



弘和仁愛
HOSPITAL CORPORATION

弘和仁愛醫療集團有限公司
Hospital Corporation of China Limited

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 3869

2017 Interim Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Xiaopeng (張曉鵬) (*Chief executive officer*)
Mr. Lu Wenzuo (陸文佐)

Non-executive Directors

Mr. Zhao John Huan (趙令歡) (*Chairman*)
Mr. Lin Sheng (林盛)
Ms. Liu Lu (劉路)
Ms. Wang Nan (王楠)

Independent Non-executive Directors

Ms. Chen Xiaohong (陳曉紅)
Mr. Shi Luwen (史錄文)
Mr. Zhou Xiangliang (周向亮)

AUDIT COMMITTEE

Mr. Zhou Xiangliang (周向亮) (*Chairman*)
Mr. Shi Luwen (史錄文)
Mr. Lin Sheng (林盛)

REMUNERATION COMMITTEE

Ms. Chen Xiaohong (陳曉紅) (*Chairman*)
Mr. Lin Sheng (林盛)
Mr. Zhou Xiangliang (周向亮)

NOMINATION COMMITTEE

Mr. Zhao John Huan (趙令歡) (*Chairman*)
Mr. Shi Luwen (史錄文)
Ms. Chen Xiaohong (陳曉紅)

COMPANY SECRETARY

Ms. Kwong Yin Ping Yvonne (鄭燕萍)

AUTHORISED REPRESENTATIVES

Mr. Lin Sheng (林盛)
Ms. Kwong Yin Ping Yvonne (鄭燕萍)

LISTING INFORMATION AND STOCK CODE

The Stock Exchange of Hong Kong Limited
(the "Stock Exchange")
Stock Code: 3869

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Hospital Corporation of China Limited
1602, Tower B, Jin Qiu International Building
No. 6, Zhichun Road, Haidian District, Beijing
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2701, One Exchange Square
Central
Hong Kong

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

COMPANY'S WEBSITE

www.hcclhealthcare.com

AUDITOR

PricewaterhouseCoopers

HONG KONG LEGAL ADVISOR

Cleary Gottlieb Steen & Hamilton (Hong Kong)

COMPLIANCE ADVISOR

Halcyon Capital Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

FINANCIAL HIGHLIGHTS

	Six months ended June 30,	
	2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Audited)
Revenue	88,209	76,097
Adjusted Gross Profit ⁽¹⁾	60,399	52,050
Adjusted Net Profit ⁽²⁾	45,202	36,856
Adjusted Gross Profit margin	68.5%	68.4%
Adjusted Net Profit margin	51.2%	48.4%
Adjusted earnings per share (in RMB) ⁽³⁾	0.297	0.292
<i>Adjusted items</i>		
Share-based compensation expenses (in cost of revenue)	17,686	1,302
Cash bonus (in cost of revenue)	735	—
Listing expenses (in administrative expenses)	20,821	10,992
Foreign exchange losses (in finance expense)	8,393	—

Notes

- (1) The gross profit of the Group for the six months ended June 30, 2017 amounted to RMB42.0 million. The adjusted gross profit is calculated as gross profit for the period, excluding the impact from share-based compensation expenses and cash bonus incurred under the incentive scheme of the Company (“Adjusted Gross Profit”).
- (2) The Group recorded a net loss of RMB2.4 million for the six months ended June 30, 2017. The adjusted net profit is calculated as profit for the period, excluding the impact from non-recurring expenses including (i) share-based compensation expenses, (ii) cash bonus incurred under the incentive scheme of the Company, (iii) listing expenses, and (iv) foreign exchange losses related to the bank deposit of the net proceeds from the Listing (as defined below) (collectively, the “Non-recurring Expenses”) (the “Adjusted Net Profit”).
- (3) The losses per share of the Group for the six months ended June 30, 2017 amounted to RMB 0.103. The adjusted earnings per share are calculated as net profit attributable to the owners of the Company for the period per share, excluding the impact from the Non-recurring Expenses.

BUSINESS REVIEW AND PROSPECTS

The shares of Hospital Corporation of China Limited (the “**Company**”, together with its subsidiaries, the “**Group**”, “**our**” or “**we**”) was successfully listed on the Main Board of the Stock Exchange on March 16, 2017 (the “**Date of Listing**”) (the “**Listing**”). During the first half of 2017, we actively explored development opportunities emerge from the core of the national structural reforms within the healthcare system, amidst the macro environment brought by the comprehensive and deepening reform efforts in the Chinese healthcare system. We continue to uphold our development strategy of expansion through undergoing mergers and acquisitions and digging into the existing business operations to unearth value-adding and innovative services models, as a result, we have achieved promising results from the enhanced medical service quality and operating efficiency of the Group.

Our revenue increased by 15.9% from RMB76.1 million for the six months ended June 30, 2016 to RMB88.2 million for the same period of 2017. Our Adjusted Net Profit for the six months ended June 30, 2017 was RMB45.2 million, representing an increase of 22.6% from the corresponding period in 2016. The sustaining steady business development of the Group lays a firm foundation for our future expansions in building a national medical services network.

Driven by various factors such as universal medical insurance coverage, growth in per capita disposable income, aging population in China and the Group’s adherence to the basic principle of satisfying the healthcare needs of the general public, the Group concentrates on common diseases, frequently re-occurring diseases and chronic diseases. In addition, the Group also expands our scope of services to provide healthcare management services, rehabilitation services, in-home medical services and geriatric services. With the guidance of the effective strategies of the Group, the medical institutions manage or operate by us proactively set out plans to improve the quality and scope of the medical services they offer. In response to the growing demand from the aging population and the upgrade in consumption pattern in China, the Group encourages the medical institutions it manages or operates to explore the opportunities in in-home medical services and high value-added services such as home care, rehabilitation services and VIP services. Our existing businesses maintained steady growth and competitive advantages, and together with our ability to understand the needs of people and capture the market opportunities, the Group has achieved significant results.

In addition, the Group actively reinforced the expansion of our business through mergers and acquisitions during the first half of 2017. We have entered into a letter of intent on August 10, 2017 to purchase 70% equity interest in each of (i) a for-profit general services hospital in Zhejiang province; (ii) a company that is principally engaged in the supply of medicines; and (iii) a company that owns certain properties. The Group targets to become an influential leader in the Chinese healthcare services industry by actively acquiring medical institutions in the future. Such expansion will create synergy effects within the Group deriving from the managements’ ability in operating medical institutions and accordingly, these medical institutions in the network can benefit from shared medical resources, which in turn assist us in building an innovative and value-adding business model.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results of Operations

Revenue

Our revenue increased by 15.9% from RMB76.1 million for six months ended June 30, 2016 to RMB88.2 million for the same period of 2017. The table below sets forth the Group's revenue by segment and by services category for the periods indicated:

	Six months ended June 30,	
	2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Audited)
General hospital services		
– Pharmaceutical sales	12,980	9,286
– Treatments and general hospital services	4,258	3,725
Hospital management services		
– Management services fee	70,207	62,430
– Other services fee	764	656
	<u>88,209</u>	<u>76,097</u>

General hospital services

The Group's revenue from the general hospital services segment for the six months ended June 30, 2017 was RMB17.2 million, increased by 32.5% from RMB13.0 million for the same period of 2016. The revenue of the Group's general hospital services primarily derives from individual patients for the periods ended June 30, 2017 and 2016. The increase in revenue of the Group's general hospital services was in line with the increase in in-patients and out-patients visits and increase in average revenue per patient in Shanghai Fuhua Hospital Co., Ltd. ("Fuhua Hospital"). Fuhua Hospital's out-patient visits increased from 28,557 in first half of 2016 to 30,632 in first half of 2017, and its in-patient visits increased from 289 in first half of 2016 to 314 in first half of 2017. The average revenue per in-patient increased from RMB12,944.8 for the six months ended June 30, 2016 to RMB16,476 for the same period in 2017 and the average revenue per out-patient increased from RMB324.6 for the six months ended June 30, 2016 to RMB393.8 for the same period in 2017.

Hospital management services

The Group's revenue from the hospital management services segment increased by 12.5% from RMB63.1 million for the six months ended June 30, 2016 to RMB71.0 million for the same period of 2017, while the aggregate management service fee rate that we charged Shanghai Yangsi Hospital ("Yangsi Hospital") remained stable at 22.12% and 21.12% for the six months ended June 30, 2016 and 2017, respectively. The increase in revenue of the Group's hospital management services segment was primarily due to the 19.1% increase in the revenue of Yangsi Hospital from RMB295.8 million for the six months ended June 30, 2016 to RMB352.4 million for the six months ended June 30, 2017. The increase in Yangsi Hospital's revenue was offset in part by the fact that Shanghai Weikang Investment Management Co., Ltd. ("Weikang Investment") became subject to a 6% value-added tax from May 2016, as opposed to business tax that it was previously required to pay; this change in taxation reduced Weikang Investment's management service fees that we recognized as revenue because the Group reports revenue net of value-added tax.

Cost of Revenue

The Group's cost of revenue for the six months ended June 30, 2017 was RMB46.2 million, increased by RMB20.9 million from RMB25.3 million for the same period of 2016 mainly due to an increase of Non-recurring Expenses charged to the cost of revenue, which includes the share-based compensation expenses of RMB17.7 million (first half of 2016: RMB1.3 million) and cash bonus under the incentive scheme of the Company of RMB0.7 million (first half of 2016: nil).

Adjusted Gross Profit

The Group's Adjusted Gross Profit increased by 16.0% from RMB52.1 million for the six months ended June 30, 2016 to RMB60.4 million for the six months ended June 30, 2017. The increase in the Adjusted Gross Profit of RMB8.3 million was mainly due to an RMB12.1 million increase in revenue and partly offset by an RMB3.8 million increase in the cost of revenue (excluding share-based compensation expenses and cash bonus incurred under the incentive scheme of the Company).

Administrative Expenses

The Group's administrative expenses for the six months ended June 30, 2017 was RMB28.3 million, representing an increase by 76.2% from RMB16.0 million for the same period of 2016. The RMB12.2 million increase in administrative expenses for the six months ended June 30, 2017 was in line with the RMB10.0 million increase in expenses related to Listing and RMB2.3 million increase in professional services fees to external advisers for regulatory compliance after Listing. As a percentage of revenue, the Group's administrative expenses amounted to 32.0% for the six months ended June 30, 2017, representing an increase of 10.9 percentage point from 21.1% for the same period of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Expenses

The Group's finance expenses for the six months ended June 30, 2017 was RMB8.4 million (first half of 2016: nil). The finance expenses comprised of the foreign exchange losses related to the bank deposit of the net proceeds from the Listing and the full exercise of the over-allotment option.

Profit before Tax and Income Tax Expenses

As a result of the foregoing, the Group's profit before tax for the six months ended June 30, 2017 was RMB7.4 million, decreased by 79.4% from RMB35.8 million for the same period of 2016.

The Group's income tax expenses for the six months ended June 30, 2017 was RMB9.8 million, decreased by 13.0% from RMB11.3 million for the same period of 2016. The Group's income tax expenses amounted to 14.8% and 11.1% of our revenue for the six months ended June 30, 2016 and 2017, respectively, representing a decrease of 3.7 percentage points due to the decrease in deferred income tax.

Adjusted Net Profit

The Group recorded a net loss of RMB2.4 million for the six months ended June 30, 2017, showing a decrease of RMB27.0 million from a net profit of RMB24.6 million for the same period of 2016, mainly due to the impact of the Non-recurring Expenses. The Non-recurring Expenses of the Group include (i) share-based compensation expenses related to share-based payment schemes, (ii) cash bonus under the incentive scheme of the Company, (iii) listing expenses, and (iv) foreign exchange losses related to bank deposits of the net proceeds from the Listing and the full exercise of the over-allotment option. The Non-recurring Expenses of the Group increased by 287.5% from RMB12.3 million for the six months ended June 30, 2016 to RMB47.6 million for the same period of 2017, leading to a significant drop in net profit. The Group has recorded a 109.9% decrease in net profit from RMB24.6 million for the six months ended June 30, 2016 to a net loss of RMB2.4 million for the same period of 2017.

The Group's Adjusted Net Profit increased by 22.6% from RMB36.9 million for the six months ended June 30, 2016 to RMB45.2 million for the same period of 2017. The increase of RMB8.3 million in the Adjusted Net Profit was mainly due to an RMB12.1 million increase in revenue partly offset by an RMB3.8 million increase in expenses and cost of revenue excluding Non-recurring Expenses.

Liquidity and Capital Resources

Total equity of the Group as at June 30, 2017 was RMB1,565.0 million (as at December 31, 2016: RMB1,160.9 million). As at June 30, 2017, the Group had current assets of RMB616.6 million (as at December 31, 2016: RMB182.6 million) and current liabilities of RMB114.0 million (as at December 31, 2016: RMB70.7 million). The current ratio was 5.41 as at June 30, 2017 as compared to 2.58 as at December 31, 2016.

Current assets of the Group had increased by RMB434.0 million for the six months ended June 30, 2017 mainly due to the increase of RMB327.2 million in cash and cash equivalents, increased of RMB80.9 million in available-for-sale financial asset and increase of RMB30.0 million in structured deposits. The significant increase in cash and cash equivalents, available-for-sale financial asset and structured deposits was mainly contributed by the net proceeds of HK\$465.6 million from the Listing and the full exercise of the over-allotment option.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's primary uses of cash in the first half of 2017 were for working capital and purchase of available-for-sale financial assets and structured deposits. As at June 30, 2017, the Group did not have any borrowings or banking facilities and we had cash and cash equivalents of RMB456.6 million (as at December 31, 2016: RMB129.3 million). The directors of the Company (the "Directors") believe that, after taking into account the financial resources available to us, including internally generated funds and the net proceeds from the Listing and the full exercise of the over-allotment option, we have sufficient working capital for our requirements. As at June 30, 2017, the Group did not have any material contingent liabilities or guarantees.

Available-for-sale Financial Assets

The Group's available-for-sale financial assets comprise of monetary funds with floating rates. As at June 30, 2017, the Group's available-for-sale financial assets measured at fair value was RMB80.9 million, the details of which are set out below:

Name of available-for-sale financial assets	Seller	Date	Movement of Principal Amount (RMB)
Monetary fund	Credit Suisse	June 1, 2017	100,000
		June 13, 2017	43,000,000
		June 20, 2017	32,508
		<i>Balance as at June 30, 2017</i>	<u>43,132,508</u>
Monetary fund	China Merchants Bank	June 12, 2017	50,000,000
		June 16, 2017	(10,000,000)
		June 22, 2017	(2,200,000)
		<i>Balance as at June 30, 2017</i>	<u>37,800,000</u>

These financial assets that the Company invested in during the six months ended June 30, 2017 are monetary funds with floating rates, of which carry a lower expected return and risk to the principal as compared to stocks or corporate debt issues. These monetary funds focus on short-term securities on the money market, and invest in vehicles such as certificates of deposit and short-term commercial paper with a maturity of not more than a year.

The fundamental objective of our financial management is safety, liquidity and profitability. In particular, we endeavor to maintain an appropriate risk level and liquidity while satisfying the capital need of the Group's operations and strategic developments, with the goal to enhance the efficiency and profitability on the use of capital. These monetary funds offer liquidity, stable returns and low cost and fees, which allow the Company to meet the redemption needs from time to time and matches the criteria of our financial management principles in managing the Company's idle funds.

Going forward, the Directors consider that it is in the Company's best interest to continue to invest in monetary funds accordingly based on the business and operational needs. The Company may deposit the net proceeds from the Listing and full exercise of over-allotment option into short-term demand deposits and money market instruments as consistent with the intended use of proceeds as set out in the prospectus of the Company dated February 28, 2017 (the "Prospectus").

CORPORATE GOVERNANCE AND OTHER INFORMATION

USE OF PROCEEDS FROM THE LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on March 16, 2017. The net proceeds from the global offering and the over-allotment option were approximately HK\$465.6 million. As at June 30, 2017, the Company has used none of the net proceeds. As at June 30, 2017, the Company has no intention to use the proceeds contrary to the descriptions as stated in the Prospectus.

EXPOSURE TO FOREIGN EXCHANGE RISK

The Group's businesses are primarily located in Mainland China and nearly all transactions are conducted in Renminbi. The functional currency for all of our operating subsidiaries is Renminbi. As a result, we believe that the foreign exchange risk to our financial performance is low.

PLEDGE OF ASSETS

No assets of the Group were pledged as security for bank borrowing as at June 30, 2017.

MATERIAL INVESTMENTS

The Group did not make any material investments during the six months ended June 30, 2017.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions or disposal of subsidiaries or associated companies during the six months ended June 30, 2017.

EVENTS AFTER THE REPORTING PERIOD

The Company has entered into a letter of intent to purchase 70% equity interests in each of (1) a for-profit general services hospital in Zhejiang province, (2) a company that is principally engaged in the supply of medicines, and (3) a company that owns certain properties. Details of which are set out in an announcement published by the Company on August 10, 2017.

On August 23, 2017, Weikang Investment being a subsidiary owned indirectly as to 80% by the Company, entered into an equity transfer agreement with Shanghai Hongfa Enterprise (Group) Co., Ltd. (上海宏發企業(集團)有限公司) (the "Purchaser") pursuant to which Weikang Investment agreed to dispose, and the Purchaser agreed to acquire, the entire equity interest in Fuhua Hospital for a total consideration of RMB43,000,000. Upon completion, Fuhua Hospital ceased to be a subsidiary of the Company. Details of the transaction are set out in an announcement published by the Company on August 23, 2017.

Save as disclosed, there is no material subsequent event undertaken by the Company or by the Group after June 30, 2017 and up to the date of this report.

CONTINGENT LIABILITIES

As at June 30, 2017, the Group did not have any material contingent liabilities or guarantees.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The board of Directors has recommended that no interim dividend be declared in respect of the six months ended June 30, 2017.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE

As at June 30, 2017, the interests or short positions of our Directors and chief executives in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) to be entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest ⁽³⁾
Mr. Zhao John Huan	Interest in controlled corporation	97,000,000	70.19%
	Deemed interest ⁽¹⁾	2,500,000	1.81%
Mr. Zhang Xiaopeng	Interest in controlled corporation ⁽²⁾	2,860,000	2.07%

Notes:

- (1) The Shares held by Midpoint Honour and pledged in favor of Hony Capital 2008 Management Limited.
- (2) Including the Shares held by Midpoint Honour and pledged in favor of Hony Capital 2008 Management Limited.
- (3) As of the date of this report, the total number of issued shares of the Company was 138,194,000.

Save as disclosed above, as of June 30, 2017, so far as is known to the Directors or chief executives of the Company, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO, or (iii) as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at June 30, 2017, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued Shares of the Company.

Name of Shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in the Company ⁽⁴⁾
Vanguard Glory	Beneficial owner	97,000,000	70.19%
Hony Capital Fund V, L.P. ⁽²⁾	Interest in controlled corporation	97,000,000	70.19%
Hony Capital Fund V GP, L.P. ⁽²⁾	Interest in controlled corporation	97,000,000	70.19%
Hony Capital Fund V GP Limited ⁽²⁾	Interest in controlled corporation	97,000,000	70.19%
Hony Group Management Limited ^{(1) (2)}	Interest in controlled corporation; deemed interest	99,500,000	72.00%
Hony Managing Partners Limited ^{(1) (2)}	Interest in controlled corporation; deemed interest	99,500,000	72.00%
Exponential Fortune Group Limited ^{(1) (2)}	Interest in controlled corporation; deemed interest	99,500,000	72.00%
Mr. Zhao John Huan ^{(1) (2)}	Interest in controlled corporation; deemed interest	99,500,000	72.00%
Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) (安徽省中安健康養老服務產業投資合夥企業(有限合夥)) ⁽³⁾	Beneficial owner	9,098,800	6.58%
Anhui Zhong'an Health Investment Management Co., Ltd. (安徽省中安健康投資管理有限公司) ⁽³⁾	Interest in controlled corporation	9,098,800	6.58%
Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥)) ⁽³⁾	Interest in controlled corporation	9,098,800	6.58%
Anhui Investment Group Holdings Co., Ltd. (安徽省投資集團控股有限公司) ⁽³⁾	Interest in controlled corporation	9,098,800	6.58%
Mr. Li Yuan ⁽³⁾	Interest in controlled corporation	9,098,800	6.58%

Notes:

- (1) Aggregating the Shares held by Midpoint Honour and pledged in favor of Hony Capital 2008 Management Limited.
- (2) Hony Capital Fund V. L.P. is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Capital Fund V, L.P. is Hony Capital Fund V GP, L.P., whose general partner is Hony Capital Fund V GP Limited. Hony Capital Fund V GP Limited is wholly owned by Hony Group Management Limited, 80% equity interest of which is held by Hony Managing Partners Limited, which in turn is wholly owned by Exponential Fortune Group Limited. Exponential Fortune Group Limited is held as to 49% by Mr. Zhao John Huan.
- (3) Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) is a limited partnership formed under the laws of the PRC as an investment vehicle. The general partner of Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) is Anhui Zhong'an Health Investment Management Co., Ltd. ("Anhui Zhong'an"). Anhui Zhong'an is jointly held as to 50% by Hefei Kangyang Capital Management Partnership (Limited Partnership) and as to 45% by Anhui Investment Group Holdings Co., Ltd.. Mr. Li Yuan is the general partner of Hefei Kangyang Capital Management Partnership (Limited Partnership).
- (4) As of the date of this report, the total number of issued shares of the Company was 138,194,000.

SHARE-BASED PAYMENT SCHEMES

Share Subscription Agreement

On March 31, 2016, the Company entered into a share subscription agreement (the "**Share Subscription Agreement**") with certain members of the management (collectively, the "**Management Subscribers**"), their respective investment holding companies, Midpoint Honour Limited (a shareholder of the Company collectively owned by the Management Subscribers) ("**Midpoint Honour**"), Hony Capital 2008 Management Limited (a management company established by Hony Capital and an affiliate of the Company), and Vanguard Glory, a shareholder of the Company.

Pursuant to the Share Subscription Agreement, the Company allotted and issued 300 new ordinary shares to Midpoint Honour (the "**Subscription Shares**"), representing 3% of the Company's then issued ordinary shares for RMB31,152,000. Pursuant to the Share Subscription Agreement and the amendment agreements, Midpoint Honour is subject to lock-up restrictions and shall put back the subscription shares to us, when any one of the management subscribers resign with our consent, with a consideration equal to the Subscription Consideration plus interests where available (the "**Put Back Consideration**"). As a result, it is accounted for as a share option scheme in accordance with relevant accounting standards, under which the Management Subscribers were granted 300 share options and the Group receives services from the Management Subscribers. The exercise price of the granted options is equal to the Put Back Consideration. The granted share options were considered as equity-settled share-based payment to the subscriber. The share-based compensation expense related to the Share Subscription Agreement of RMB1,302,000 and RMB2,223,000 was recognized as "cost of revenue" for the six months ended June 30, 2016 and 2017, respectively.

Options are conditional on the employees completing the first year and second year's services, which are the vesting period. The options are exercisable starting 12 months or 24 months from the Date of Listing. Details of the Share Subscription Agreement were set out in the Prospectus.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Pre- IPO Share Appreciation Rights Scheme

At the end of June 2016, the key terms and conditions of a share appreciation rights scheme prior to the initial public offering (the “Pre-IPO SARs Scheme”) were discussed with all employees’ concerned. The employees concerned were also informed that the Pre-IPO SARs Scheme was subject to board approval, which was obtained in November 2016.

On November 28, 2016, the Board of the Company approved the Pre-IPO SARs Scheme which enables the Company to grant share appreciation rights to Mr. Zhang Xiaopeng, Mr. Zang Chuanbo, Ms. Ding Yue, Ms. Kan Ruihan (collectively referred to as the “Pre-IPO SARs Grantees”).

Pursuant to the Pre-IPO SARs Scheme, the Company granted 2,500,000 notional shares to the Pre-IPO SARs Grantees entitling them to receive cash payments based on the appreciation of the notional shares over a vesting period starting on June 30, 2016. Share-based compensation expenses related to the Pre-IPO SARs Scheme of RMB2,030,000 was recognized as “cost of revenue” for the six months ended June 30, 2017 (first half of 2016: nil).

Service Contract with Mr. Lu Wenzuo

Pursuant to the service contract of Mr. Lu Wenzuo, New Pride Holdings Limited, an indirect wholly-owned subsidiary of the Company (“New Pride”) conditionally granted certain awards and share appreciation rights to Mr. Lu Wenzuo if he could work for Weikang Investment and provide hospital management services to Yangsi Hospital as the hospital administrator till December 31, 2017. Share-based compensation expense related to the share award and share appreciation right of Mr. Lu Wenzuo of RMB13.4 million was recognized as “cost of revenue” for the six months ended June 30, 2017 (first half of 2016: nil).

Post-IPO Share Appreciation Rights Scheme

We adopted a post-IPO share appreciation rights scheme (the “Post-IPO SARs Scheme”) on December 13, 2016 to enable the Company to grant the Post-IPO Share Appreciation Rights (the “Post-IPO SARs”) to Post-IPO SARs Eligible Participants (as defined below) as rewards or returns for their contribution or potential contribution to the Company and/or any of the subsidiaries. The Post-IPO SARs Scheme does not involve the grant of options over new securities of the Company. Under the scheme, directors, employees, advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture partners and service providers of the Company or any of the subsidiaries (the “Post-IPO SARs Eligible Participants”) who, in the sole opinion of the Board, have contributed to the Company and/or any of the subsidiaries will be entitled to receive cash payments determined based on the appreciation of the notional Shares over a specified period pursuant to the Post-IPO SARs Scheme. The Post-IPO SARs Eligible Participants who accepted the offer do not have any voting rights and rights to dividends entitled by the Shareholders.

Details of the Post-IPO SARs Scheme were set out in the Prospectus. Since the Date of Listing and up to the date of this interim report, no Post-IPO SARs had been granted under the Post-IPO SARs Scheme.

Save as disclosed above, the Company does not adopt share-based payment schemes. No share option was granted by the Company during the six months ended June 30, 2017.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CHANGES TO DIRECTORS' INFORMATION

The Directors confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

EMPLOYEE AND REMUNERATION POLICIES

As at June 30, 2017, the Group had 119 full-time employees (as at June 30, 2016: 118). We provide wages, employee-related insurance and employee benefits to our employees. Remuneration packages for our employees mainly consist of base salary, welfare and bonus. For the six months ended June 30, 2017, the total employee benefits expenses (including Directors' remuneration) were RMB31.7 million (first half of 2016: RMB12.9 million).

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Directors considered that during the period from the Date of Listing to June 30, 2017, the Company has complied with the applicable code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and the relevant employees (who likely possess inside information of the Company) (the "Securities Dealing Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all Directors and all of them have confirmed that they have complied with the Model Code and the Securities Dealing Code for the period from the Date of Listing to June 30, 2017.

CORPORATE GOVERNANCE AND OTHER INFORMATION

AUDIT COMMITTEE

The unaudited results and the condensed consolidated financial statements of the Group for the six months ended June 30, 2017 have been reviewed by the audit committee of the Company (the “**Audit Committee**”). The Audit Committee consists of two independent non-executive Directors, Mr. Zhou Xiangliang (Chairman) and Mr. Shi Luwen, and a non-executive Director, Mr. Lin Sheng. The Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the period from the Date of Listing to June 30, 2017.

FINANCIAL INFORMATION

The Group’s interim results for the six months ended June 30, 2017 have not been audited but have been reviewed by the Group’s external auditor, PricewaterhouseCoopers, and by the Audit Committee.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF HOSPITAL CORPORATION OF CHINA LIMITED

(incorporated in Cayman with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 18 to 50, which comprises the interim condensed consolidated balance sheet of Hospital Corporation of China Limited (the “Company”) and its subsidiaries (together, the “Group”) as at June 30, 2017 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 29, 2017

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended June 30,	
		2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Audited)
Revenue	7	88,209	76,097
Cost of revenue		<u>(46,231)</u>	<u>(25,349)</u>
Gross profit		41,978	50,748
Selling expenses		—	(1)
Administrative expenses		(28,252)	(16,038)
Other (losses)/gains—net	8	(232)	522
Other income	9	<u>1,623</u>	<u>569</u>
Operating profit		15,117	35,800
Finance income	10	662	49
Finance expense	10	<u>(8,393)</u>	<u>—</u>
Profit before income tax		7,386	35,849
Income tax expense	11	<u>(9,819)</u>	<u>(11,287)</u>
(Loss)/Profit for the period		(2,433)	24,562
Other comprehensive income		—	—
Total comprehensive income for the period		<u>(2,433)</u>	<u>24,562</u>
Attributable to:			
Owners of the Company		(12,291)	16,462
Non-controlling interests		<u>9,858</u>	<u>8,100</u>
Total comprehensive income for the period		<u>(2,433)</u>	<u>24,562</u>
(Losses)/Earnings per share from (loss)/profit attributable to owners of the Company			
– Basic and diluted (losses)/earnings per share (in RMB)	12	<u>(0.103)</u>	<u>0.167</u>

The notes on pages 23 to 50 are an integral part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	June 30, 2017 RMB' 000 (Unaudited)	December 31, 2016 RMB' 000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	13	21,438	22,630
Intangible assets	13	1,080,325	1,082,071
Deferred income tax assets	21	244	276
Other receivables, deposits and prepayments	15	548	—
Total non-current assets		1,102,555	1,104,977
Current assets			
Available-for-sale financial asset	5.3 (a)	80,933	—
Inventories		1,485	1,847
Trade receivables	14	5,172	4,575
Other receivables, deposits and prepayments	15	708	8,570
Amounts due from related parties	16	41,778	38,276
Cash and cash equivalents		456,556	129,332
Structured deposits		30,000	—
Total current assets		616,632	182,600
Total assets		1,719,187	1,287,577
EQUITY			
Equity attributable to owners of the Company			
Share capital	17	123	65
Share premium	17	404,021	—
Treasury shares	17	(3)	(2)
Reserves	18	1,060,802	1,058,416
Retained earnings		48,306	60,597
		1,513,249	1,119,076
Non-controlling interests		51,725	41,867
Total equity		1,564,974	1,160,943

The notes on pages 23 to 50 are an integral part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	June 30, 2017 RMB' 000 (Unaudited)	December 31, 2016 RMB' 000 (Audited)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	21	37,375	36,465
Accruals, other payables and provisions	20	2,866	19,442
Total non-current liabilities		40,241	55,907
Current liabilities			
Amounts due to related parties	16	4,697	3,855
Trade payables	19	3,622	4,631
Accruals, other payables and provisions	20	100,191	57,838
Current income tax liabilities		5,462	4,403
Total current liabilities		113,972	70,727
Total liabilities		154,213	126,634
Total equity and liabilities		1,719,187	1,287,577

The notes on pages 23 to 50 are an integral part of these interim condensed consolidated financial information.

The financial statements on pages 18 to 50 were approved by the Board of Directors on August 29, 2017 and were signed on its behalf.

Zhang Xiaopeng

Lin Sheng

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to owners of the Company						Attributable to non-controlling interests	Total equity
Note	Share capital RMB' 000	Treasury Share RMB' 000	Share premium RMB' 000	Reserves (Note 18) RMB' 000	Retained earnings RMB' 000	Sub-total RMB' 000	RMB' 000	RMB' 000	
<i>(Unaudited)</i>									
	65	(2)	—	1,058,416	60,597	1,119,076	41,867	1,160,943	
	—	—	—	—	(12,291)	(12,291)	9,858	(2,433)	
	(65)	2	—	63	—	—	—	—	
	—	—	—	—	—	—	—	—	
	89	(3)	(86)	—	—	—	—	—	
	34	—	434,827	—	—	434,861	—	434,861	
	—	—	(30,720)	—	—	(30,720)	—	(30,720)	
	—	—	—	2,323	—	2,323	—	2,323	
	<u>123</u>	<u>(3)</u>	<u>404,021</u>	<u>1,060,802</u>	<u>48,306</u>	<u>1,513,249</u>	<u>51,725</u>	<u>1,564,974</u>	
<i>(Audited)</i>									
	—	—	—	1,044,847	45,200	1,090,047	38,492	1,128,539	
	—	—	—	—	16,462	16,462	8,100	24,562	
	2	—	31,150	—	—	31,152	—	31,152	
	—	—	—	1,302	—	1,302	—	1,302	
	<u>2</u>	<u>—</u>	<u>31,150</u>	<u>1,046,149</u>	<u>61,662</u>	<u>1,138,963</u>	<u>46,592</u>	<u>1,185,555</u>	

The notes on pages 23 to 50 are an integral part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended June 30,	
		2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Audited)
Cash flows from operating activities			
Cash generated from operations		42,727	142,276
Income tax paid		(7,818)	(18,172)
Interests received		662	49
Net cash generated from operating activities		35,571	124,153
Cash flows from investing activities			
Purchase of property, plant and equipment		(775)	(10,880)
Purchase of available-for-sale financial asset	5.3(a)	(93,100)	—
Increase of structured deposits		(30,000)	—
Proceeds from disposal of available-for-sale financial asset	5.3(a)	12,200	—
Gains from disposal of financial assets at fair value through profit or loss	5.3(b)	90	—
Net cash used in investing activities		(111,585)	(10,880)
Cash flows from financing activities			
Proceeds from issuance of new ordinary shares	17	434,861	31,152
Share issuance costs paid		(20,422)	—
Dividend and withholding tax paid		(2,808)	(53,000)
Net cash received from/(used in) financing activities		411,631	(21,848)
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of period		129,332	13,104
Exchange losses on cash and cash equivalents	10	(8,393)	—
Cash and cash equivalents at end of the period		456,556	104,529

The notes on pages 23 to 50 are an integral part of these consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Hospital Corporation of China Limited ('the Company'), together with its subsidiaries (collectively referred to as 'the Group'), are principally engaged in (i) operation and management of its privately owned hospital, Shanghai Fuhua Hospital Co., Ltd. ('Fuhua Hospital') and (ii) provision of management and consultation services to a not-for-profit hospital, Shanghai Yangsi Hospital ('Yangsi Hospital') in the People's Republic of China (the 'PRC').

The Company was incorporated in the Cayman Islands on February 21, 2014 as an exempted company with limited liability under the Companies Law (Cap.22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is controlled by Vanguard Glory Limited ('Vanguard Glory'), a subsidiary of Hony Capital Fund V, L.P., which is considered as the ultimate holding company of the Company.

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

The condensed consolidated interim financial information is presented in Renminbi ('RMB'), unless otherwise stated.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended June 30, 2017 has been prepared in accordance with International Accounting Standard ('IAS') 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ('IFRS').

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendment to IFRSs effective for the financial year ending December 31, 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 ACCOUNTING POLICIES— *continued*

(a) Impact of standards issued but not yet applied by the Group

The following new standards, amendments and interpretations to existing standards which have been issued but are effective for the fiscal year beginning on or after January 1, 2018 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Lease	January 1, 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Amendment to IFRS 10 and IAS 28	Sale or Contribution of assets between an investor and its associate or joint venture	Deferred

(i) *IFRS 9 Financial instruments*

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reasons:

- The debt instruments that are currently classified as available-for-sale (AFS) financial assets appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.
- Debt instruments currently classified as held-to-maturity and measured at amortised cost appear to meet the conditions for classification at amortised cost under IFRS 9.

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

3 ACCOUNTING POLICIES– *continued*

(a) Impact of standards issued but not yet applied by the Group– *continued*

(i) *IFRS 9 Financial instruments– continued*

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. However, at this stage the Group does not expect to identify any new hedge relationships. Currently, the Group has no existing hedge relationships. Accordingly, the Group does not expect a significant impact on the accounting for hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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

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

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

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

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- bundle sales – the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue
- accounting for costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and
- rights of return – IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 ACCOUNTING POLICIES– *continued*

(a) Impact of standards issued but not yet applied by the Group– *continued*

(iii) *IFRS 16 Leases*

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB13,850,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

(iv) *Amendment to IFRS 10 and IAS 28*

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operation. According to the assessment made by the directors of the Company, except as described above, the directors of the Company do not expect the application of the new and revised IFRSs in issue but not yet effective will have significant impact on the financial performance and positions of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2016.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2016.

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

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS— *continued*

5.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at June 30, 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

The following table presents the Group's financial assets that are measured at fair value at June 30, 2017.

	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	Total RMB' 000
<i>(Unaudited)</i>				
Assets				
Available-for-sale financial assets				
- Monetary funds with floating rates	—	80,933	—	80,933
Total assets	<u>—</u>	<u>80,933</u>	<u>—</u>	<u>80,933</u>

There were no transfers between levels 1, 2 and 3 during the period.

At December 31, 2016, there is no financial instruments of the Group is required to be measured at fair value.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS— *continued*

5.3 Fair value estimation— *continued*

(a) *Financial instruments in level 2*

The following table presents the changes in level 2 instruments for the year ended 31 December 2016 and the six months ended 30 June 2017, respectively.

	Monetary funds with floating rates	
	Six months ended June 30, 2017 RMB' 000 (Unaudited)	Six months ended June 30, 2016 RMB' 000 (Audited)
Opening balance	—	—
Addition	93,100	—
Settlements	(12,200)	—
Gains recognised in profit or loss	33	—
Closing balance	<u>80,933</u>	<u>—</u>
Total gains for the period included in profit or loss under 'Other income'	<u>33</u>	<u>—</u>
Changes in unrealised gains or losses for the period included in profit or loss at the end of the period	<u>—</u>	<u>—</u>

Financial instruments in level 2 were monetary funds with floating rates treated as available-for-sale financial assets held by the Group which were effective on June 12, 2017 and June 13, 2017, respectively and part of them were redeemed on June 16, 2017 and June 22, 2017, respectively. The fair value of the monetary funds held by the Group is approximate to the book value and relevant fair value gain/loss and financial impact of changes in interest rate are minimal because of the short term duration from the effective days to June 30, 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS— *continued*

5.3 Fair value estimation— *continued*

(b) *Financial instruments in level 3*

	Wealth management contract with floating rates	
	Six months ended June 30, 2017 RMB'000 (Unaudited)	Six months ended June 30, 2016 RMB'000 (Audited)
Opening balance	—	—
Addition	113,600	—
Settlements	(113,690)	—
Gains recognised in profit or loss	90	—
Closing balance	—	—
Total gains for the period included in profit or loss under 'Other income'	90	—
Changes in unrealised gains or losses for the period included in profit or loss at the end of the period	—	—

Financial instruments in level 3 were wealth management contract with floating rates treated as financial assets at fair value through profit or loss. The financial instrument of RMB56,800,000 was effective on May 12, 2017 and redeemed on May 15 2017. On the same day, the Group reinvested the funds in the same series of wealth management contracts and the financial instrument was redeemed on June 8, 2017. On June 30, 2017, there was no financial assets at fair value through profit or loss held by the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS– *continued*

5.4 Fair value of financial assets and liabilities measured at amortised cost

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

- Trade receivables
- Other receivables, deposits and prepayments
- Amounts due from related parties
- Cash and cash equivalents
- Structured deposits
- Trade payables
- Accruals, other payables and provisions (excluding non-financial liabilities)
- Amounts due to related parties

6 SEGMENT INFORMATION

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

The CODM considers the business from both the service and product perspective. When the Group companies have similar economic characteristics, and the segments are similar in each of the following respects: (i) the nature of the products and services; (ii) the nature of the production processes; (iii) the type or class of customer for their products and services; (iv) the methods used to distribute their products or provide their services; and (v) if applicable, the nature of the regulatory environment, the Group's operating segments are aggregated. In the view of CODM, the Group is principally engaged in two different segments which are subject to different business risks and different economic characteristics and the Group's operating and reportable segments for segment reporting purpose are as follows:

The Group assesses the performance of the operating segments based on a measure of earnings before interests, income tax, depreciation and amortisation ('EBITDA').

(a) General hospital services

Revenue from this segment is derived from hospital services provided at Fuhua Hospital.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION— *continued*

(b) Hospital management services

The Group provides comprehensive management services to Yangsi Hospital under hospital management agreements and receives management service fee.

(c) Unallocated

The 'Unallocated' category mainly represents the headquarter expenses.

Segment information about the Group's reportable segment is presented below:

	General hospital services RMB' 000	Hospital management services RMB' 000	Unallocated RMB' 000	Total RMB' 000
<i>(Unaudited)</i>				
Six months ended June 30, 2017				
Revenue from external customers	17,238	70,971	—	88,209
EBITDA	1,033	41,630	—	42,663
Depreciation	(361)	(1,023)	(324)	(1,708)
Amortization	(575)	(1,153)	(18)	(1,746)
Finance income on deposit	5	526	131	662
Unallocated expenses excluding depreciation and amortization			(32,485)	(32,485)
(Loss)/Profit before tax	102	39,980	(32,696)	7,386
<i>(Unaudited)</i>				
As at June 30, 2017				
Segment assets	26,155	309,714	424,454	760,323
Goodwill	7,948	950,916	—	958,864
Total assets	34,103	1,260,630	424,454	1,719,187
Total liabilities	8,829	80,431	64,953	154,213
<i>(Unaudited)</i>				
Other Segment information for the six months ended June 30, 2017				
Depreciation, amortization and impairment	(807)	(2,176)	(342)	(3,325)
Additions of non-current assets excluding goodwill and deferred income tax assets	268	796	—	1,064

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION— *continued*

Segment information about the Group's reportable segment is presented below:—*continued*

	General hospital services RMB' 000	Hospital management services RMB' 000	Unallocated RMB' 000	Total RMB' 000
<i>(Audited)</i>				
Six months ended June 30, 2016				
Revenue from external customers	<u>13,011</u>	<u>63,086</u>	<u>—</u>	<u>76,097</u>
EBITDA	(209)	49,995	—	49,786
Depreciation	(289)	(880)	(598)	(1,767)
Amortization	(575)	(1,153)	—	(1,728)
Finance income on deposit	<u>6</u>	<u>43</u>	<u>—</u>	<u>49</u>
Unallocated expenses excluding depreciation and amortization			<u>(10,491)</u>	<u>(10,491)</u>
(Loss)/Profit before tax	<u>(1,067)</u>	<u>48,005</u>	<u>(11,089)</u>	<u>35,849</u>
<i>(Audited)</i>				
As at June 30, 2016				
Segment assets	26,074	272,278	23,845	322,197
Goodwill	<u>7,948</u>	<u>950,916</u>	<u>—</u>	<u>958,864</u>
Total assets	<u>34,022</u>	<u>1,223,194</u>	<u>23,845</u>	<u>1,281,061</u>
Total liabilities	<u>16,965</u>	<u>48,425</u>	<u>30,116</u>	<u>95,506</u>
<i>(Audited)</i>				
Other Segment information for the six months ended June 30, 2016				
Depreciation, amortization and impairment	<u>(1,437)</u>	<u>(2,033)</u>	<u>(598)</u>	<u>(4,068)</u>
Additions of non-current assets excluding goodwill and deferred income tax assets	<u>369</u>	<u>1,954</u>	<u>—</u>	<u>2,323</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 REVENUE

	Six months ended June 30,	
	2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Audited)
General hospital services		
- Pharmaceutical sales	12,980	9,286
- Treatments and general hospital services	4,258	3,725
Hospital management services		
- Management services fee (a)	70,207	62,430
- Other services fee	764	656
	<u>88,209</u>	<u>76,097</u>

All revenue are generated in the PRC. For its general hospital services, revenue primarily derives from individual patients for the periods ended June 30, 2017 and 2016. For its management services fee, there is a single client, Yangsi Hospital, contributed to 79.6% and 82.0% of the Group's revenue for the periods ended June 30, 2017 and 2016.

(a) Management services fee

On January 1, 2013, Weikang Investment Management Co., Ltd. ('Weikang Investment') entered into a hospital management framework agreement ('HMFA') with Yangsi Hospital. Pursuant to the HMFA, Weikang Investment provides management and consultancy services to Yangsi Hospital with a period of 6 years from 2013 to 2018 and the detailed service content and pricing are concluded and effective in separate hospital management agreement ('HMA') on an annually basis.

On September 23, 2014, the executive committee of Yangsi Hospital passed a resolution to extend the HMFA period to 2064. Accordingly, on October 8, 2014, Yangsi Hospital further signed a letter of intent with Weikang Investment pursuant to the resolution.

On January 1, 2016, Weikang Investment and Tibet Dazi Honghe Ruixin Business Management Co., Ltd. ('Honghe Ruixin') further entered into a long-term hospital management agreement ('LTHMA') with Yangsi Hospital. Pursuant to the LTHMA, Weikang Investment and Honghe Ruixin will provide management and consultancy services to Yangsi Hospital with a period of 10 years from 2016 to 2025.

On January 1, 2016 and 2017, Weikang Investment and Honghe Ruixin signed the annual HMA with Yangsi Hospital respectively and derives management fee based on pre-set formulas set out in the annual HMA respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 OTHER (LOSSES)/GAINS—NET

	Six months ended June 30,	
	2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Audited)
Foreign exchange (losses)/gains	(195)	523
Medical compensation	(14)	—
Others	(23)	(1)
	<u>(232)</u>	<u>522</u>

9 OTHER INCOME

	Six months ended June 30,	
	2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Audited)
Government grants and subsidies (a)	1,500	569
Interest income on monetary funds and wealth management products	123	—
	<u>1,623</u>	<u>569</u>

- (a) The Government grants and subsidies of RMB1,500,000 (six months ended June 30, 2016: nil) is granted by the People's Government of Sanlin Town in Shanghai for the six months ended June 30, 2017 in consideration of the taxation contribution of Weikang Investment.

There is no government grants and subsidies granted by the Finance Bureau of Dazi County in Tibet Autonomous Region for the six months ended June 30, 2017 in consideration of the taxation contribution of Hongke Ruixin (six months ended June 30, 2016: RMB569,000).

10 FINANCE EXPENSE—NET

	Six months ended June 30,	
	2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Audited)
Finance income		
Interest income on short-term structured deposits	662	49
Finance expense		
Foreign exchange losses	(8,393)	—
Finance expense - net	<u>(7,731)</u>	<u>49</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11 INCOME TAX EXPENSE

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 9% and 25% (six months ended June 30, 2016: 9% and 25%) for the six months ended June 30, 2017.

	Six months ended June 30,	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Audited)
Current income tax:		
– PRC corporate income tax	8,877	8,316
Deferred income tax (Note 21)	942	2,971
	<u>9,819</u>	<u>11,287</u>

(a) Cayman Islands Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% (six months ended June 30, 2016: 16.5%) for the six months ended June 30, 2017. No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the periods ended June 30, 2017 and 2016.

(c) PRC Corporate Income Tax ('CIT')

The income tax rate of Weikang Investment, Fuhua Hospital and Honghe Yixin was 25% (six months ended June 30, 2016: 25%) for the six months ended June 30, 2017. The income tax rate of Honghe Zhiyuan and Honghe Ruixin was 9% (six months ended June 30, 2016: 9%) for the six months ended June 30, 2017.

Honghe Zhiyuan and Honghe Ruixin are eligible for a preferential 9% income tax rate for the period from January 1, 2015 to December 31, 2017, in accordance with the Measures for the Implementation of Preferential Enterprise Income Tax Policies of Tibet Autonomous Region (西藏自治區企業所得稅政策實施辦法) promulgated by the Tibet Autonomous Regional Government on May 1, 2014.

(d) Withholding Tax

The withholding tax rate of New Pride and Bliss Success was 10% pursuant to PRC Enterprise Income Tax based on the remittance of dividends from Honghe Ruixin and Weikang Investment in the foreseeable future, respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 (LOSSES)/EARNINGS PER SHARE

(a) Basic (Losses)/Earnings Per Share

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue for the year excluding ordinary shares purchased by the Company.

	Six months ended June 30,	
	2017 (Unaudited)	2016 (Audited)
Total (loss)/profit attributable to owners of the Company (RMB'000)	(12,291)	16,462
Weighted average number of ordinary shares in issue (in thousands)	118,860	98,430
Basic (losses)/earnings per share (in RMB)	<u>(0.103)</u>	<u>0.167</u>

In determining the weighted average number of ordinary shares, the one share issued upon incorporation and 9,699 shares issued in 2016 were treated as if they have been in issue since February 21, 2014.

In addition, the weighted average number of ordinary shares in issue was adjusted by additional 300 shares which were issued to Midpoint Honour on March 31, 2016.

On December 4, 2016, the Company repurchased and subsequently cancelled 14 out of 300 ordinary shares. The remaining 286 shares held by Midpoint Honour were treated as treasury share due to the amendments of the Subscription Agreement on December 4, 2016 and January 23, 2017.

On January 3, 2017, the Company allotted and issued 9,986 ordinary shares of a par value of HK\$0.001 each to the then existing shareholders in proportion to their respective shareholdings in the Company at a consideration equal to the par value of HK\$0.001 each and credited as fully paid, and 9,986 ordinary shares of a par value of US\$1.00 each of the Company were repurchased at a price of HK\$0.001 each and cancelled.

On March 16, 2017, capitalization issue of 99,850,014 shares was effective. Accordingly, the weighted average number of ordinary shares in issue have been adjusted retrospectively as if it was effective from the date of the beginning.

On March 16, 2017, the Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited with the global offering of ordinary shares of HK\$0.001 each of the Company, including, a public offering in Hong Kong of 3,333,600 shares and an international offering of 30,000,400 shares.

On April 13, 2017, the Company issued 5,000,000 ordinary shares pursuant to the full exercise of the over-allotment option.

(b) Diluted (Losses)/Earnings Per Share

The Company did not have any potential dilutive shares throughout the period. Accordingly, diluted (losses)/earnings per share are the same as the basic (losses)/earnings per share.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment RMB' 000	Other intangible assets RMB' 000	Goodwill RMB' 000
<i>(Unaudited)</i>			
Six months ended June 30, 2017			
Net book value			
Opening amount as at January 1, 2017	22,630	123,207	958,864
Additions	516	—	—
Disposals	—	—	—
Depreciation and amortisation	(1,708)	(1,746)	—
Closing amount as at June 30, 2017	<u>21,438</u>	<u>121,461</u>	<u>958,864</u>
<i>(Audited)</i>			
Six months ended June 30, 2016			
Net book value			
Opening amount as at January 1, 2016	23,625	126,487	958,864
Additions	2,323	—	—
Disposals	—	—	—
Depreciation and amortisation	(1,767)	(1,728)	—
Closing amount as at June 30, 2016	<u>24,181</u>	<u>124,759</u>	<u>958,864</u>

14 TRADE RECEIVABLES

	As at June 30, 2017 RMB' 000 (Unaudited)	As at December 31, 2016 RMB' 000 (Audited)
Trade receivables	5,681	5,213
Less: provision for impairment of trade receivables	(509)	(638)
Trade receivables – net	<u>5,172</u>	<u>4,575</u>

The carrying amounts of the Group's trade receivables are denominated in RMB and approximate their fair values.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 TRADE RECEIVABLES – *continued*

As at June 30, 2017 and December 31, 2016, the ageing analysis based on invoice date of the trade receivables was as follows:

	As at June 30, 2017 RMB' 000 (Unaudited)	As at December 31, 2016 RMB' 000 (Audited)
1 - 90 days	2,751	4,514
91 - 180 days	2,542	—
181 days – 1 year	388	—
Over 1 year	—	699
	<u>5,681</u>	<u>5,213</u>

15 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at June 30, 2017 RMB' 000 (Unaudited)	As at December 31, 2016 RMB' 000 (Audited)
Prepayments for rental	347	331
Prepayments for construction	81	81
Prepayment for professional service fee in respect of the listing	—	7,270
Deposits	548	499
Others	280	389
Total	<u>1,256</u>	<u>8,570</u>
Less: non-current portion	<u>548</u>	—
Current portion	<u>708</u>	<u>8,570</u>

The carrying amounts of other receivables, deposits and prepayments are denominated in RMB and approximate their fair values.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 BALANCES WITH RELATED PARTIES

As at June 30, 2017 and December 31, 2016, the balances with related parties are unsecured, interest free, receivable/repayable on demand and are denominated in RMB.

	As at June 30, 2017 RMB' 000 (Unaudited)	As at December 31, 2016 RMB' 000 (Audited)
Amounts due from related parties		
– Trade in nature		
Yangsi Hospital	41,678	38,175
– Others		
Vanguard Glory Limited	57	46
Midpoint Honour Limited	27	30
Grand Roc Holdings Limited	8	13
Han Prestige Limited	8	—
Marco Alliance Ltd.	—	12
	<hr/>	<hr/>
Total	41,778	38,276
	<hr/> <hr/>	<hr/> <hr/>

As at June 30, 2017 and December 31, 2016, the ageing analysis based on trading date of the trade receivables was as follows:

	As at June 30, 2017 RMB' 000 (Unaudited)	As at December 31, 2016 RMB' 000 (Audited)
Within 30 days	41,678	38,175
30 to 90 days	—	—
90 to 180 days	—	—
More than 180 days	—	—
	<hr/>	<hr/>
	41,678	38,175
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 BALANCES WITH RELATED PARTIES – *continued*

As at June 30, 2017, none of the trade receivables was individually determined to be impaired (2016: nil).

	As at June 30, 2017 RMB' 000 (Unaudited)	As at December 31, 2016 RMB' 000 (Audited)
Amounts due to related parties		
– Others		
Yangsi Hospital	4,136	2,937
Vanguard Glory Limited	561	918
	<u>4,697</u>	<u>3,855</u>

Amounts due to non-controlling shareholders of subsidiaries was recorded in other payables (Note 20).

Their carrying values due as at June 30, 2017 and December 31, 2016, approximate their fair values.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM

	Number of shares	Nominal value of shares HK\$
Authorised		
Ordinary shares (a)	<u>500,000,000</u>	<u>500,000</u>

	Number of shares	Ordinary shares RMB' 000	Treasury shares RMB' 000	Share premium RMB' 000	Total RMB' 000
<i>(Unaudited)</i>					
Issued and Paid					
As at January 1, 2017	9,986	65	(2)	—	63
Repurchase and cancellation of ordinary shares (a)	(9,986)	(65)	2	—	(63)
Issuance of ordinary shares to the then shareholders (a)	9,986	—	—	—	—
Capitalization Issue (b)	99,850,014	89	(3)	(86)	—
Issuance of ordinary shares upon global offering (c)	33,334,000	30	—	378,294	378,324
Issuance of ordinary shares upon exercise of over-allotment option (c)	5,000,000	4	—	56,533	56,537
Share issuance costs (c)	—	—	—	(30,720)	(30,720)
As at June 30, 2017	<u>138,194,000</u>	<u>123</u>	<u>(3)</u>	<u>404,021</u>	<u>404,141</u>

	Number of shares	Ordinary shares RMB' 000	Treasury shares RMB' 000	Share premium RMB' 000	Total RMB' 000
<i>(Audited)</i>					
Issued and Paid					
As at January 1, 2016	1	—	—	—	—
Issuance of ordinary shares to parent company	9,699	—	—	—	—
Issuance of new ordinary shares	300	2	—	31,150	31,152
As at June 30, 2016	<u>10,000</u>	<u>2</u>	<u>—</u>	<u>31,150</u>	<u>31,152</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM – *continued*

- (a) Pursuant to the shareholders' resolutions of the Company dated December 13, 2016, the authorized share capital of the Company increased from US\$50,000 divided into 50,000 ordinary shares of a par value of US\$1.00 each to the aggregate of US\$50,000 and HK\$500,000 divided into (i) 50,000 ordinary shares of a par value of US\$1.00 each and (ii) 500,000,000 shares of a par value of HK\$0.001 each by the creation of 500,000,000 shares of a par value of HK\$0.001 each.

Pursuant to the shareholders' resolutions of the Company dated December 13, 2016, 9,986 ordinary shares of a par value of HK\$0.001 each were allotted and issued to the then existing shareholders in proportion to their respective shareholdings in the Company at a consideration equal to the par value of HK\$0.001 each and credited as fully paid. 9,986 ordinary shares of a par value of US\$1.00 each of the Company were repurchased at a price of HK\$0.001 each and cancelled. The authorized share capital was reduced by cancellation of the 50,000 authorized but unissued ordinary shares of a par value of US\$1.00 each, following which, the authorized share capital of the Company was HK\$500,000 divided into 500,000,000 shares of a par value of HK\$0.001 each. The issuance, buy back and cancellation were completed on January 3, 2017.

- (b) Pursuant to the shareholders' resolutions of the Company dated December 13, 2016, following the change in authorized share capital of the Company and conditional on the share premium account of the Company having sufficient balance, or otherwise being credited as a result of the issue of shares by the Company pursuant to the global offering, the directors of the Company were authorised to capitalize HK\$99,850.014 standing to the credit of the share premium account of the Company by applying such sum to pay up in full 99,850,014 shares at par for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on the date immediately preceding the date on which the global offering becoming unconditional in proportion to their respective shareholdings in the Company or in accordance with the direction of such member ('Capitalization Issue'). The Capitalization Issue was completed on March 16, 2017, immediately at the listing date of the Company.
- (c) On March 16, 2017, the Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited with the global offering of ordinary shares of HK\$0.001 each of the Company, including, a public offering in Hong Kong of 3,333,600 shares and an international offering of 30,000,400 shares, in each case at a price of HK\$12.80 per share. The proceeds from the global offering were approximately RMB378 million.

On April 13, 2017, the Company issued 5,000,000 additional new ordinary shares of HK\$0.001 each at HK\$12.80 per share pursuant to the full exercise of the over-allotment option. The proceeds from the over-allotment option were approximately RMB57 million.

The share issuance costs of the global offering and exercise of over-allotment option were approximately RMB31 million and recorded as a deduction of share premium.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18 RESERVES

	Capital reserve RMB' 000	Other reserve RMB' 000	Total RMB' 000
<i>(Unaudited)</i>			
At January 1, 2017	1,041,933	16,483	1,058,416
Share-based payments	2,323	—	2,323
Repurchase of and cancellation of ordinary shares	63	—	63
At June 30, 2017	<u>1,044,319</u>	<u>16,483</u>	<u>1,060,802</u>
<i>(Audited)</i>			
At January 1, 2016	1,037,035	7,812	1,044,847
Share-based payments	—	1,302	1,302
At June 30, 2016	<u>1,037,035</u>	<u>9,114</u>	<u>1,046,149</u>

(a) Statutory surplus reserve

In accordance with the PRC regulations and the articles of association of the companies now comprising the Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 TRADE PAYABLES

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

	As at June 30, 2017 RMB' 000 (Unaudited)	As at December 31, 2016 RMB' 000 (Audited)
Less than 90 days	3,595	4,604
91 to 180 days	—	—
181 days to 1 year	—	—
Over 1 year	27	27
	<u>3,622</u>	<u>4,631</u>

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

20 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at June 30, 2017 RMB' 000 (Unaudited)	As at December 31, 2016 RMB' 000 (Audited)
Accrued employee benefits	6,219	11,217
Share-based payments	34,805	19,442
Payables to management subscribers	30,591	30,234
Accrued professional service fee in respect of the listing	21,984	6,839
Advance from third parties	158	167
Duty and tax payables other than corporate income tax	2,648	2,647
Payables to non-controlling shareholders of subsidiaries and withholding tax	2,549	5,357
Others	4,103	1,377
Total accruals, other payables and provisions	<u>103,057</u>	<u>77,280</u>
Less: non-current portion	<u>2,866</u>	<u>19,442</u>
Current portion	<u>100,191</u>	<u>57,838</u>

The carrying amounts of accruals, other payables and provisions are denominated in RMB. The carrying amounts approximate their fair values.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21 DEFERRED INCOME TAX

	As at June 30, 2017 RMB' 000 (Unaudited)	As at December 31, 2016 RMB' 000 (Audited)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	—	—
- Deferred income tax assets to be recovered within 12 months	244	276
	<u>244</u>	<u>276</u>
Deferred income tax liabilities:		
- Deferred income tax liabilities to be settled after more than 12 months	(36,511)	(35,601)
- Deferred income tax liabilities to be settled within 12 months	(864)	(864)
	<u>(37,375)</u>	<u>(36,465)</u>
Deferred income tax liabilities – net	<u>(37,131)</u>	<u>(36,189)</u>
Deferred income tax assets		
	Provisions RMB' 000	Total RMB' 000
<i>(Unaudited)</i>		
Balance at January 1, 2017	276	276
Credited to profit or loss	(32)	(32)
Balance at June 30, 2017	<u>244</u>	<u>244</u>
<i>(Audited)</i>		
Balance at January 1, 2016	249	249
Credited to profit or loss	143	143
Balance at June 30, 2016	<u>392</u>	<u>392</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21 DEFERRED INCOME TAX— *continued*

Deferred income tax liabilities

	Intangible assets RMB' 000	Withholding tax RMB' 000	Total RMB' 000
<i>(Unaudited)</i>			
Balance at January 1, 2017	(30,758)	(5,707)	(36,465)
Credited/(charged) to profit or loss	432	(1,342)	(910)
Balance at June 30, 2017	<u>(30,326)</u>	<u>(7,049)</u>	<u>(37,375)</u>
<i>(Audited)</i>			
Balance at January 1, 2016	(31,622)	(5,447)	(37,069)
Credited/(charged) to profit or loss	432	(3,546)	(3,114)
Balance at June 30, 2016	<u>(31,190)</u>	<u>(8,993)</u>	<u>(40,183)</u>

22 DIVIDENDS

The board of directors of the Company does not declare any dividends for the six months ended June 30, 2017 (six months ended June 30, 2016: nil).

23 COMMITMENTS

(a) Operating lease commitments

The Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	Six months ended June 30, 2017 RMB' 000 (Unaudited)	Year ended December 31, 2016 RMB' 000 (Audited)
Not later than one year	4,357	2,376
Later than one year and not later than five years	9,493	7,834
Later than five years	—	1,038
	<u>13,850</u>	<u>11,248</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. As a result, Yangsi Hospital is considered to be related as the Group has participated internal governance body of Yangsi Hospital. Other parties are also considered to be related if they are subject to common control, common significant influence or joint control. Members of key management and their close family member of the Group are also considered as related parties.

The directors of the Company are of the view that the following parties that had transactions or balances with the Group are related parties:

Name	Relationship with the Group
Shanghai Yangsi Hospital	Certain employees or directors of the Group are Yangsi Hospital's internal governance body members
Vanguard Glory Limited	Parent company
Hony Capital Fund V, L.P.	Ultimate controlling shareholder
Hony Capital Management (Tianjin) L.P.	Related party of ultimate controlling shareholder
Grand Roc Holdings Limited	Related party which is owned by Mr. Zhang
Midpoint Honour Limited	Related party which is owned by the management subscribers
Marco Alliance Ltd.	Related party of ultimate controlling shareholder
Han Prestige Limited	Related party of parent company

The Group has exercised significant judgements in determining whether the Group has control over Yangsi Hospital. After assessment, the management concluded that the Group does not obtain the decision making power over the internal governance body to direct the relevant activities of Yangsi Hospital, so the Group does not control and thus does not consolidate Yangsi Hospital.

The following significant transactions were carried out between the Group and its related parties for the periods ended June 30, 2017 and 2016. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Significant transactions with related parties

	Six months ended June 30,	
	2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Audited)
Management Service fee –Yangsi Hospital	70,207	62,430

(b) Balances with related parties

Balances with related parties as at June 30, 2017 were disclosed in Note 16.

(c) Key management compensation

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

	Six months ended June 30,	
	2017 RMB' 000 (Unaudited)	2016 RMB' 000 (Audited)
Wages, salaries and bonuses	6,566	4,558
Share-based compensation expenses	17,405	1,256
Contributions to pension plans	96	111
Welfare and other expenses	127	180
	<u>24,194</u>	<u>6,105</u>

25 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

(a) Proposed acquisition

On August 10, 2017, the Company entered into a legally binding letter of intent in relation to a proposed acquisition ('Proposed Acquisition'). Pursuant to the letter of intent, the Company and the vendors have agreed on the conditions precedent, refundable deposit and exclusivity period of the Proposed Acquisition. On August 30, 2017, the refundable deposit amounting to RMB120,000,000 ('Deposit') has been paid into an escrow account and any of the Deposit shall not be transferred or appropriated from the escrow account without the consent of the Company and the vendor's representative. The terms and conditions of the Proposed Acquisition are still being negotiated.

(b) Disposal of a subsidiary

On August 9, 2017, the board of the Company discussed and approved the disposal of the 80% equity interest in Fuhua Hospital, which is indirectly held by the Company through Weikang Investment.

On August 23, 2017, Weikang Investment entered into a sale and purchase agreement with Shanghai Hongfa Enterprise (Group) Co., Ltd. in relation to the disposal of the entire equity interest in Fuhua Hospital for a total consideration of RMB43,000,000 ('Disposal'). Following the completion of the Disposal, Fuhua Hospital will cease to be a subsidiary of the Company.