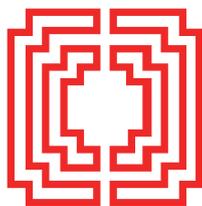


*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



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, 2018**

### **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, 2017.
- 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.

## 2 FINANCIAL SUNMMARY

### 2.1 PRINCIPAL FINANCIAL DATA AND INDICATORS

|  | For the six months<br>ended June 30, |                    |
|--|--------------------------------------|--------------------|
|  | 2018                                 | 2017               |
|  | <i>RMB'000</i>                       | <i>RMB'000</i>     |
|  | <i>(Unaudited)</i>                   | <i>(Unaudited)</i> |
| Revenue  | 356,778                              | 283,136            |
| Profit before income tax                                 | 59,108                               | 37,076             |
| Income tax expense                                       | (18,256)                             | (12,014)           |
| Net profit   | 40,852                               | 25,062             |
| Net profit attributable to equity holders of the Company | 41,987                               | 26,467             |
| Non-controlling interests                                | (1,135)                              | (1,405)            |
|  |                                      | As of              |
|  | As of June 30,                       | December 31,       |
|  | 2018                                 | 2017               |
|  | <i>(RMB'000)</i>                     | <i>(RMB'000)</i>   |
|  | <i>(Unaudited)</i>                   | <i>(Audited)</i>   |
| Total assets   | 1,719,713                            | 1,690,401          |
| Total liabilities  | 573,638                              | 579,904            |
| Total equity   | 1,146,075                            | 1,110,497          |
| Equity attributable to owners of the Company             | 1,083,818                            | 1,051,835          |
| Non-controlling interests                                | 62,257                               | 58,662             |

### 3 BUSINESS REVIEW AND OUTLOOK

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

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

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

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

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

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

## **4 MANAGEMENT DISCUSSION AND ANALYSIS**

### **4.1 Financial Review**

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

#### ***4.1.1 Revenue and Cost of Revenue***

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

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

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

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:

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

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:

|   | <b>For the six months<br/>ended June 30,</b> |         |
|---|--|---------|
|   | <b>2018</b>                                  | 2017    |
| <b>Inpatients</b>   |  |         |
| Inpatient bed as at period end  | <b>4,180</b>                                 | 3,050   |
| Effective inpatient service bed-day capacity  | <b>756,580</b>                               | 552,050 |
| Utilization rate (%)  | <b>89.5%</b>                                 | 85.9%   |
| Number of inpatient bed-days  | <b>676,929</b>                               | 474,163 |
| Treatment and general healthcare services revenue attributable to inpatients (RMB'000)    | <b>243,876</b>                               | 158,561 |
| Average inpatient spending per bed-day on treatment and general healthcare services (RMB) | <b>360</b>                                   | 334     |
| Pharmaceutical sales revenue attributable to inpatients (RMB'000)                         | <b>40,556</b>                                | 28,427  |
| Average inpatient spending per bed-day on pharmaceutical sales (RMB)                      | <b>60</b>                                    | 60      |
| <b>Total inpatient revenue (RMB'000)</b>  | <b>284,432</b>                               | 186,988 |
| <b>Total average inpatient spending per bed-day (RMB)</b>                                 | <b>420</b>                                   | 394     |
| <b>Outpatients</b>  |  |         |
| Number of outpatient visits   | <b>91,613</b>                                | 75,872  |
| Treatment and general healthcare services revenue attributable to outpatients (RMB'000)   | <b>9,082</b>                                 | 7,665   |
| Average outpatient spending per visit on treatment and general healthcare services (RMB)  | <b>99</b>                                    | 101     |
| Pharmaceutical sales revenue attributable to outpatients (RMB'000)                        | <b>37,697</b>                                | 31,876  |
| Average outpatient spending per visit on pharmaceutical sales (RMB)                       | <b>412</b>                                   | 420     |
| <b>Total outpatient revenue (RMB'000)</b>   | <b>46,779</b>                                | 39,541  |

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

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 indicated:

|  | <b>For the six months<br/>ended June 30,</b> |                    |
|--|--|--------------------|
|  | <b>2018</b>                                  | 2017               |
|  | <i>(RMB'000)</i>                             | <i>(RMB'000)</i>   |
|  | <i>(Unaudited)</i>                           | <i>(Unaudited)</i> |
| Pharmaceuticals and consumables used       | <b>80,594</b>                                | 58,173             |
| Employee benefits and expenses             | <b>66,324</b>                                | 50,903             |
| Leasing expenses                           | <b>12,287</b>                                | 9,857              |
| Depreciation and amortization              | <b>21,962</b>                                | 13,642             |
| Canteen expenses                           | <b>12,640</b>                                | 8,120              |
| Testing fees                               | <b>7,002</b>                                 | 4,182              |
| Others                                     | <b>13,695</b>                                | 6,756              |
|  | <hr/>  | <hr/>              |
| <b>Cost of revenue for owned hospitals</b> | <b>214,504</b>                               | 151,633            |
|  | <hr/> <hr/>                                  | <hr/> <hr/>        |

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:

|                 | <b>For the six months<br/>ended June 30,</b> |                    |
|-----------------|--|--------------------|
|                 | <b>2018</b>                                  | <b>2017</b>        |
|                 | <b>(RMB'000)</b>                             | <b>(RMB'000)</b>   |
|                 | <b>(Unaudited)</b>                           | <b>(Unaudited)</b> |
| Revenue         | <b>12,107</b>                                | 11,579             |
| Cost of revenue | <b>6,361</b>                                 | 5,252              |
| Gross profit    | <b>5,746</b>                                 | 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.

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.

#### **4.1.2 Gross Profit and Gross Profit Margin**

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

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

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

#### **4.1.3 Tax and Surcharge**

During the Reporting Period, the tax and surcharge of the Group amounted to 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.

#### **4.1.4 Selling Expenses**

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

#### **4.1.5 Administrative Expenses**

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

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

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

#### **4.1.6 Finance Expenses– Net**

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

|  | <b>For the six months<br/>ended June 30,</b> |                        |
|--|--|------------------------|
|  | <b>2018</b>                                  | 2017                   |
|  | <b>(RMB'000)</b>                             | (RMB'000)              |
|  | <b>(Unaudited)</b>                           | (Unaudited)            |
| Interest income                                      | <b>1,963</b>                                 | 1,907                  |
| Exchange loss  | <b>(355)</b>                                 | (7,730)                |
| Borrowing interest expense                           | <b>(4,135)</b>                               | (1,691)                |
| The amortization of unrecognized<br>financial charge | <b>(2,750)</b>                               | (2,725)                |
| Others   | <b>(253)</b>                                 | (198)                  |
|  | <hr/>  | <hr/>                  |
| <b>Finance expenses – Net</b>                        | <b><u>(5,530)</u></b>                        | <b><u>(10,437)</u></b> |

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

#### **4.1.7 Investment Loss**

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

#### **4.1.8 Assets Impairment Losses and Credit Impairment Losses**

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

#### **4.1.9 Non-Operating Income (Expenses) and Other Gain**

Our non-operating income mainly consists of government grants, and non-operating expenses mainly consist of donation expenses. The table below sets forth a breakdown of our non-operating income, non-operating expenses and other gain for the periods indicated:

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

#### **4.1.10 Income Tax Expense**

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

#### **4.1.11 Total Comprehensive Income**

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

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

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

## 4.2 Financial Position

### 4.2.1 Inventory

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

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

#### **4.2.2 Accounts Receivables**

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

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

#### **4.2.3 Other Receivables and Prepayments**

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

#### **4.2.4 Investment Properties**

As of June 30, 2018, the balance of investment properties amounted to RMB128.6 million (as of December 31, 2017: RMB128.6 million), representing Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F) and Phase 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.)<br>(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.)<br>(Sq. m.) | 11,850.34   |
| Usage                                  | Commercial, office and hotel  |
| Whether a freehold property            | Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the properties are freehold properties |

#### ***4.2.5 Other Non-current Financial Assets***

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

#### ***4.2.6 Accounts Payable***

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

#### **4.2.7 Contract Liability**

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

#### **4.2.8 Other Payables**

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

### **4.3 Liquidity and Capital Resources**

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

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

#### **4.3.1 Net Cash Generated from Operating Activities**

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

#### **4.3.2 Net Cash Used in Investing Activities**

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

### ***4.3.3 Net Cash Generated from Financing Activities***

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

### ***4.3.4 Significant Investment, Acquisition and Disposal***

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

## **4.4 Indebtedness**

### ***4.4.1 Bank Borrowings***

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

### ***4.4.2 Contingent Liabilities***

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

### ***4.4.3 Asset Pledge***

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

### ***4.4.4 Contractual Obligations***

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

### ***4.4.5 Financial Instruments***

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

#### ***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, 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.

#### ***4.4.7 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%).

#### ***4.4.8 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 bore 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 Company, 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 grant. The actual aggregate number of shares first granted was 1,818,529 shares, represented 2.4898% of total issued share capital of the Company as at the date of this announcement and the details were shown as the following table. The participants shall pay the subscription amounts calculated by the amount of grants multiplied by the grant price (RMB 10.47 per share).

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

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.

## **5 PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES**

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

## **6 REVIEW OF INTERIM RESULTS**

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

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

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

## **7 COMPLIANCE WITH CG CODE**

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

## **8 ACCOUNTING STANDARDS**

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

## **9 FINANCIAL REPORT**

### **9.1 Accounting Policies**

#### ***9.1.1 Accounting policies***

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

The financial statements are prepared on a going concern basis.

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

### ***9.1.2 Adoption of New Accounting Policies***

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

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

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

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

### ***9.1.3 Impact of Change in the Format of Financial Statements***

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

## 9.2 Consolidated Interim Financial Information

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

### 9.2.1 Interim Consolidated Statement of Comprehensive Income

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

|  | <b>Six months ended June 30,</b> |                          |
|--|----------------------------------|--------------------------|
|  | <b>2018</b>                      | <b>2017</b>              |
|  | <b>RMB</b>                       | <b>RMB</b>               |
|  | <b>(Unaudited)</b>               | <b>(Unaudited)</b>       |
| <b>4. Net profit</b>                               | <b><u>40,851,540</u></b>         | <b><u>25,062,108</u></b> |
| Net profit generated from                          |                                  |                          |
| Continuing operation                               | <b>40,851,540</b>                | 25,062,108               |
| Discontinued operation                             | —                                | —                        |
| Net profit attributable to                         |                                  |                          |
| Shareholder of the parent company                  | <b>41,986,854</b>                | 26,466,936               |
| Non-controlling interests                          | <b>(1,135,314)</b>               | (1,404,828)              |
| <b>5. Total comprehensive income</b>               | <b><u>40,851,540</u></b>         | <b><u>25,062,108</u></b> |
| Attributable to shareholders of the parent company | <b>41,986,854</b>                | 26,466,936               |
| Attributable to non-controlling shareholders       | <b>(1,135,314)</b>               | (1,404,828)              |
| <b>6. Earnings per share</b>                       |                                  |                          |
| (expressed in RMB per share)                       |                                  |                          |
| – Basic  | <b>0.57</b>                      | 0.36                     |
| – Diluted  | <b>0.57</b>                      | 0.36                     |

## 9.2.2 Interim Consolidated Statement of Financial Position

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

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

### 9.2.3 Interim Consolidated Statements of Cash Flow

|  | For the six months<br>ended June 30, |                    |
|--|--------------------------------------|--------------------|
|  | 2018                                 | 2017               |
|  | <i>RMB</i>                           | <i>RMB</i>         |
|  | <i>(Unaudited)</i>                   | <i>(Unaudited)</i> |
| <b>1. Cash flows from operating activities</b>               |                                      |                    |
| 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         |
|  | <hr/>                                | <hr/>              |
| <b>Sub-total of cash inflows</b>                             | <b>336,813,000</b>                   | 234,149,164        |
|  | <hr/>                                | <hr/>              |
| 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)       |
|  | <hr/>                                | <hr/>              |
| <b>Sub-total of cash outflows</b>                            | <b>(311,422,906)</b>                 | (230,677,516)      |
|  | <hr/>                                | <hr/>              |
| <b>Net cash flows generated from operating activities</b>    | <b>25,390,094</b>                    | 3,471,648          |
|  | <hr/>                                | <hr/>              |
| <b>2. Cash flows generated from investing activities</b>     |                                      |                    |
| Cash received from disposal of investments                   | —                                    | 3,225,000          |
| Cash received relating to other investing activities         | 230,042,378                          | 91,007,687         |
|  | <hr/>                                | <hr/>              |
| <b>Sub-total of cash inflows</b>                             | <b>230,042,378</b>                   | 94,232,687         |
|  | <hr/>                                | <hr/>              |
| 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)       |
|  | <hr/>                                | <hr/>              |
| <b>Sub-total of cash outflows</b>                            | <b>(362,327,827)</b>                 | (228,931,936)      |
|  | <hr/>                                | <hr/>              |
| <b>Net cash flows used in investing activities</b>           | <b>(132,285,449)</b>                 | (134,699,249)      |
|  | <hr/>                                | <hr/>              |

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

**9.2.4 Interim Consolidated Statement of Changes In Equity**  
(All amounts in RMB Yuan unless otherwise stated)

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

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

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

#### 9.3.1 Accounts receivable

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

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

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

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

### 9.3.2 Accounts payable

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

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

### 9.3.3 Revenue and cost of revenue

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

## Revenue and cost of sales from main operations

|  | For the six months ended<br>June 30, 2018 |   |
|--|---|---|
|  | <i>RMB</i><br><i>(Unaudited)</i>          | <i>RMB</i><br><i>(Unaudited)</i>              |
|  | Revenue<br>from main<br>operations        | Cost of<br>revenue<br>from main<br>operations |
| Pharmaceutical sales                       | 78,253,106                                | 65,087,164                                    |
| Treatments and general healthcare services | 252,958,034                               | 149,416,996                                   |
| Management service fee                     | 12,107,112                                | 6,360,903                                     |
|  | <u>343,318,252</u>                        | <u>220,865,063</u>                            |
|  |   |   |
|  | For the six months ended<br>June 30, 2017 |   |
|  | <i>RMB</i><br><i>(Unaudited)</i>          | <i>RMB</i><br><i>(Unaudited)</i>              |
|  | Revenue<br>from main<br>operations        | Cost of<br>revenue<br>from main<br>operations |
| Pharmaceutical sales                       | 60,303,304                                | 49,515,173                                    |
| Treatments and general healthcare services | 166,226,213                               | 102,118,496                                   |
| Management service fee                     | 11,579,413                                | 5,252,199                                     |
|  | <u>238,108,930</u>                        | <u>156,885,868</u>                            |

### 9.3.4 Earnings per share

#### (a) Basic earning per share

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

#### (b) Diluted earning per share

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

### 9.3.5 Income tax expenses

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

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:

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

### **9.3.6 Dividends**

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

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

## 10 DEFINITIONS

|   |  |
|---|--|
| “AGM”                                       | the annual general meeting of the Company for the year 2017 convened and held on June 13, 2018   |
| “Audit Committee”                           | the audit committee of the Board   |
| “Beijing Yining Hospital”                   | Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司), an associate company established in the PRC with limited liability on August 17, 2015 and is held as to 40% by the Group   |
| “Board of Directors” or “Board”             | the board of directors of the Company  |
| “Cangnan Kangning Hospital”                 | Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company’s wholly-owned subsidiaries   |
| “Chengdu Yining Hospital”                   | Chengdu Yining Hospital Co., Ltd. (成都怡寧醫院有限公司, previously known as Chengdu Renyi Hospital Company Limited (成都仁一醫院有限公司)), an associate company established in the PRC with limited liability on June 29, 2010 and is held as to 24% by the Group              |
| “Chengdu Yining Ward”                       | the psychiatric healthcare department of Chengdu Yining Hospital Co., Ltd. (成都怡寧醫院有限公司)  |
| “Chun’an Hospital”                          | Chun’an Huangfeng Kang’en Hospital (淳安黃鋒康恩醫院)  |
| “Company” or<br>“Wenzhou Kangning Hospital” | Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 2120)                         |
| “CG Code”                                   | the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules  |
| “Geriatric Hospital”                        | Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a wholly-owned subsidiary indirectly held by the Company, whose principal business is to provide medical services for the geriatric, including geriatric psychiatric and psychological treatment |
| “Group” or “we” or “our”                    | the Company and its subsidiaries   |

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

|                                |   |
|--------------------------------|---|
| “Luqiao Cining Hospital”       | Taizhou Luqiao Cining Hospital Co., Ltd. (台州市路橋慈寧醫院有限公司, previously known as Taizhou Luqiao Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司)), a company established in the PRC with limited liability on December 12, 2016, one of the Company’s indirect non-wholly owned subsidiaries |
| “Pingyang Kangning Hospital”   | Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the Company’s indirect wholly-owned subsidiaries   |
| “Pingyang Changgeng Ward”      | the psychiatric healthcare department of Pingyang Changgeng Hospital Co., Ltd (平陽縣長庚醫院有限責任公司)   |
| “PRC” or “China”               | the People’s Republic of China which, for the purpose of this interim results announcement, excludes Hong Kong, Macau and Taiwan  |
| “Pujiang Hospital”             | Pujiang Huangfeng Psychiatric Specialty Hospital (浦江黃鋒精神專科醫院)   |
| “Qingtian Kangning Hospital”   | Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011, one of the Company’s wholly-owned subsidiaries   |
| “Quzhou Yining Hospital”       | Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司), a company established in the PRC with limited liability on November 20, 2015, one of the Company’s indirect non-wholly owned subsidiaries  |
| “RMB”                          | the lawful currency of the PRC  |
| “Shenzhen Yining Hospital”     | Shenzhen Yining Hospital (深圳怡寧醫院, previously known as Shenzhen Yining Hospital Co., Ltd. (深圳市怡寧醫院有限公司)), a company established in the PRC with limited liability on September 22, 2014, one of the Company’s indirect non-wholly owned subsidiaries                               |
| “subsidiary” or “subsidiaries” | has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)  |

|                             |   |
|-----------------------------|---|
| “the Reporting Period”      | For the six months ended June 30, 2018  |
| “Taizhou Kangning Hospital” | Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company’s indirect non-wholly owned subsidiaries   |
| “Wenzhou Cining Hospital”   | Wenzhou Cining Hospital Co., Ltd. (溫州慈寧醫院有限公司), an independent third party established in the PRC with limited liability on January 25, 2006  |
| “Wenling Nanfang Hospital”  | Nanfang Specialized Psychiatric Hospital of Wenling (溫嶺南方精神疾病專科醫院有限公司), a company established in the PRC with limited liability on June 20, 2018, one of the Company’s indirect non-wholly owned subsidiaries   |
| “Wenzhou Guoda”             | Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司), a company established in the PRC with limited liability on February 9, 2002, one of the Company’s indirect non-wholly owned subsidiaries   |
| “Yanjiao Furen Hospital”    | Yanjiao Furen Hospital of Traditional Chinese and Western Medicine (燕郊輔仁中西醫結合醫院) under the Company’s operation and management in accordance with an entrustment management agreement dated March 26, 2015 entered into between Yanjiao Furen Hospital of Traditional Chinese and Western Medicine and the Company |
| “Yongjia Kangning Hospital” | Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2012, one of the Company’s wholly-owned subsidiaries  |
| “Yueqing Kangning Hospital” | Yueqing Kangning Hospital Co., Ltd. (樂清康寧醫院有限公司), a company established in the PRC with limited liability on September 3, 2013, one of the Company’s wholly-owned subsidiaries  |
| “%”                         | percentage ratio  |

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

Zhejiang, the PRC  
August 20, 2018

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