constant, the Group's profit after tax for the year would have been approximately RMB 2,083,502(31 December 2017: RMB3,198,907) lower/higher for various financial assets and liabilities denominated in HKD.

(b) Interest rate risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings from banks. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 30 June 2018, The Group's long-term interest bearing borrowings were mainly RMB-denominated with fixed rates, amounting to RMB105,000,000(31 December 2017: RMB110,000,000).

The Group continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowings and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group makes adjustments timely with reference to the latest market conditions.

As at 30 June 2018, if the long-term borrowing rate calculated by floating interest rate increased or decreased by 50 basis points while all other variables held constant, the net profit of the Group would stay stable for the period. (30 June 2017: RMB 897).

12. Financial risk (continued)

(2) Credit risk

Credit risk is managed on the portfolio basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables and long-term receivables, etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management expects that there will be low risk of significant losses from non-performance by these counterparties.

The Group, being a provider of healthcare services to patients, has a highly diversified customer base, without any single customer contributing material revenue. However, the Group has concentrated debtors portfolio, as majority patients will claim their medical bills from governments' social insurance schemes. Certain patients' costs will be reimbursed by other government bodies. The reimbursement from these organisations may take one to six months or not fully reimbursed. The Group has policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective organisations' policies and within reimbursement limits, provided fulfilling all ethics and moral responsibilities as healthcare provider. The Group also has controls to closely monitor the patients' billings and claim status to minimum the credit risk. For those balance not covered by social insurance scheme, the management assessed the collectability based on historical patterns and data. Based on the expected credit impairement losses, the Group accrued provision for bad debts RMB20,510,769 as at 30 June 2018(Note4(2) (b)).

Other receivables include the guarantee and deposit of the lease contract, employees deposit, prepayment for the employees social insurance, the loan to third party and receivables from the related-party. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.after considering their credit status and the guarantees they provided.

Long-term receivables is the deposit of payment to project contractors and the directors of the Company believe that there is no material credit risk

12. Financial risk (continued)

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarter. The Group's finance department at its headquarter monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and cash equivalent to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowings facilities from major financial institutions so that The Group does not breach borrowings limits or covenants on any of its borrowings facilities to meet the short-term and long-term liquidity requirements.

The financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	30 June 2018(Unaudited)				
	Within 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
Accounts payable	**75,904,091**	**—**	**—**	**—**	**75,904,091**
Other payables	**63,962,808**	**—**	**—**	**—**	**63,962,808**
Long-term payables	**17,959,504**	**5,797,800**	**21,109,900**	**126,524,400**	**171,391,604**
Bank borrowings	**140,631,791**	**5,001,164**	**107,582,568**	**—**	**253,215,523**
	298,458,194	**10,798,964**	**128,692,468**	**126,524,400**	**564,474,026**

	31 December 2017(Audited)				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Accounts payable	83,787,338	—	—	—	83,787,338
Other payables	99,796,754	—	—	—	99,796,754
Long-term payables	22,751,104	5,797,800	21,109,900	60,024,600	109,683,404
Bank borrowings	96,419,260	5,225,000	5,239,315	110,071,575	216,955,150
	302,754,456	11,022,800	26,349,215	170,096,175	510,222,646

12. Financial risk (continued)

(3) Liquidity risk (continued)

Bank and other borrowings are analysed by repayment terms as follows:

	30 June 2018(Unaudited)		31 December 2017(Audited)	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Within 1 year	130,000,000	6,000,000	90,000,000	6,000,000
2 - 5 years	105,000,000	—	—	—
Over 5 years	—	—	110,000,000	—
	235,000,000	6,000,000	200,000,000	6,000,000

13. Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

13. Fair value estimates (continued)

(1) Assets and liabilities measured at fair value on a recurring basis

As at 30 June 2018 and 31 December 2017, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	30 June 2018(Unaudited)			
	Level1	**Level2**	**Level3**	**Total**
Financial assets -				
Available-for-sale financial assets	—	—	**50,974,323**	**50,974,323**
Non-financial assets				
Investment properties	—	—	**128,568,963**	**128,568,963**
Total assets	—	—	**179,543,286**	**179,543,286**

	31 December 2017(Audited)			
	Level1	Level2	Level3	Total
Financial assets -				
Available-for-sale financial assets	—	—	50,000,000	50,000,000
Non-financial assets				
Investment properties	—	—	128,568,963	128,568,963
Total assets	—	—	178,568,963	178,568,963

The Group engaged Wenzhou Huaxin Assets Valuation Co.,Ltd to determine the fair value of the investment properties and the method of valuation adopted is the income based method. The input value adopted were the growth rate of rental, the return on rental and vacancy rate. Refer to Note 2(28) (a) (iii) for details.

The financial department of the Group is responsible for determining the fair value of the financial assets and liabilities. The financial department of the Group verified and accounted the assesement result mentioned above and prepared the disclosure information relating to the fair value based on the verified value assesement result.

13. Fair value estimates (continued)

(2) Assets and liabilities not measured at fair value but disclosed

The financial assets and liabilities that measured at amortized cost of the Group include: receivables, payables, long-term payables and borrowings.

The difference between the carrying amount of such financial assets and liabilities and their fair value is not material.

14. Capital management

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

The Group's total capital is calculated as 'owners' equity' as shown in the consolidated statement of financial position. The Group is not subject to external mandatory capital requirements.

As at 30 June 2018 and 31 December 2017, the Group's gearing ratio is as follows:

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Gearing ratio	**33.36%**	34.31%

15. Notes to the Company's financial statements

(1) Accounts receivable

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Due from the third parties	**121,966,473**	98,105,432
Less: Provision for bad debts	**(8,428,726)**	(5,811,088)
	113,537,747	92,294,344

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

(a) Provision for bad debts

(i) As at 30 June 2018, no provision for bad debts of account receviables was made individually.

(ii) As at 30 June 2018, the aging analysis of accounts receivable based on the billing date by group is as follows:

	30 June 2018		
	Balance	**Provision for bad debts**	
	Amount	**Estimated credit loss during the survival period**	**Amount**
Not overdue – unbilled	**12,224,451**	**1%**	**122,244**
Within 3 months	**45,941,378**	**5%**	**2,496,542**
Within 1 year	**45,927,722**	**6%**	**2,948,556**
1 - 2 years	**15,867,447**	**11%**	**1,738,242**
2 - 3 years	**1,764,668**	**50%**	**882,334**
Over 3 years	**240,807**	**100%**	**240,808**
Total	**121,966,473**	**7%**	**8,428,726**

(iii) Accrued provision for bad debts during this period is RMB 2,349,953 with no reversed or recovered provision.

(b) The actual amount of accounts receivable write-off is RMB246,478, mainly for Medical insurance deduction.

15. Notes to the Company's financial statements (continued)

(2) Other receivables

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Receivable from related parties(Note8(5) (a))	**501,102,369**	430,644,831
Prepayments	**8,756,308**	11,462,532
Deposit and guarantee	**760,235**	845,243
Others	**669,390**	245,216
	511,288,302	443,197,822
Less: Provision for bad debts	**(1,905,948)**	(2,289,783)
	509,382,354	440,908,039

(a) Movement of balance and provision for bed debt

	Stage 1 Expected Credit Loss within 12 months (grouped)		Stage 3 Lifetime expected Credit loss (credit-impaired)		Total
	Balance	Provision for bad debt	Balance	Provision for bad debt	Provision for bad debt
31 December 2017	440,848,364	886,410	2,349,458	1,403,373	2,289,783
Addition	68,090,480	—	—	—	—
Reversal	—	(383,835)	—	—	(383,835)
30 June 2018	508,938,844	502,575	2,349,458	1,403,373	1,905,948

15. Notes to the Company's financial statements (continued)

(2) Other receivables (continued)

(a) Bad debt and relavent balance statement (continued)

(i) As at 30 Jun 2018, the analyse of other receivables classified in "stage 1" was as follow:

	Balance	Expected Credit Loss rate within 12 months	Provision for bad debt
by group:			
Prepayments	6,600,193	7%	285,117
Receivable from related parties-outside the Group	4,305,724	5%	193,758
Receivable from related parties-inside the Group	496,796,645	0%	—
Deposit and guarantee	669,390	3%	17,007
Others	566,892	1%	6,693
	508,938,844		502,575

(ii) As at 30 June 2018, there was no other receivables classified in "stage 2".

(iii) As at 30 June 2018, the analyse of other receivables classified in "stage 3".

	Balance	Lifetime expected Credit Loss rate	Provision for bad debt
Guoxiu Hong and Honggen Min	2,156,115	56%	1,210,030
Wenzhou Mingou Real Estate Development Co., Ltd	193,343	100%	193,343
	2,349,458		1,403,373

15. Notes to the Company's financial statements (continued)

(2) Other receivables (continued)

(b) There was no provision accrued for the six months ended 30 June 2018 and the company reversed bad debt of RMB 383,835 within this period.

(c) There was no written-off of other receivables during this period.

(3) Long-term equity investment

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Subsidiaries(a)	**102,972,928**	102,972,928
Associates (b)	**20,010,580**	21,767,344
	122,983,508	124,740,272

The Group did not have significant restrictions on the realization of long-term equity investments.

15. Notes to the Company's financial statements (continued)

(3) Long-term equity investment

(a) Subsidiaries

	31 December 2017 (Audited)	The change in the six months ended 30 June: Increase	Decrease	Accrual for provision for impairment	Others	30 June 2018 (Unaudited)	Provision for impairment	Cash dividends declared in the current period
Qingtian Kangning Hospital	1,000,000	—	—	—	—	1,000,000	—	—
Yongjia Kangning Hospital	1,000,000	—	—	—	—	1,000,000	—	—
Cangnan Kangning Hospital	1,000,000	—	—	—	—	1,000,000	—	—
Yueqing Kangning Hospital	1,000,000	—	—	—	—	1,000,000	—	—
Judicial Forensic Center	500,000	—	—	—	—	500,000	—	—
Shenzhen Yining Medical Investment Co.,ltd	10,000,000	—	—	—	—	10,000,000	—	—
Linhai Kangning Hospital	1,600,000	—	—	—	—	1,600,000	—	—
Langfang Yining Hospital Management Co.,ltd	10,000,000	—	—	—	—	10,000,000	—	—
Zhejiang Huangfeng Co.,ltd	26,872,928	—	—	—	—	26,872,928	—	—
Zhejiang Kangning	50,000,000	—	—	—	—	50,000,000	—	—
	102,972,928	—	—	—	—	102,972,928	—	—

* As at 30 June 2018, the amount of investment that the Company has not paid to Zhejiang Huangfeng Co., ltd was RMB637,135.

(b) Associates

	31 December 2017 (Audited)	The change in the six months ended 30 June: Initial investment	Decrease	Share of net profit/ (loss) under equity method	the adjustment of other comprehensive income	the change of other equity	Cash dividends declared in the current period	Accrual for provision for impairment	Others	30 June 2018 (Unaudited)	The closing amount of provision for impairment
Hangzhou Anken	6,874,892	—	—	(965,818)	—	—	—	—	—	5,909,074	—
Shandong Yining Hospital	14,892,452	—	—	(790,946)	—	—	—	—	—	14,101,506	—
	21,767,344	—	—	(1,756,764)	—	—	—	—	—	20,010,580	—

15. Notes to the Company's financial statements (continued)

(4) Fixed assets

	Bulidings	Medical equitment	Motor vehicles	Electronic and other equitment	Total
Cost					
31 December 2017	323,545,373	33,940,924	3,266,928	16,004,963	376,758,188
Additon					
Purchase	969,050	1,911,401	—	815,515	3,695,966
Transferred from construction in progress	332,312	—	—	—	332,312
Decrease					
Disposal	—	—	—	(2,451)	(2,451)
30 June 2018	324,846,735	35,852,325	3,266,928	16,818,027	380,784,015
Accumulated depreciation					
31 December 2017	20,649,425	17,817,818	1,937,967	8,907,542	49,312,752
Addition					
Charge for the year	4,685,697	2,256,426	165,705	982,655	8,090,483
Decrease					
Disposal	—	—	—	(2,328)	(2,328)
30 June 2018	25,335,122	20,074,244	2,103,672	9,887,869	57,400,907
Net book value					
30 June 2018(Unaudited)	299,511,613	15,778,081	1,163,256	6,930,158	323,383,108
31 December 2017(Audited)	302,895,948	16,123,106	1,328,961	7,097,421	327,445,436

The depreciation charged during the six months ended 30 June 2018 was RMB 8,090,483 (six months ended 30 June 2017: RMB 3,725,313) and the amount charged to cost of sales and general and administrative was RMB6,719,516 and RMB1,370,967, respectively (six months ended 30 June 2017: RMB 2,058,525 and RMB 1,666,788).

As at 30 June 2018 and at 31 December 2017, the Company had no fixed assets pledged.

During the six months ended 30 June 2018, the cost of fixed assets transferring from construction in progress was RMB 332,312(the six months ended 30 June 2017: nil).

15. Notes to the Company's financial statements (continued)

(5) Construction in progress

(a) The movement of construction in progress

Project name	31 December 2017 (Audited)	Increase in the six months ended 30 June 2018	Transfer to fixed assets/ long-term prepaid expenses	30 June 2018 (Unaudited)	Accumulative amount of capitalised borrowings costs	Including: Borrowings costs capitalised in the six months ended 30 June 2018	Capitalisation rate
The decoration project of Wenzhou Kangning Hospital	3,294,872	4,428,437	(3,364,969)	4,358,340	—	—	—

As at 30 June 2018 and 31 December 2017, the management of the Company considered that there did not exist the objective evidence that indicated the construction in progress was impaired and no provision for impairment was required.

(6) Intangible assets

	Land use rights	Software	Contractual right to provide management service	Total
Cost				
31 December 2017	23,602,729	3,238,650	93,146,600	119,987,979
Addition	—	755,001	—	755,001
30 June 2018	23,602,729	3,993,651	93,146,600	120,742,980
Accumulated amortisation				
31 December 2017	3,808,329	1,971,364	12,969,500	18,749,193
Addition	236,027	334,852	2,358,000	2,928,879
30 June 2018	4,044,356	2,306,216	15,327,500	21,678,072
Net book value				
30 June 2018(Unaudited)	19,558,373	1,687,435	77,819,100	99,064,908
31 December 2017(Audited)	19,794,400	1,267,286	80,177,100	101,238,786

15. Notes to the Company's financial statements (continued)

(6) Intangible assets (continued)

The amortisation charge during the six months ended 30 June 2018 was RMB2,928,879 (six months ended 30 June 2017: RMB 2,885,055) and the amount charges to cost of sales and general and administrative RMB 2,483,365 and RMB 445,514, respectively (six months ended 30 June 2017: RMB 2,472,828 and RMB 412,227).

As at 30 June 2018 and 31 December 2017, the Company had no intangible assets pledged.

(7) Provision for assets impairment

	31 December 2017 (Audited)	Change in accounting policy	1 January 2018	Addition	Decrease Recovery	Decrease Written-off	30 June 2018 (Unaudited)
Provision for accounts receivable	5,811,088	514,163	6,325,251	2,349,953	—	(246,478)	8,428,726
Provision for other receivables	2,289,784	—	2,289,784	—	(383,836)	—	1,905,948
	8,100,872	514,163	8,615,035	2,349,953	(383,836)	(246,478)	10,334,674

(8) Capital surplus

	31 December 2017 (Audited)	Increase	Decrease	**30 June 2018 (Unaudited)**
Share premium	760,572,782	—	—	**760,572,782**
Other capital surplus				
– Share-based payment (Note 9)	5,720,813	206,400	—	**5,927,213**
– Others	40,815,879	—	—	**40,815,879**
	807,109,474	206,400	—	**807,315,874**

15. Notes to the Company's financial statements (continued)

(9) Retained earning

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Retained earnings at beginning of period (before adjustment)	**137,084,775**	108,895,141
Adjustment	**345,120**	—
Retained earnings at beginning of period (after adjustment)	**137,429,895**	108,895,141
Add: Net profit attributable to shareholders of the parent company	**19,348,258**	17,621,090
Ordinary share dividends payable	**(10,956,000)**	(18,260,000)
Retained earnings at end of the year	**145,822,153**	108,256,231

Pursuant to the shareholders' approval on 13 June 2018, the Company declared a 2017 final cash dividend of RMB10,956,000, being RMB 0.15 per share for issued and outstanding shares of 73,040,000. The dividend was not paid yet.

15. Notes to the Company's financial statements (continued)

(10) Revenue and cost of sales

	Six months ended 30 June 2018		Six months ended 30 June 2017	
	Revenue (Unaudited)	**Cost (Unaudited)**	Revenue (Unaudited)	Cost (Unaudited)
Main businesses	**171,293,262**	**110,483,484**	148,598,057	99,151,206
Other businesses	**350,655**	**—**	48,176	—
	171,643,917	**110,483,484**	148,646,233	99,151,206

(a) *Revenue and cost of sale from main operations*

	Six months ended 30 June 2018		Six months ended 30 June 2017	
	Revenue (Unaudited)	**Cost (Unaudited)**	Revenue (Unaudited)	Cost (Unaudited)
Pharmaceutical sales	**45,937,003**	**38,918,721**	42,430,403	35,779,303
Treatments and general healthcare services	**117,961,952**	**66,321,246**	97,002,193	58,823,314
Management service fee	**7,394,307**	**5,243,517**	9,165,461	4,548,589
	171,293,262	**110,483,484**	148,598,057	99,151,206

(b) *Revenue and cost of sales from other operations*

	Six months ended 30 June 2018		Six months ended 30 June 2017	
	Revenue (Unaudited)	**Cost (Unaudited)**	Revenue (Unaudited)	Cost (Unaudited)
Others	**350,655**	**—**	48,176	—

15. Notes to the Company's financial statements (continued)

(11) Financial expenses-net

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Net exchange loss	**355,273**	7,730,248
Interest income	**(1,036,748)**	(2,082,764)
Interest expense	**3,980,179**	4,463,708
Less: capitalised interest	**—**	(3,115,208)
The amortization of unrecognized financial expenses(i)	**2,750,100**	2,724,600
Others	**179,830**	129,982
	6,228,634	9,850,566

(i) The amount represented the unwinding of discount on long-term payables being calculated using effective interest rate method. (Note 4(26))

15. Notes to the Company's financial statements (continued)

(12) Expenses by nature

The cost of sales, selling and distribution expenses, and general and administrative expenses in the income statement are listed as follows by nature:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Employee and welfare benefits	**49,313,016**	44,331,302
Pharmaceutical and medical consumables used	**49,157,065**	43,177,720
Depreciation of fixed assets	**8,090,483**	3,725,313
Amortisation of intangible assets	**2,928,879**	2,885,055
Amortisation of long-term prepayment	**3,042,538**	4,222,629
Operating lease expenses	**978,738**	3,919,872
Canteen expenditure	**4,804,276**	4,038,794
Consumables	**2,458,716**	2,236,509
Outsourcing expenses	**363,486**	486,789
Testing fee	**2,176,209**	1,297,930
Consulting expense	**3,875,434**	2,692,740
Promotion expenses	**725,457**	222,512
Travel and transportation expenses	**1,955,973**	1,249,941
Office expenses	**2,041,662**	703,015
Share-based payment(Note 9)	**206,400**	206,400
Others	**4,202,878**	3,368,622
	136,321,210	118,765,143

(13) Credit impairment losses

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Bad debts provision	**1,966,117**	—

There was no significant limitation to the receivable of the investment income of the Company.

15. Notes to the Company's financial statements (continued)

(14) Investment losses

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Share of net gains or losses of investees under the equity method	**1,756,764**	613,847

(15) Income tax expenses

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Current income tax	**7,392,486**	7,284,343
Deferred income tax	**(352,438)**	(565,796)
	7,040,048	6,718,547

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 is listed below:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Profit before tax	**26,388,305**	24,339,637
Income tax expenses calculated at the effect tax rate of 25%	**6,597,076**	6,084,909
Expenses not deductible for tax purposes	**442,972**	290,455
Adjustment of income tax	**—**	476,981
Income not subject to tax	**—**	(133,798)
Income tax expenses	**7,040,048**	6,718,547

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)
"Chongqing Hechuan Kangning Hospital"	Chongqing Hechuan Kangning Hospital Co., Ltd. (重慶合川康寧醫院有限公司), an associate company established in the PRC with limited liability on June 5, 2015 and is held as to 40% by the Group
"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 Hong Kong Stock Exchange (Stock Code: 2120)
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
"CSRC"	the China Securities Regulatory Commission
"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

"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 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
"H Share(s)"	overseas listed foreign invested ordinary share(s) in the ordinary 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 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. (菏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"	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
"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

Definitions

"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
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"Nanchang Kangning Hospital"	Nanchang Kangning Hospital Co., Ltd. (南昌康寧醫院有限公司), a company established in the PRC with limited liability on April 7, 2016, one of the Company's non-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
"Nomination Committee"	the nomination committee of the Board
"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 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 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

Definitions

"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
"Reporting Period"	the six months ended June 30, 2018
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	the lawful currency of the PRC
"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)
"Shandong Yining Hospital"	Shandong Yining Hospital Management Co., Ltd. (山東怡寧醫院管理有限公司), an associate company established in the PRC with limited liability on August 16, 2016 and is held as to 49% by the Group
"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
"Sihui Kangning Hospital"	Sihui Kangning Hospital Co., Ltd. (四會康寧醫院有限公司), a company established in the PRC with limited liability on August 19, 2016, one of the Company's indirect 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
"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

Definitions

"USD"	the lawful currency of the United States
"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

溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.