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

Interim Results Announcement For the Six Months Ended June 30, 2017

1 INTRODUCTION

1.1 The Board is pleased to announce the interim results of the Group for the Reporting Period with comparative figures for the six months ended June 30, 2016.

1.2 The financial report of the Group for the Reporting Period (the "**Financial Report**") is prepared in accordance with China Accounting Standards for Business Enterprises, the comparative figures for the six months ended June 30, 2016 has been re-presented under China Accounting Standards for Business Enterprises.

2 PRINCIPAL FINANCIAL DATA AND INDICATORS

	For the six months ended June 30, 2017 *RMB'000* *(Unaudited)*	2016 *RMB'000* *(Unaudited)*
Revenue	**283,136**	189,680
Profit before income tax	**42,319**	36,818
Income tax expense	**(12,014)**	(10,531)
Net profit	**30,305**	26,287
Net profit attributable to equity holders of the Company	**31,710**	28,208
Non-controlling interests	**(1,405)**	(1,921)

	As of June 30, 2017 *(RMB'000)* *(Unaudited)*	As of December 31, 2016 *(RMB'000)* *(Audited)*
Total assets	**1,757,386**	1,603,382
Total liabilities	**689,664**	562,012
Total equity	**1,067,722**	1,041,370
Equity attributable to owners of the Company	**1,022,149**	1,008,384
Non-controlling interests	**45,573**	32,986

3 BUSINESS REVIEW AND OUTLOOK

In the first half of 2017, with the deepening of the reform of Chinese healthcare system, while continuously enhancing the operational capacities of the network of healthcare facilities, we have implemented certain medium- and long-term development strategies so as to lay the foundation for the long-term development of the Group. Details of the progress have been made are set out as follows:

In the first half of 2017, the Group's owned hospital business continued to develop steadily. Pingyang Kangning Hospital and Shenzhen Yining Hospital commenced operation in March 2017 in succession and achieved rapid improvement in bed utilization rates. The business of Linhai Kangning Hospital, Geriatric Hospital and Quzhou Yining Hospital, which were newly opened in 2016, entered a phase of rapid growth and in particular, Linhai Kangning Hospital turned loss into profits after 8 months' operation. Qingtian Kangning Hospital and Yueqing Kangning Hospital also increased considerably in service volume comparing to the same period last year, while Wenzhou Kangning Hospital, Cangnan Kangning Hospital and Yongjia Kangning Hospital slowed down in business growth due to limited space for expansion. As of June 30, 2017, the number of the Group's owned hospitals increased to 10 (December 31, 2016: 8) and the number of beds under operation increased to 3,050 (December 31, 2016: 2,577).

In the first half of 2017, the Group's business of managing healthcare facilities achieved better performance than expected. First of all, the Group secured entrustment management of Yiwu Psychiatric Health Center and Wenzhou Cining Hospital Co., Ltd through formal agreement and the number of beds increased by 280. Secondly, Beijing Yining Hospital, which previously endured great losses achieved rapid enhancement in bed utilization rates through introducing the internet operation teams for promotion. The business in Yanjiao Furen Hospital, Pujiang Hospital, Chun'an Hospital and Pingyang Changgeng Ward which were previously under our management, also achieved stable development. Only the business of Chengdu Renyi Ward was not developed due to the change of ownership of the cooperative hospital. As of June 30, 2017, the healthcare facilities managed by the Group increased to 8 (December 31, 2016: 6) and the number of beds under management increased to 1,100 (December 31, 2016: 790).

In the first half of 2017, while steadily developing our existing owned hospitals, the Group continued to accelerate network layout through self-construction, investment as a minority shareholder and other methods. As for the self-construction hospitals, Hangzhou Yining Hospital, Langfang Yining Hospital, Taizhou Luqiao Yining Hospital Co., Ltd. and Sihui Kangning Hospital were under construction. As for investment as a minority shareholder, Chongqing Hechuan Kangning Hosptial has put into operation. Guanxian Yining Hospital Co., Ltd. under Shandong Yining Hospital has obtained the Medical Practice Licence. The Group also newly invested in Heze Yining Hospital Co., Ltd. and Shanxi Shanda Hospital Management Consulting (which has been operating Shanyang Shengquan Rehabilitation Hospital and Shangshan Rehabilitation Hospital, and is preparing for Dali Shanda Hospital Co., Ltd.).

Looking into the future, we will leverage on the favourable environment where the PRC government encourages the social capital to establish medical facilities to further implement the medium- and long-term strategic layout of the Group. We will strengthen the operation promotion of Quzhou Yining Hospital, Pingyang Kangning Hospital and Shenzhen Yining Hospital, so as to achieve profitability as soon as possible. While accelerating the network layout of healthcare facilities, we will increase the training of talents and the Group's information construction to enhance the quality of the hospitals' healthcare services under the Group.

4 MANAGEMENT DISCUSSION AND ANALYSIS

4.1 Financial Review

The Group achieved revenue of RMB283.1 million for the Reporting Period, after excluding the revenue of RMB44.0 million for property business, the revenue of healthcare business amounted to RMB239.1 million, representing an increase of 26.1% as compared with that of the same period of 2016. The revenue from operating the Group's owned hospitals and the management service fees from managing healthcare facilities both increased. However, because the utilization rate of Quzhou Yining Hospital, Pingyang Kangning Hospital and Shenzhen Yining Hospital, which were newly opened, is still in the developing phase, the gross profit margin of our owned hospitals decreased to 33.1%, and the gross profit margin of healthcare facilities management business was 54.6%. As such, the overall gross profit margin of the Group for the Reporting Period decreased to 34.1% (for the six months ended June 30, 2016: 37.0%). During the Reporting Period, net profit attributable to shareholders of the company amounted to RMB31.7 million, representing an increase of 12.4% as compared with that of the same period of 2016, which is lower than the increase of the revenue, primarily due to the exchange losses after tax of RMB5.8 million, while for the same period of 2016 recorded the exchange gains after tax of RMB7.2 million.

4.1.1 Revenue and Cost of Revenue

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

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

	For the six months ended June 30,	
	2017	2016
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Revenue from operating the owned hospitals	**226,529**	178,979
Management service fee income	**11,579**	8,838
Revenue from other healthcare related business	**987**	1,863
Total revenue of healthcare business	**239,095**	189,680
Revenue of the property business	**44,041**	—
Total revenue	**283,136**	189,680

During the Reporting Period, total revenue of the Group amounted to RMB283.1 million, representing an increase of 49.3% as compared with that of the same period of 2016, primarily due to (i) the increase of revenue from operating the Group's owned hospitals by 26.6%, (ii) the increase of management service fee income by 31.0% and (iii) revenue of property sales amounted to RMB41.4 million arising from the delivery of part properties in Phase II Works of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda. Revenue from operating the Group's owned hospitals accounted for 94.7% of total healthcare business revenue (for the six months ended June 30, 2016: 94.4%) and management service fee income accounted for 4.8% of total healthcare business revenue (for the six months ended June 30, 2016: 4.7%). The proportion of revenue from operating the owned hospitals and management service fee income to total healthcare business revenue of healthcare business has no significant change.

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,	
	2017	2016
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Treatment and general healthcare services		
Revenue	**166,226**	129,416
Cost of revenue	**102,118**	73,792
Gross profit	**64,108**	55,624
Pharmaceutical sales		
Revenue	**60,303**	49,563
Cost of revenue	**49,515**	40,834
Gross profit	**10,788**	8,729
Owned hospitals		
Revenue	**226,529**	178,979
Cost of revenue	**151,633**	114,626
Gross profit	**74,896**	64,353

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB226.5 million, representing an increase of RMB47.6 million as compared with that of the same period of 2016, 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 RMB22.8 million (for the six months ended June 30, 2016: RMB0.5 million).

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, 2017	2016
Inpatients		
Inpatient bed as at period end	**3,050**	2,300
Effective inpatient service bed-day capacity	**552,050**	418,600
Utilization rate (%)	**85.9%**	88.6%
Number of inpatient bed-days	**474,163**	370,702
Treatment and general healthcare services revenue attributable to inpatients (RMB'000)	**158,561**	121,743
Average inpatient spending per bed-day on treatment and general healthcare services (RMB)	**334**	329
Pharmaceutical sales revenue attributable to inpatients (RMB'000)	**28,427**	21,980
Average inpatient spending per bed-day on pharmaceutical sales (RMB)	**60**	59
Total inpatient revenue (RMB'000)	**186,988**	143,723
Total average inpatient spending per bed-day (RMB)	**394**	388
Outpatients		
Number of outpatient visits	**75,872**	68,875
Treatment and general healthcare services revenue attributable to outpatients (RMB'000)	**7,665**	7,673
Average outpatient spending per visit on treatment and general healthcare services (RMB)	**101**	112
Pharmaceutical sales revenue attributable to outpatients (RMB'000)	**31,876**	27,583
Average outpatient spending per visit on pharmaceutical sales (RMB)	**420**	400
Total outpatient revenue (RMB'000)	**39,541**	35,256

	For the six months ended June 30, **2017**	2016
Total average outpatient spending per visit (RMB)	**524**	512
Total treatment and general healthcare services revenue (RMB'000)	**166,226**	129,416
Total pharmaceutical sales revenue (RMB'000)	**60,303**	49,563

During the Reporting Period, inpatient revenue amounted to RMB187.0 million, representing an increase of 30.1% as compared with that of the same period of 2016, primarily due to (i) the increase of 27.9% in the number of inpatient bed-days arising from the considerable increase of inpatient beds in Linhai Kangning Hospital, Geriatric Hospital and Quzhou Yining Hospital and (ii) the increase of 1.6% in average inpatient spending per bed-day. Inpatient revenue increased to 82.5% of our revenue from operating our owned hospitals (for the six months ended June 30, 2016: 80.3%).

During the Reporting Period, outpatient revenue amounted to RMB39.5 million, representing an increase of 12.2% as compared with that of the same period of 2016, primarily due to (i) the increase of outpatient visits by 10.2% and (ii) the increase of average outpatient spending per visit by 2.3%. The proportion of outpatient revenue to our revenue from operating our owned hospitals decreased to 17.5% (for the six months ended June 30, 2016: 19.7%), 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 28.4% as compared with that of the same period of 2016, accounting for 73.4% of our revenue from operating our owned hospitals (for the six months ended June 30, 2016: 72.3%); and revenue from pharmaceutical sales increased by 21.7% as compared with that of the same period of 2016, accounting for 26.6% of our revenue from operating our owned hospitals (for the six months ended June 30, 2016: 27.7%).

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

	For the six months ended June 30,	
	2017	2016
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Pharmaceuticals and consumables used	**58,173**	48,086
Employee benefits and expenses	**50,903**	39,834
Leasing expenses	**9,857**	4,785
Depreciation and amortization	**13,642**	7,103
Canteen expenses	**8,120**	6,544
Testing fees	**4,182**	2,180
Others	**6,756**	6,094
Cost of revenue for owned hospitals	**151,633**	114,626

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB151.6 million, representing an increase of 32.3% as compared with that of the same period of 2016, which was higher than the increase of revenue. It was mainly due to: (i) the increase of 21.0% in pharmaceutical expenses relating to increase in revenue from pharmaceutical sales; (ii) the increase of 27.8% in employee benefits and expenses arising from the increase in beds in operation of our owned hospitals; (iii) the increase of leasing expenses and depreciation and amortization of RMB11.6 million of Linhai Kangning Hospital, Geriatric Hospital, Quzhou Yining Hospital and Shenzhen Yining Hospital which were newly put into operation after April 2016, representing an increase of 97.7%.

From the cost structure perspective, pharmaceutical and consumables used is still the main part of cost of revenue of the owned hospitals, accounting for 38.4% (for the six months ended June 30, 2016: 42.0%). The second part is employee benefits and expenses, which accounted for 33.6% of cost of revenue of the owned hospitals (for the six months ended June 30, 2016: 34.8%). Leasing expenses, together with depreciation and amortization, accounted for 15.5% of cost of revenue of owned hospitals (for the six months ended June 30, 2016: 10.4%). 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 leasing expenses and depreciation and amortization, as compared with that of the same period of 2016.

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,	
	2017	2016
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Revenue	**11,579**	8,838
Cost of revenue	**5,252**	4,319
Gross profit	**6,327**	4,519

During the Reporting Period, management service fee income of the Group amounted to RMB11.6 million, representing an increase of 31.0% as compared with that of the same period of 2016, due to the contribution of the management service fee of RMB2.7 million in relation to Yanjiao Furen Hospital entrusted by the Group.

Cost of the Group for rendering management services primarily include benefits and expenses for management staff assigned and amortization of operation rights acquired for obtaining operation rights. During the Reporting Period, cost of revenue of management service fee of the Group increased to RMB5.3 million, representing an increase of 21.6% as compared with that of the same period of 2016, which is lower than the increase of management service fee income, mainly because the operation rights in relation to the cost of revenue of management service fee are amortized on the straight-line basis and the annual amortization amount is fixed. Accordingly, gross profit margin of the management service business increased to 54.6% (for the six months ended June 30, 2016: 51.1%).

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 amounted to RMB44.0 million (for the six months ended June 30, 2016: nil), mainly due to property sales income of RMB41.4 million and leasing income of RMB2.6 million were recorded by Wenzhou Guoda, which was acquired by the Group in August 2016, during the Reporting Period. While the revenue of the Group did not include the property business of Wenzhou Guoda as of the same period of 2016. The corresponding cost and tax of property sales were RMB37.6 million, therefore the gross profit in property sales business contributed by Wenzhou Guoda during the Reporting Period amounted to RMB6.4 million.

4.1.2 Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB92.0 million, representing an increase of 31.2% as compared with that of the same period of 2016. The gross profit of healthcare business after deducting property business amounted to RMB81.6 million, representing an increase of 16.4% as compared with that of the same period of 2016. 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,	
	2017	2016
	(Unaudited)	*(Unaudited)*
Treatment and general healthcare services	**38.6%**	43.0%
Pharmaceutical sales	**17.9%**	17.6%
Management services	**54.6%**	51.1%
Property and other businesses	**23.9%**	66.0%
Consolidated gross profit margin	**32.5%**	37.0%

During the Reporting Period, consolidated gross profit margin of the Group decreased to 32.5% (for the six months ended June 30, 2016: 37.0%), mainly due to the relatively low gross profit of property sales business of Wenzhou Guoda, excluding the property business, the gross profit margin of healthcare business amounted to 34.1%, representing a decrease of 2.9 percentage points as compared with that of the same period of 2016, mainly due to the utilization rate of Geriatric Hospital, Quzhou Yining Hospital, Pingyang Kangning Hospital and Shenzhen Yining Hospital, which were newly opened, is still in the increasing phase and therefore the gross profit margin cannot reach the level of mature hospitals.

4.1.3 Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB3.9 million (for the six months ended June 30, 2016: RMB34.1 thousand), mainly due to the increase of land value added tax arising from the property sales operated by Wenzhou Guoda.

4.1.4 Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB0.4 million (for the six months ended June 30, 2016: RMB1.0 million), representing a decrease of 56.3% as compared with that of the same period of 2016 and accounting for 0.2% of the healthcare business revenue of the Group (for the six months ended June 30, 2016: 0.5%), mainly due to the promotion activities during the Reporting Period were reduced as compared with that of the same period of 2016.

4.1.5 Administrative Expenses

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

	For the six months ended June 30,	
	2017	2016
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Employee benefits and expenses	**17,968**	15,247
Leasing expenses of the hospitals under development	**7,956**	8,477
Depreciation and amortization	**3,980**	3,708
Consultancy expenses	**2,667**	1,791
Travelling expenses	**1,615**	1,492
Others	**5,628**	5,644
Total administrative expenses	**39,814**	36,359

During the Reporting Period, the administrative expenses of the Group amounted to RMB39.8 million (for the six months ended June 30, 2016: RMB36.4 million), representing an increase of 9.5% as compared with that of the same period of 2016, mainly due to an increase of RMB2.7 million for our employee benefits and expenses arising from the increase of our management staff. The proportion of the administrative expenses of healthcare business to the healthcare business revenue of the Group decreased to 16.3% (for the six months ended June 30, 2016: 19.2%), mainly due to (i) the management efficiency of the Group headquarter has been improved with the expansion of the Group's business scale; and (ii) after Shenzhen Yining Hospital opened in March 2017, its leasing expenses were recorded in cost of revenue.

4.1.6 Finance (Expenses)/Income – Net

Our finance income includes interest income from bank deposits and the gains on foreign exchange, and the finance expenses include the interest expenses on bank loans, the losses on foreign exchange and the amortization of unrecognized financial charge in related 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,	
	2017	2016
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Interest income	**1,907**	3,102
Exchange (loss)/gain	**(7,730)**	9,592
Borrowing interest expense	**(1,691)**	—
The amortization of unrecognized financial charge	**(2,725)**	(2,777)
Others	**(198)**	(131)
Finance (expenses)/income – Net	**(10,437)**	9,786

During the Reporting Period, the net finance expenses of the Group amounted to RMB10.4 million, representing a decrease of RMB20.2 million as compared with that of the same period of 2016, mainly due to (i) the exchange losses of RMB7.7 million arising from the lower exchange rate of HKD against RMB during the Reporting Period, representing a decrease of RMB17.3 million as compared with that of the same period of 2016 ; (ii) an increase of RMB1.7 million arising from interest expense of bank borrowings.

4.1.7 Investment Income/(Loss)

Our investments income/(loss) consist of share of investments income/(loss) accounted for using the equity method and gains/(loss) arising from disposal of long-term equity investment. The table below sets forth a breakdown of our investments income/(loss) for the periods indicated:

	For the six months ended June 30,	
	2017	2016
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Share of gains/(losses) of investments accounted for using the equity method	**(2,852)**	(2,200)
Gains arising from disposal of long-term equity investment	**5,243**	—
	2,391	(2,200)

During the Reporting Period, the investment gains of the Group amounted to RMB2.4 million (for the six months ended June 30, 2016: losses of RMB2.2 million), mainly because our equity interest in Beijing Yining Hospital has been diluted from 49.0% to 32.7% due to the capital increase of other shareholders. Therefore, while recognizing the gains of RMB5.2 million arising from the deemed disposal of 16.3% equity investment in Beijing Yining Hospital, offsetting the investment losses in Chongqing Hechuan Kangning Hospital and Hangzhou Honglan Information accounted for using the equity method accordingly.

4.1.8 Assets Impairment Losses

During the Reporting Period, the assets impairment losses increased to RMB2.8 million (for the six months ended June 30, 2016: RMB1.2 million), representing an increase of 137.4% as compared with that of the same period of 2016 and accounting for 1.2% of revenue of healthcare business (for the six months ended June 30, 2016: 0.6%), mainly due to the slight increase of account receivables for the Reporting Period as compared with the balance of December 31, 2016, and we increased the provisions for bad debts accordingly. As at June 30, 2017 and December 31, 2016, the provisions for bad debts of the Group's healthcare business amounted to RMB10.4 million and RMB8.1 million respectively and accounted for 5.1% and 5.4% of total receivables at the corresponding time.

4.1.9 Non-Operating Income (Expenses) and Other Income

Our non-operating income mainly consists of government grants, and non-operating expenses mainly consist of donation expenses 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 income for the periods indicated:

	For the six months ended June 30,	
	2017	2016
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Government grants	**5,246**	143
Other non-operating income	**131**	42
Non-operating income	**5,377**	185
Donation	**(2,247)**	(1,935)
Losses on disposal of non-current assets	**(96)**	(84)
Other non-operating expenses	**(326)**	(435)
Non-operating expenses	**(2,669)**	(2,454)
Other gain	**2,693**	—

During the Reporting Period, the non-operating income of the Group increased to RMB5.4 million, primarily due to the government grants of RMB4.8 million arising from the listing of the Group. The non-operating expenses of the Group increased slightly to RMB2.7 million, primarily due to the slight increase in the donation expenses. Other gain of the Group increased to RMB2.7 million, primarily due to the increase of the government grants in relation to healthcare business.

4.1.10 Income Tax Expense

During the Reporting Period, income tax expense increased to RMB12.0 million (for the six months ended June 30, 2016: RMB10.5 million), representing an increase of 14.1% as compared with that of the same period of 2016, mainly due to the increase of the Group's profits before income tax during the Reporting Period amounted to 14.9% as compared with that of the same period of 2016. For the six months ended June 30, 2017 and 2016, our actual tax rates were 28.4% and 28.6%, respectively. The slight decrease in actual tax rates for the Reporting Period was mainly due to the decrease in the expenses which cannot be pretax deducted.

4.1.11 *Total Comprehensive Income*

During the Reporting Period, total comprehensive income attributable to owners of the Company amounted to RMB31.7 million, representing an increase of 12.4% as compared with that of the same period of 2016, primarily due to the following incidental factors:

i. an increase of RMB3.4 million in relation to the profit before tax arising from property sales business of Wenzhou Guoda for the Reporting Period;

ii. the exchange loss of RMB7.7 million arising from the lower exchange rate of HKD against RMB for the Reporting Period.

Because of the above incidental factors, total comprehensive income attributable to owners of the Company decreased by RMB3.9 million during the Reporting Period. Excluding incidental factors above, total comprehensive income attributable to owners of the Company for the Reporting Period amounted to RMB35.6 million, representing an increase of 26.2% as compared with that of the same period of 2016, primarily due to the rapid enhancement in bed utilization rates of Linhai Kangning Hospital, which started to contribute profit during the Reporting Period while it recorded losses as of the same period of 2016.

4.2 Financial Position

4.2.1 Inventory

As of June 30, 2017, inventory balances amounted to RMB176.6 million (as of December 31, 2016: RMB162.8 million), mainly includes (i) the medical inventory and turnover materials amounted to RMB14.5 million (as of December 31, 2016: RMB9.3 million); and (ii) completed properties amounted to RMB162.1 million (as of December 31, 2016: properties under development RMB153.5 million), representing Phase II Works of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda. The table below sets forth the details of completed properties held by us during the Reporting Period:

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

4.2.2 Trade Receivables

As of June 30, 2017, the balance of trade receivables amounted to RMB195.2 million (as of December 31, 2016: RMB142.9 million), the balance of receivables for healthcare business amounted to RMB189.4 million, representing an increase of 32.5% as compared with that of December 31, 2016, primarily due to 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 2016.

During the Reporting Period, the receivables turnover days were 125 days (for the six months ended June 30, 2016: 120 days).

4.2.3 Other Receivables and Prepayments

As of June 30, 2017, other receivables and prepayments slightly decreased to RMB75.8 million (as of December 31, 2016: RMB77.0 million).

4.2.4 Investment Properties

As of June 30, 2017, the balance of investment properties amounted to RMB72.2 million (as of December 31, 2016: RMB72.2 million), representing Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F) 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. 3-290617, Wen Guoyong (2012) No. 3-290604, Wen Guoyong (2012) No. 3-290602, Wen Guoyong (2012) No. 3-290616, Wen Guoyong (2012) No. 3-290595, Wen Guoyong (2012) No. 3-290606, Wen Guoyong (2012) No. 3-290593 and Wen Guoyong (2012) No. 3-290607
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	3,722.29
Total floor area (Approx.) (m.)	12,854.06
Usage	Non-residential
Whether a freehold property	Nature of the land is grant for use rights of state-owned land for 50 years (termination date is January 29, 2053), and the properties are freehold properties

4.2.5 Available-for-Sale Financial Assets

As of June 30, 2017, the balance of available-for-sale financial assets amounted to RMB50.0 million (as of December 31, 2016: RMB50.0 million), primarily due to our contribution to the investment fund. During the Reporting Period, there was no significant change in the fair value of available-for-sale financial assets.

4.2.6 Accounts Payable

As of June 30, 2017, accounts payables increased to RMB80.5 million (as of December 31, 2016: RMB43.3 million), mainly due to the increase of RMB29.4 million as the payables for the property project newly accrued by Wenzhou Guoda.

4.2.7 Advanced from Customers

As of June 30, 2017, advanced from customers decreased to RMB60.7 million (as of December 31, 2016: RMB71.1 million), mainly due to Phase II Works of Business Center of Wenzhou Higher Education Mega Center has been completed and part of the properties has been delivered, advanced from customers of RMB14.9 million was settled.

4.2.8 Other Payables

As of June 30, 2017, other payables increased to RMB87.8 million (as of December 31, 2016: RMB38.9 million), mainly due to the increase of investment payable in the renovation and expansion project of Wenzhou Kangning Hospital and entrustment management of Yiwu Psychiatric Health Center.

4.3 Liquidity and Capital Resources

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

	For the six months ended June 30,	
	2017	2016
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Net cash generated from operating activities	**3,472**	37,984
Net cash used in investing activities	**(134,699)**	(159,031)
Net cash generated from financing activities	**61,809**	22,062
Net (decrease in) cash and cash equivalents	**(76,732)**	(96,088)

4.3.1 Net Cash Generated from Operating Activities

As for the six months ended June 30, 2017, net cash generated from operating activities amounted to RMB3.5 million, primarily consisting of net profit of RMB30.3 million and adjustments for depreciation of property, plant and equipment of RMB20.9 million. Changes in working capital resulted in cash outflow of RMB58.3 million. We had cash outflow of RMB33.6 million attributable to our various taxes paid.

4.3.2 Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities amounted to RMB134.7 million, primarily due to the amount of RMB158.1 million for purchasing property, plant and equipment, including the amounts paid for renovation and upgrade of Wenzhou Kangning Hospital, purchasing property of Cangnan Kangning Hospital and renovation projects of Shenzhen Yining Hospital and Hangzhou Yining Hospital; and the amount of RMB37.9 million paid for investment as a minority shareholder.

4.3.3 Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities amounted to RMB61.8 million, primarily due to bank borrowings amounted to RMB90.0 million, offsetting the repayment of bank borrowings of RMB37.7 million.

4.3.4 Significant Investment, Acquisition and Disposal

The Group had no significant investment, acquisition or disposal as for the six months ended June 30, 2017.

4.4 Indebtedness

4.4.1 Bank Borrowings

As of June 30, 2017, the balance of bank borrowings of the Group amounted to RMB269.0 million (as of December 31, 2016: RMB216.7 million), primarily attributable to the increase of RMB90.0 million short-term bank borrowings, offsetting repayment of the bank borrowings of RMB37.7 million.

4.4.2 Contingent Liabilities

As of June 30, 2017, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

4.4.3 Asset Pledge

Wenzhou Guoda, a subsidiary of our Group, had pledged its completed properties, Phase II of Business Center of Wenzhou Higher Education Mega Center, in favor of the Wenzhou Branch of China Minsheng Bank for bank loan and as of June 30, 2017, the balance of the borrowing amounted to RMB20.0 million. Wenzhou Guoda had pledged its properties, Phase I of Business Center of Wenzhou Higher Education Mega Center, in favor of Zheshang Bank for bank loan and as of June 30, 2017, the balance of the borrowing amounted to RMB40.0 million.

4.4.4 Contractual Obligations

The contractual obligation of the Group primarily consists of operating lease arrangements. As of June 30, 2017, the future aggregate minimum lease payments under non- cancellable lease agreements were RMB332.0 million.

4.4.5 Financial Instruments

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

4.4.6 Exposure to Fluctuation in Exchange Rates

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

As for the six months ended June 30, 2017, the Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

4.4.7 Gearing Ratio

As of June 30, 2017, the Group's gearing ratio (total liabilities divided by total assets) was 39.2% (as of December 31, 2016: 35.1%).

4.4.8 Employees and Remuneration Policy

As of June 30, 2017, the Group had a total of 1,589 full-time employees (as of December 31, 2016: 1,348 full-time employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB71.3 million (for the six months ended June 30, 2016: RMB55.7 million). The average employees' remuneration is RMB97.1 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.

The Group had no share option schemes.

5 PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

6 REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the Group's unaudited interim results for the six months ended June 30, 2017 and has opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

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

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2017 (for the six months ended June 30, 2016: nil).

7 COMPLIANCE WITH CG CODE

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

8 AUDITORS AND ACCOUNTING STANDARDS

The Company has been using the International Financial Reporting Standards during the financial year of 2016, and has complied with the disclosure requirements required in the Companies Ordinance (Chapter 622 of the laws of Hong Kong).

The Company is a Hong Kong listed company incorporated in the PRC, according to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" published by The Stock Exchange of Hong Kong Limited in December 2010 and the related amendments to the Hong Kong Listing Rules, PRC incorporated issuers listed in Hong Kong are allowed to prepare their financial statements in accordance with China Accounting Standards for Business Enterprises, and Mainland audit firms approved by the Ministry of Finance of the PRC and the CSRC are allowed to audit these financial statements in accordance with China Standards on Auditing. In view of such arrangement and in order to improve the efficiency and reduce the cost of disclosure, the Board has decided to abandon the International Financial Reporting Standards and prepare only one set of financial statements for the Company under China Accounting Standards for Business Enterprises for any financial period commencing on or after January 1, 2017.

Due to the change of accounting standards, the Company has decided not to re-appoint its original international auditor, PricewaterhouseCoopers. At the AGM, the Shareholders approved the appointment of PricewaterhouseCoopers Zhong Tian LLP as the independent auditor of the Company, which will hold office until the conclusion of the next annual general meeting of the Company. PricewaterhouseCoopers has confirmed that there were no matters regarding its retirement that need to be brought to the attention of the Shareholders. The Board confirms that there is no matter regarding the retirement of PricewaterhouseCoopers that needs to be brought to the attention of the Shareholders. The Board and the Audit Committee confirm that there is no disagreement between the Company and PricewaterhouseCoopers regarding the retirement of PricewaterhouseCoopers.

9 FINANCIAL REPORT

9.1 Accounting Policies

The financial statements are prepared in accordance with the *Accounting Standard for Business Enterprises - Basic Standard and specific accounting standards* issued by the Ministry of Finance of the PRC on 15 February 2006 and *Disclosure regulations for the fifteenth rules for the information disclosure of companies issuing public securities - General Provisions on financial statements* issued by China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

The new "Companies Ordinance" of Hong Kong has commenced operation in 2015. Some notes in financial statements have been reflected the new requirements of the Ordinance.

9.2 Consolidated Interim Financial Information

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

9.2.1 Interim Consolidated Statement of Comprehensive Income

		Six months ended 30 June,	
		2017	2016
		RMB	*RMB*
		(Unaudited)	*(Unaudited)*
1.	**Revenue**	**283,136,307**	189,680,305
	Less: Cost of sales	**(191,153,046)**	(119,578,600)
	Taxes and surcharges	**(3,937,078)**	(34,107)
	Selling and distribution expenses	**(445,240)**	(1,017,758)
	General and administrative expenses	**(39,814,343)**	(36,359,241)
	Financial expenses	**(10,436,551)**	9,785,791
	Asset impairment losses	**(2,823,150)**	(1,188,953)
	Investment income	**2,390,872**	(2,199,509)
	Including: Investment losses from associate and joint ventures	**(2,852,505)**	(2,199,509)
	Other gains	**2,692,900**	—
2.	**Operating profit**	**39,610,671**	39,087,928
	Add: Non-operating income	**5,377,451**	184,815
	Less: Non-operating expenses	**(2,668,911)**	(2,454,270)
	Including: Gains on disposal of non-current assets	**(95,691)**	(84,100)
3.	**Total profit**	**42,319,211**	36,818,473
	Less: Income tax expenses	**(12,013,726)**	(10,531,210)

		Six months ended 30 June,	
		2017	2016
		RMB	*RMB*
		(Unaudited)	*(Unaudited)*
4.	**Net profit**	**30,305,485**	26,287,263
	Attributable to owners of the parent company	**31,710,313**	28,208,189
	Non-controlling gains and losses	**(1,404,828)**	(1,920,926)
5.	**Other comprehensive income, net of tax**	**30,305,485**	26,287,263
	Attributable to shareholders of the parent company	**31,710,313**	28,208,189
	Attributable to non-controlling shareholders of the Company	**(1,404,828)**	(1,920,926)
6.	**Earnings per share (expressed in RMB per share)**		
	– Basic	**0.43**	0.39
	– Diluted	**0.43**	0.39

9.2.2 Interim Consolidated Statement of Financial Position

ASSETS	**30 June 2017** *RMB* ***(Unaudited)***	31 December 2016 *RMB* *(Audited)*
Current assets		
Cash at bank and on hand	**360,431,821**	496,614,542
Accounts receivable	**195,213,586**	142,938,440
Other receivables	**56,099,625**	54,672,733
Advances to suppliers	**19,717,584**	22,283,987
Inventories	**176,567,409**	162,827,694
Non-current assets due within one year	**12,688,704**	12,688,704
Total current assets	**820,718,729**	892,026,100
Non-current assets		
Available-for-sale financial assets	**50,000,000**	50,000,000
Long-term equity investments	**60,198,228**	22,429,070
Investment properties	**72,191,872**	72,191,872
Fixed assets	**188,059,052**	97,666,540
Construction in progress	**257,092,404**	198,066,153
Intangible assets	**153,162,424**	125,865,371
Goodwill	**8,533,389**	8,533,389
Long-term prepaid expenses	**109,388,448**	88,855,792
Deferred tax assets	**20,707,981**	20,300,383
Other non-current assets	**17,333,178**	27,447,253
Total non-current assets	**936,666,976**	711,355,823
TOTAL ASSETS	**1,757,385,705**	1,603,381,923

LIABILITIES AND OWNERS' EQUITY	**30 June 2017**	31 December 2016
Current liabilities		
Short-term borrowings	**120,000,000**	30,000,000
Accounts payable	**80,476,871**	43,271,014
Advances from customers	**60,655,362**	71,147,900
Employee benefits payable	**15,316,095**	19,552,350
Taxes payable	**27,168,560**	41,195,655
Other payables	**87,816,113**	38,922,694
Dividends payable	**18,260,000**	—
Non-current liabilities due in one year	**17,480,304**	54,180,304
Total current liabilities	**427,173,305**	298,269,917
Non-current liabilities		
Long-term borrowings	**148,950,190**	149,950,190
Long-term payables	**89,463,200**	86,738,600
Deferred revenue	**10,632,800**	10,632,800
Deferred liabilities	**13,444,342**	16,420,433
Total non-current liabilities	**262,490,532**	263,742,023
Total liabilities	**689,663,837**	562,011,940
Owners' equity		
Share capital	**73,040,000**	73,040,000
Capital surplus	**795,919,512**	795,604,861
Surplus reserve	**18,548,942**	18,548,942
Retained earnings	**134,640,863**	121,190,550
Total equity attributable to owners of the parent company	**1,022,149,317**	1,008,384,353
Non-controlling interests	**45,572,551**	32,985,630
Total owners' equity	**1,067,721,868**	1,041,369,983
TOTAL LIABILITIES AND OWNERS' EQUITY	**1,757,385,705**	1,603,381,923

9.2.3 Interim Consolidated Statements of Cash Flow

		For the six months ended 30 June,	
		2017	2016
		RMB	*RMB*
		(Unaudited)	*(Unaudited)*
1.	**Cash flows from operating activities**		
	Cash received from sales of goods or rendering of services	**218,044,330**	185,216,096
	Cash received relating to other operating activities	**16,104,834**	13,577,071
	Sub-total of cash inflows	**234,149,164**	198,793,167
	Cash paid for goods and services	**(84,493,508)**	(57,860,296)
	Cash paid to and on behalf of employees	**(74,861,390)**	(60,575,485)
	Payments of taxes and surcharges	**133,608,262**	(14,053,392)
	Cash paid relating to other operating activities	**(37,714,356)**	(28,319,590)
	Sub-total of cash outflows	**(230,667,516)**	(160,808,763)
	Net cash flows generated from operating activities	**3,471,648**	37,984,404
2.	**Cash flows used in investing activities**		
	Cash received from disposal of investments	**3,225,000**	—
	Net cash received from disposal of other long-term assets	**—**	2,039,728
	Cash received relating to other investing activities	**91,007,687**	898,631
	Sub-total of cash inflows	**94,232,687**	2,938,359
	Cash paid to acquire fixed assets and other long-term assets	**(158,053,650)**	(71,372,976)
	Cash paid to acquire investments	**(37,878,286)**	(88,096,114)
	Cash paid relating to other investing activities	**(33,000,000)**	(2,500,000)
	Sub-total of cash outflows	**(228,931,936)**	(161,969,090)
	Net cash flows used in investing activities	**(134,699,249)**	(159,030,731)

	For the six months ended 30 June, **2017** *RMB* *(Unaudited)*	2016 *RMB* *(Unaudited)*
3. Cash flows from financing activities		
Cash received from capital contributions	**14,100,000**	2,400,000
Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries	**14,100,000**	2,400,000
Cash received from borrowings	**90,000,000**	50,000,000
Cash received relating to other financing activities	**300,000**	—
Sub-total of cash inflows	**104,400,000**	52,400,000
Cash repayments of borrowings	**(37,700,000)**	(30,000,000)
Cash payments for interest expenses and distribution of dividends or profits	**(2,133,206)**	—
Cash payments relating to other financing activities	**(2,758,166)**	(338,363)
Sub-total of cash outflows	**(42,591,372)**	(30,338,363)
Net cash flows generated from financing activities	**61,808,628**	22,061,637
4. Effect of changes in foreign exchange rate	**(7,312,748)**	2,896,587
5. Net decrease in cash and cash equivalents	**(76,731,721)**	(96,088,103)
Add: Cash and cash equivalents at beginning of the period	**407,163,542**	368,457,171
6. Cash and cash equivalents at end of the period	**330,431,821**	272,369,068

9.2.4 Interim Consolidated Statement of Changes In Equity

	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**
Net profit	—	—	—	31,710,313	(1,404,828)	30,305,485
Capital contribution by non-controlling shareholders	—	—	—	—	14,100,000	14,100,000
Share based payment	—	206,400	—	—	—	206,400
Transactions with non-controlling shareholders	—	108,251	—	—	(108,251)	—
Profit distribution to equity owners	—	—	—	(18,260,000)	—	(18,260,000)
Balance at 30 June 2017	**73,040,000**	**795,919,512**	**18,548,942**	**134,640,863**	**45,572,551**	**1,067,721,868**

	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 2016	73,040,000	797,510,642	11,343,566	77,824,436	2,512,383	962,231,027
Net profit	—	—	—	28,208,189	(1,920,926)	26,287,263
Capital contribution by non-controlling shareholders	—	—	—	—	2,400,000	2,400,000
Share based payment	—	1,155,567	—	—	—	1,155,567
others	—	—	—	—	11,729,151	11,729,151
Profit distribution to equity owners	—	—	—	(18,260,000)	—	(18,260,000)
Balance at 30 June 2016	73,040,000	798,666,209	11,343,566	87,772,625	14,720,608	985,543,008

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

9.3.1 Accounts receivable

	30 June 2017 *RMB* *(Unaudited)*	31 December 2016 *RMB* *(Audited)*
Accounts receivable from non-related parties	**205,596,249**	151,042,945
Less: Provision for bad debts	**(10,382,663)**	(8,104,505)
	195,213,586	142,938,440

The ageing of accounts receivable as of 31 December 2016 and 30 June 2017 is analysed as follows:

	30 June 2017 *RMB* *(Unaudited)*	31 December 2016 *RMB* *(Audited)*
Within 1 year	**183,388,513**	137,552,824
1 - 2 years	**17,675,862**	10,835,771
2 - 3 years	**3,227,627**	2,211,065
Over 3 years	**1,304,247**	443,285
	205,596,249	151,042,945

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

9.3.2 Accounts payable

As at June 30, 2017, accounts payables, the aging of which was over 1 year, amounted to RMB568,940 (as of December 31, 2016: RMB447,921). Except for the above, all other accounts payables are within 1 year.

9.3.3 Revenue and cost of sales

	Six months ended 30 June	
	2017	2016
	RMB	*RMB*
	(Unaudited)	*(Unaudited)*
Revenue from main operations	**238,108,930**	187,817,343
Revenue from other operations	**45,027,377**	1,862,962
	283,136,307	189,680,305
Cost of sales from main operations	**156,885,868**	118,945,305
Cost of sales from other operations	**34,267,178**	—
	191,153,046	118,945,305

Revenue and cost of sale from main operations

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

	Six months ended 30 June 2016	
	RMB	RMB
	(Unaudited)	(Unaudited)
	Revenue from main operations	Cost of sales from main operations
Pharmaceutical sales	49,563,165	40,834,453
Treatments and general healthcare services	129,416,332	73,791,802
Management service fee	8,837,846	4,319,050
	187,817,343	118,945,305

9.3.4 Earnings per share

(a) Basic earning per share

	Six months ended 30 June,	
	2017	2016
	RMB	*RMB*
	(Unaudited)	*(Unaudited)*
The consolidated profit attributed to the ordinary shareholders of the parent company	**31,710,313**	28,208,189
Weighted average number of ordinary shares	**73,040,000**	73,040,000
Basic earning per share	**0.43**	0.39

(b) Diluted earning per share

Diluted earning per share is calculated by the combinational profit attributed to the ordinary shareholders of the parent company adjusted by the potential shares divided by the adjusted weighted average number of ordinary shares. The Company did not have any potential dilutive shares throughout the six months ended 30 June 2017. Accordingly, diluted earnings per share are the same as the basic earnings per share.

9.3.5 Income tax expenses

	Six months ended 30 June,	
	2017	2016
	RMB	*RMB*
	(Unaudited)	*(Unaudited)*
Current income tax	**14,743,399**	13,915,240
Deferred income tax	**(2,729,673)**	(3,384,030)
	12,013,726	10,531,210

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

	Six months ended 30 June,	
	2017	2016
	RMB	*RMB*
	(Unaudited)	*(Unaudited)*
Total profit	**42,319,2114**	36,818,473
Income tax expenses calculated at the standard tax rate of 25%	**10,579,803**	9,204,618
Expenses not tax deductible	**1,491,690**	1,163,117
Settlement difference of prior period	**579,395**	(320,322)
Income not subject to tax	**(1,170,398)**	(95,992)
Tax losses for which no deferred income tax asset was recognised in the current period	**637,437**	579,789
Temporary difference not recognized as deferred tax assets in current period	**128,826**	—
Ustilize the deductible loss not recognized as deferred tax assets in prior period	**(233,027)**	—
Income tax expenses	**12,013,726**	10,531,210

9.3.6 Dividends

On March 24, 2017, the Board declared a final dividend of RMB18,260,000 for the year ended December 31, 2016 which is calculated based on 73,040,000 issued shares of the Company as at December 31, 2016. The proposed dividend was approved by the shareholders at the AGM. The proposed dividend is reflected as a dividend payable in the consolidated interim financial information for the six months ended June 30, 2017.

On March 24, 2016, the Board declared a final dividend of RMB18,260,000 for the year ended December 31, 2015. The proposed dividend was approved by the shareholder at the annual general meeting for the year 2015 of the Company on June 14, 2016 and the Company paid out the dividend on July 14, 2016.

10 DEFINITIONS

"AGM"	the annual general meeting of the Company for the year 2016 convened and held on June 14, 2017
"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 32.67% 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 Renyi Ward"	the psychiatric healthcare department of Chengdu Renyi Hospital Company Limited (成都仁一醫院有限公司), an independent third party established in the PRC on June 29, 2010 as Chengdu Jihong Hospital Company Limited (成都濟宏醫院有限公司) and changed to its current name on July 28, 2015
"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 Stock Exchange of Hong Kong Limited (Stock Code: 2120)
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
"Geriatric Hospital"	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a wholly-owned subsidiary indirectly held by the Company, whose principal business is to provide medical services for the geriatric, including geriatric psychiatric and psychological treatment
"Group" or "we" or "our"	the Company and its subsidiaries
"Hangzhou Honglan Information"	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 35% by the Group
"Hangzhou Yining Hospital"	Hangzhou Yining Hospital Co. (杭州怡寧醫院有限公司), Ltd., a company established in the PRC with limited liability on August 25, 2016, one of the Company's indirect non-wholly owned subsidiaries
"HK$" or "HKD" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"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

"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
"Pingyang Kangning Hospital"	Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the Company's indirect wholly-owned subsidiaries
"Pingyang Changgeng Ward"	the psychiatric healthcare department of Pingyang Changgeng Hospital Co., Ltd (平陽縣長庚醫院有限責任公司).
"PRC"or "China"	the People's Republic of China which, for the purpose of this interim results announcement, excludes Hong Kong, Macau and Taiwan
"Pujiang Hospital"	Pujiang Huangfeng Psychiatric Specialty Hospital (浦江黃鋒精神專科醫院)
"Qingtian Kangning Hospital"	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011, one of the Company's wholly owned subsidiaries
"Quzhou Yining Hospital"	Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司), a company established in the PRC with limited liability on November 20, 2015, one of the Company's indirect non-wholly owned subsidiaries
"RMB"	the lawful currency of the PRC
"Shandong Yining Hospital"	Shandong Yining Hospital 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 Co., Ltd. (深圳怡寧醫院有限公司previously known as 深圳市怡寧醫院有限公司), a company established in the PRC with limited liability on September 22, 2014, 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
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
"the Reporting Period"	For the six months ended June 30, 2017
"Wenzhou Guoda"	Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司), a company established in the PRC with limited liability on February 9, 2002, one of the Company's indirect non-wholly owned subsidiaries
"Yanjiao Furen Hospital"	Yanjiao Furen Hospital of Traditional Chinese and Western Medicine (燕郊輔仁中西醫結合醫院) under the Company's operation and management in accordance with an entrustment management agreement dated March 26, 2015 entered into between Yanjiao Furen Hospital of Traditional Chinese and Western Medicine and the Company
"Yongjia Kangning Hospital"	Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2012, one of the Company's wholly-owned subsidiaries
"Yueqing Kangning Hospital"	Yueqing Kangning Hospital Co., Ltd. (樂清康寧醫院有限公司), a company established in the PRC with limited liability on September 3, 2013, one of the Company's wholly-owned subsidiaries
"%"	percentage ratio

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

Zhejiang, the PRC
August 21, 2017

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