廣東康華醫療股份有限公司

GUANGDONG KANGHUA HEALTHCARE CO., LTD.*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 3689)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- Revenue for the period increased by 8.0% to RMB635.3 million (for the six months ended 30 June 2016: RMB588.3 million)
- Profit for the period increased by 13.7% to RMB74.1million (for the six months ended 30 June 2016: RMB65.2 million)
- Profit for the period attributable to owners of the Company increased by 12.7% to RMB72.0 million (for the six months ended 30 June 2016: RMB63.9 million)
- Earnings per share decreased by 16.0% to RMB21.5 cents (for the six months ended 30 June 2016: RMB25.6 cents)
- The Board does not recommend payment of an interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil)

INTERIM RESULTS

The board of directors (the "**Board**") of Guangdong Kanghua Healthcare Co., Ltd.* (the "**Company**" or "**our**") is pleased to announced the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**"), for the six months ended 30 June 2017 (the "**Reporting Period**") together with the comparative figures for the corresponding period in 2016.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	*(unaudited)*
Revenue	3	**635,302**	588,253
Cost of revenue		**(474,643)**	(452,584)
Gross profit		**160,659**	135,669
Other income	4	**11,787**	14,500
Other expenses and losses	5	**(12,117)**	(5,156)
Administrative expenses		**(58,350)**	(49,615)
Finance costs		**—**	(5,952)
Profit before taxation	6	**101,979**	89,446
Income tax expenses	7	**(27,904)**	(24,284)
Profit and total comprehensive income for the period		**74,075**	65,162
Profit and total comprehensive income for the period attributable to:			
– owners of the Company		**72,043**	63,911
– non-controlling interests		**2,032**	1,251
		74,075	65,162
Earnings per share, basic (RMB cents)	8	**21.5**	25.6

CONDENSED CONSOLIDATED STATEMENT OF FINANICAL POSITION

As at 30 June 2017

	NOTES	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**363,738**	360,997
Deposits paid for acquisition of property, plant and equipment		**90,458**	29,940
Available-for-sale investment	9	**17,202**	—
		471,398	390,937
Current assets			
Inventories		**50,080**	43,226
Accounts and other receivables	10	**210,450**	190,486
Available-for-sale investments	9	**445,250**	—
Restricted bank balances		**14,797**	34,955
Bank balances and cash		**451,194**	936,374
		1,171,771	1,205,041
Current liabilities			
Accounts and other payables	11	**356,224**	386,359
Amounts due to shareholders		**925**	3,179
Tax payables		**36,902**	31,397
		394,051	420,935
Net current assets		**777,720**	784,106
Net assets		**1,249,118**	1,175,043
Capital and reserves			
Share capital		**334,394**	334,394
Reserves		**893,064**	821,021
Equity attributable to owners of the Company		**1,227,458**	1,155,415
Non-controlling interests		**21,660**	19,628
Total equity		**1,249,118**	1,175,043

NOTES:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("**IASB**") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for available-for-sale investments which are measured at fair values at the end of each reporting period.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

(i) Adoption of new and amendments to International Financial Reporting Standards ("IFRSs") effective in current period

In the current interim period, the Group has applied, for the first time, the following amendments to IFRSs issued by the IASB that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014 - 2016 Cycle

The application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

(ii) Adoption of new accounting policy in respect of available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. They are included in non-current assets unless investment matures or management intends to dispose of within 12 months of the end of the reporting period.

Available-for-sale investments are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale investments relating to interest income calculated using the effective interest method, are recognised in profit or loss.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of hospital services and provision of hospital management services.

Information reported to the executive directors of the Company, being the chief operating decision maker (the "**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on types of service provided. The Group's operating segments are classified as (i) Inpatient healthcare services; (ii) Outpatient healthcare services; (iii) Physical examination services; and (iv) Hospital management services. The details of the Group's operating segments are as follows:

(i) Inpatient healthcare services: Provision of treatment of patients who are hospitalised overnight or for an indeterminate time, usually several days or weeks, subject to the patient's conditions and recovery.

(ii) Outpatient healthcare services: Provision of treatment of patients who are hospitalised for less than 24 hours.

(iii) Physical examination services: Provision of clinical examination of individuals for signs of diseases and health advisory services.

(iv) Hospital management services: Provision of management services to an independent third-party operated hospital.

These operating segments also represent the Group's reportable segments. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segments:

Six months ended 30 June 2017 (unaudited)

	Inpatient healthcare services *RMB'000*	Outpatient healthcare services *RMB'000*	Physical examination services *RMB'000*	Hospital management services *RMB'000* *(note)*	Total *RMB'000*
SEGMENT REVENUE					
External sales	**378,265**	**230,910**	**24,938**	**1,189**	**635,302**
Segment profit	**67,835**	**79,919**	**12,597**	**308**	**160,659**
Other income					**11,787**
Other expenses and losses					**(12,117)**
Other unallocated expenses					**(58,350)**
Profit before taxation					**101,979**

Note: Provision of hospital management services commenced in July 2016.

Six months ended 30 June 2016 (unaudited)

	Inpatient healthcare services *RMB'000*	Outpatient healthcare services *RMB'000*	Physical examination services *RMB'000*	Total *RMB'000*
SEGMENT REVENUE				
External sales	352,337	212,244	23,672	588,253
Segment profit	55,948	68,013	11,708	135,669
Other income				14,500
Other expenses and losses				(5,156)
Other unallocated expenses				(49,615)
Finance costs				(5,952)
Profit before taxation				89,446

There were no inter-segment sales during both periods.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of other income, other expenses and losses, other unallocated expenses and finance costs. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

Except as disclosed above, no other amounts are regularly provided to the CODM of the Group and therefore, no further analysis is presented.

4. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Bank and other interest income	**6,328**	624
Income from available-for-sale investments	**2,376**	—
Rental income	**2,183**	2,417
Government subsidies (note)	**227**	97
Imputed interest income arising from amount due from a shareholder	**—**	10,584
Others	**673**	778
	11,787	14,500

Note: The government subsidies mainly represented the subsidies on costs incurred for research and development projects, medical related seminars and forums with no unfulfilled conditions attached.

5. OTHER EXPENSES AND LOSSES

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Net exchange loss	**9,848**	—
Impairment loss on accounts receivables	**2,181**	151
Loss on disposal of property, plant and equipment	**88**	256
Listing expenses recognised in profit or loss	**—**	4,749
	12,117	5,156

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**22,217**	20,498
Research and development expenditure	**461**	534
Operating lease rentals in respect of hospitals	**13,175**	11,489
Cost of inventories recognised as expenses (representing pharmaceutical products and consumables used, included in cost of revenue)	**300,170**	295,351

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Current tax:		
PRC Enterprise Income Tax ("**PRC EIT**")	**29,876**	22,000
(Over)underprovision in respect of prior years	**(1,972)**	603
	27,904	22,603
Deferred tax	**—**	1,681
	27,904	24,284

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit. No provision for Hong Kong Profits Tax had been made in both periods as the Group had no assessable profits arising in Hong Kong.

Under the Law of the People's Republic of China (the "**PRC**") on EIT (the "**EIT Law**") and Implementation Regulation of the EIT Law, the statutory income tax rate of the Company and its PRC subsidiaries is 25% for both periods.

8. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Earnings:		
Profit for the period attributable to the owners of the Company for the purpose of calculating basic earnings per share	**72,043**	63,911
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**334,394,000**	250,000,000

No diluted earnings per share has been presented since there was no potential ordinary share in issue for both periods.

9. AVAILABLE-FOR-SALE INVESTMENTS

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	*(audited)*
Unlisted fund (note i)	**17,202**	—
Structured bank deposits (note ii)	**445,250**	—
Total available-for-sale investments	**462,452**	—

	At 30 June 2017	At 31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	*(audited)*
Analysed as:		
Current	**445,250**	—
Non-current	**17,202**	—
	462,452	—

Notes:

i. The unlisted fund represents investment in an equity security of an unlisted company in the PRC and is measured at fair value.

ii. The Group invested into structured deposits with a bank in the PRC by using unutilised funds for investment returns. Majority of these structured deposits are with maturities of less than six months and the principal is generally renewed when matured.

10. ACCOUNTS AND OTHER RECEIVABLES

	At 30 June 2017 *RMB'000* *(unaudited)*	At 31 December 2016 *RMB'000* *(audited)*
Accounts receivables	**81,814**	87,036
Prepayments to suppliers	**20,703**	19,260
Loan receivables (note)	**100,000**	80,000
Interest receivables	**3,200**	—
Others	**4,733**	4,190
Total accounts and other receivables	**210,450**	190,486

Note: At the end of the Reporting Period, a wholly-owned subsidiary of the Company granted unsecured loans of RMB100,000,000 (31 December 2016: RMB80,000,000) to Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd. (the "**Managed Hospital**"). The loans provided to the Managed Hospital are interest-bearing at a fixed rate of 0.42% per month and repayable within twelve months from the end of the Reporting Period.

The individual patients of the Group would usually settle payments by cash, credit cards or governments' social insurance schemes. For credit card payments, the banks will normally settle the amounts approximately 30 days after the transaction date. Payments by governments' social insurance schemes will normally be settled by the local social insurance bureau or similar government departments which are responsible for the reimbursement of medical expenses for patients who are covered by the government medical insurance schemes ranged from 30 to 90 days from the transaction date. Corporate customers will normally settle the amounts within 90 days after the transaction date by bank transfers.

The following is an aged analysis of accounts receivables, net of allowance for doubtful debts, presented based on the revenue recognition date at the end of the Reporting Period:

	At 30 June 2017 *RMB'000* *(unaudited)*	At 31 December 2016 *RMB'000* *(audited)*
Within 30 days	**58,108**	69,770
31 to 90 days	**18,154**	11,148
91 to 180 days	**1,779**	2,647
181 to 365 days	**2,846**	2,351
Over 365 days	**927**	1,120
	81,814	87,036

11. ACCOUNTS AND OTHER PAYABLES

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Accounts payables	**266,386**	274,119
Accrued expenses	**30,539**	50,965
Construction payables	**15,517**	18,166
Receipt in advance	**33,127**	30,924
Other tax payables	**4,061**	2,815
Provision for medical dispute claims	**386**	477
Others	**6,208**	8,893
Other payables	**89,838**	112,240
Total accounts and other payables	**356,224**	386,359

The credit period of accounts payables is from 30 to 90 days from the invoice date.

The following is an aged analysis of accounts payables based on the date of receipt of goods:

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Within 30 days	**102,621**	98,452
31 to 90 days	**83,933**	79,907
91 to 180 days	**50,857**	69,859
181 to 365 days	**17,668**	7,459
Over 365 days	**11,307**	18,442
	266,386	274,119

12. DIVIDENDS

The directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business overview for the six months ended 30 June 2017

The momentum of the business environment in the Dongguan region continued to improve during the first half of 2017, the hospitals under the Group, namely Dongguan Kanghua Hospital Co., Ltd. (東莞康華醫院有限公司) ("**Kanghua Hospital**") and Dongguan Renkang Hospital Co., Ltd. (東莞仁康醫院有限公司) ("**Renkang Hospital**"), continued to deliver promising operating results, in particular (i) the total number of inpatient visits reached 28,208 (2016: 26,759), representing a period-on-period increase of 5.4%; (ii) the average spending per inpatient visit amounted to RMB13,410 (2016: RMB13,167), representing a period-on-period increase of 1.8%; (iii) the overall bed utilisation rate increased to 84.0% (2016: 81.4%); (iv) the average length of stay was lowered to 7.80 days (2016: 7.89 days); (v) the total number of outpatient visits reached 718,752 (2016: 687,884), representing a period-on-period increase of 4.5%; (vi) the average spending per outpatient amounted to RMB321 (2016: RMB309), representing a period-on-period increase of 4.2%; and (vii) the total number of surgical operations reached 18,685 (2016: 17,382), representing a period-on-period increase of 7.5%.

The table below sets forth certain key operational data of the Group's owned hospitals for the periods indicated:

		For the six months ended 30 June	
	Change	**2017**	2016
Inpatient healthcare services			
Number of registered bed	—	**2,460**	2,460
Number of beds in operation	+13	**1,438**	1,425
Inpatient visits	+5.4%	**28,208**	26,759
Average length of stay (days)	-0.1	**7.8**	7.9
Average spending per visit (RMB)	+1.8%	**13,409.8**	13,167.1
Outpatient healthcare services			
Outpatient visits	+4.5%	**718,752**	687,884
Average spending per visit (RMB)	+4.2%	**321.3**	308.5

During the first half of 2017, Kanghua Hospital continued to strengthen its leading position in the healthcare industry. In January 2017, Kanghua Hospital was designated as an assessment service point of the assessment centre for labour capacity (勞動能力鑒定中心) by the Dongguan Social Insurance Bureau (東莞市社保局). The Board believes that this recognition reflects public confidence in the medical capability and reputation of Kanghua Hospital. In April 2017, Kanghua Hospital formed the "South China Famous Doctors Alliance" (「華南名醫聯盟」) jointly with the Guangdong Clinical Medical Association (廣東省臨床醫學學會) and established a cooperation and exchange centre for consultation with a view to expanding the influence of Kanghua Hospital and its network of clinical resources through cooperation and exchange with other hospital members of the alliance and multi-site doctor practice. In June 2017, the first phase of the clinical experimental study and research centre (臨床試驗研究中心) of Kanghua Hospital commenced operations, indicating a significant strengthening in Kanghua Hospital's research and development and application capabilities on new clinical treatments and medications for the benefit of patients. Kanghua Hospital continued recruiting renowned medical experts in various disciplines to enhance its overall medical capability, as well as additional professional hospital managers to satisfy the management needs for the growing scale of hospitals and diversity and upgrading of medical service offerings.

Furthermore, during the first half of 2017, Renkang Hospital focused on the expanded development and construction of the Chinese Medicine Specialist Services and increased the promotion and application of Chinese Medicine specialty treatment services by adding a new specialized ward for Chinese Medicine with the new deployment of 6 to 8 beds. Meanwhile, Renkang Hospital also continued to promote the development of other specialty disciplines, such as obstetrics and gynaecology, geriatric diseases and stomatology, to enhance the hospital's overall medical service level and its capabilities to receive and treat critical illness patients. In April 2017, Renkang Hospital entered into a designated hospital cooperation agreement with Ping An Life Insurance Company of China Ltd. to provide direct claim settlement services to patients and simplify the claiming process.

Obstetrics and gynaecology ("**O&G**") disciplines, cardiovascular disciplines, internal medicine disciplines, general surgery disciplines and orthopaedics disciplines remained to be the top revenue generating disciplines of the Group for the first half of 2017, accounting for approximately 60.0% of the Group's total revenue in the same period (2016: 57.1%).

The table below sets forth the revenue contribution by healthcare disciplines for the periods indicated:

		For the six months ended 30 June			
Healthcare disciplines	**Change**	**2017** ***RMB'000***	% of revenue of the Group's owned hospitals	2016 *RMB'000*	% of revenue of the Group's owned hospitals
O&G related disciplines (婦產科有關科室)	+22.7%	**134,410**	21.2	109,502	18.6
Cardiovascular related disciplines (心血管有關科室)	+4.2%	**78,590**	12.4	75,433	12.8
Internal medicine related disciplines (內科有關科室)	+11.3%	**67,950**	10.7	61,071	10.4
General surgery related disciplines (普通外科有關科室)	+6.3%	**55,524**	8.8	52,241	8.9
Orthopaedics related disciplines (骨科有關科室)	+16.4%	**43,986**	6.9	37,779	6.4
Neurology related disciplines (神經醫學有關科室)	+9.9%	**42,188**	6.7	38,386	6.5
Emergency medicine related disciplines (急診有關科室)	-3.8%	**36,373**	5.7	37,823	6.4
Paediatrics related disciplines (兒童醫學有關科室)	-12.0%	**21,031**	3.3	23,903	4.1
Medical aesthetic related disciplines (醫學美容有關科室)	+33.5%	**17,751**	2.8	13,302	2.3
Nephrology related disciplines (腎臟科有關科室)	+11.7%	**14,812**	2.3	13,257	2.3
Oncology related disciplines (腫瘤有關科室)	-29.6%	**11,554**	1.8	16,402	2.8
Physical examination (體檢科)	+5.4%	**24,938**	3.9	23,671	4.0
Other disciplines (其他臨床科室)	-0.6%	**85,006**	13.5	85,483	14.5
Total		**634,113**	100.0	588,253	100.0

During the six months ended 30 June 2017, (a) revenue from O&G related disciplines recorded a considerable period-on-period increase of 22.7%, primarily attributable to (i) the Group's efforts in recruiting more O&G healthcare expert professionals and enhancing medical facilities in such disciplines; (ii) the effect of two-child policy in the PRC had gradually becoming more apparent; and (iii) strong demand for VIP O&G services; (b) revenue from cardiovascular related disciplines recorded a stable period-on-period increase of 4.2%, primarily attributable to the Group's improvements in clinical resources and medical service capabilities in these areas that enhance the capability to receive and cure critical patients of cardiovascular diseases to further satisfy the needs of patients; (c) revenue from medical aesthetic related disciplines recorded a considerable period-on-period increase of 33.5%, primarily attributable to (i) the introduction of more advanced medical equipment and medical aesthetic materials to improve the service quality and treatment result; and (ii) a general increase in the level of fees charged by the services in such areas; and (d) revenue from oncology related disciplines recorded a considerable period-on-period decrease of 29.6% primarily attributable to (i) a loss of talent and the relevant medical equipment taking longer time for introduction cycle; and (ii) a general reduction in marketing efforts for relevant medical services. The Group will continue to recruit medical experts and talents, accelerate the installation of the medical equipment and promote the development of these disciplines comprehensively, as well as increase the capability to receive and treat critical oncology patients.

The Group's special services are high-end healthcare services that are founded on basic medical services and are specifically catered for the more affluent patients to offer higher quality and customised healthcare services not generally available in public hospitals. The Group's special services consist of VIP healthcare services, reproductive medicine, plastic and aesthetic surgery and laser treatment. In first half of 2017, the total revenue derived from special services amounted to RMB60.3 million (2016: RMB52.7 million), representing a period-on-period increase of 14.4%. In the first half of 2017, the average spending per inpatient visit of VIP healthcare services amounted to RMB19,905.3 (2016: RMB15,487.4), representing a period-on-period increase of 28.5%, primarily attributable to increased offerings of, and increased number of patients requiring, more premium VIP healthcare services.

The table below sets forth some key operating data for the Group's special services:

Special Services	Change	For the six months ended 30 June **2017**	 2016
VIP healthcare services			
Number of beds in operation	+20	**160**	140
Inpatient visits	+0.2%	**676**	675
Average spending per inpatient visit (RMB)	+28.5%	**19,905.3**	15,487.4
Outpatient visits	+1.9%	**28,083**	27,548
Average spending per outpatient visit (RMB)	+5.4%	**490.8**	465.8
Revenue (RMB'000)	+17.0%	**27,239**	23,285
Reproductive medicine			
Number of outpatient visits	+6.5%	**26,670**	25,036
Revenue (RMB'000)	+9.6%	**26,537**	24,223
Plastic and aesthetic surgery			
Revenue (RMB'000)	+25.7%	**2,535**	2,017
Laser treatment			
Revenue (RMB'000)	+24.9%	**3,992**	3,195
Total revenue from special services (RMB'000)	+14.4%	**60,303**	52,720

In June 2016, the Group entered into a management agreement with Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd. (重慶康華眾聯心血管病醫院有限公司), a specialty hospital in cardiovascular diseases in Chongqing ("**Zhonglian Cardiovascular Hospital**"). It was the Group's first managed hospital and represented the first step of extending the Group's layout to outside of Guangdong Province. Zhonglian Cardiovascular Hospital will bear the "Kanghua" brand and is intended to be positioned as a regional integrated medical institution providing high level of cardiovascular healthcare services to patients from Chongqing and neighbouring provinces and regions. Zhonglian Cardiovascular Hospital commenced operations in March 2017. As at 30 June 2017, Zhonglian Cardiovascular Hospital had 14 doctors and 120 other healthcare professionals. Zhonglian Cardiovascular Hospital continuously ramped up the development level of its operations and has experienced a gradual increase in patient visits since commencement. In May 2017, Zhonglian Cardiovascular Hospital successfully performed its first heart surgery since commencement. For establishing a good medical brand image, Zhonglian Cardiovascular Hospital has organised numerous community health lectures and charity healthcare services. The Board considers that Zhonglian Cardiovascular Hospital is in the infancy stage of its operations and is fully confident in its prospects.

In the first half of 2017, Kanghua Hospital is still in the process of preparing the review of its Grade A Class III rating by the Health and Family Planning Commission of Guangdong Province (廣東省衛生和計劃生育委員會), which has been scheduled for review in or around December 2017. The Board believes that Kanghua Hospital is well prepared for the review and remains confident that Kanghua Hospital will be able to maintain its rating upon review, the result of which is expected to be available before the beginning of 2018. Renkang Hospital is also in the process of preparing for its application to be rated as a Grade A Class II hospital under the National Health and Family Planning Commission (中華人民共和國衛生和計劃生育委員會) hospital classification system and is expected to make such application before the end of 2017.

Industry outlook and strategy

The healthcare services industry in the PRC has been rapidly expanding in scale, driven primarily by the aging population, urbanisaiton, relaxation of birth control policy, increasing income level per capita and the reform of the medical insurance system. The deepening of new medical reforms has brought enormous opportunities for the development of private hospitals, stimulating private healthcare institutions to continuously improve service quality to meet the diversifying medical needs of patients. It is expected that private hospitals will remain as one of the fastest growing sectors in the healthcare services industry. The Board believes that by leveraging on favourable development positioning, the Group will benefit from the development opportunities of the healthcare services industry. From the current perspective, with favourable policies under the healthcare reform, multi-site doctor practice and rising demand for high-end patient centric healthcare services are conducive to the continued expansion of the Group as a leading private healthcare services provider.

The Group is actively seeking for opportunities to expand its operations and network coverage and is in the process of identifying suitable targets. The Group intends to target on small and medium sized hospitals with 300 to 500 beds with a view to developing them into general hospitals with deep specialisations in specific disciplines (大專科小綜合醫院) and adaptations that serve the medical needs of the local population. Business feasibility studies, in-depth demographics analysis and due diligence will be conducted by the Group for the purposes of evaluating potential development opportunities.

The Guangdong – Hong Kong – Macau Greater Bay Area Initiative was introduced in the 13th five-year plan (2016 – 2020) of China. The development of the Guangdong – Hong Kong – Macau Greater Bay Area, together with the Belt and Road planning initiatives, may bring significant business opportunities and encourage investment activities in Guangdong Province, including Dongguan, where the Group primarily operates in. At the same time, this may also drive the market demand for healthcare services, particularly premium and high-end healthcare services in the region. The Group will continue to observe market demand and make appropriate adjustments to its service offerings to capture upcoming opportunities.

SIGNIFICANT EVENTS

Opening of Zhonglian Cardiovascular Hospital in March 2017

Zhonglian Cardiovascular Hospital commenced operations in March 2017. It has been continuously ramping up the development level of its operations and has experienced a rapid increase in patient visits since commencement. In May 2017, Zhonglian Cardiovascular Hospital successfully performed its first heart surgery since commencement.

Opening of Kanghua Hospital – Huawei Clinic in August 2017

Kanghua Hospital – Huawei Clinic, being a newly established outpatient division of the Group, commenced operations in August 2017. The clinic is located within the Songshan Lake Science and Technology Industrial Park in Dongguan (東莞松山湖科技產業園) with a gross floor area of approximately 4,000 square metres and a deployment of about 60 medical professionals. The clinic mainly provides basic outpatient services, emergency medical services and physical examination services to personnel inside the Songshan Lake Science and Technology Industrial Park. Patients with complex medical conditions may be transferred from the clinic to the headquarters of Kanghua Hospital to receive suitable treatment. As at the date of publication of this announcement, the Group has planned to invest approximately RMB30,000,000 in the overall operations of the clinic, including construction of facilities, purchase of healthcare equipment and deployment of medical professionals. Moreover, the clinic will also share the quality healthcare facilities and expert resources with the headquarters of Kanghua Hospital.

FINANCIAL REVIEW

Segment Revenue

The Group generates revenue primarily from: (i) providing healthcare services through its owned hospitals, namely Kanghua Hospital and Renkang Hospital, comprising inpatient healthcare services, outpatient healthcare services and physical examination services; and (ii) providing hospital management services to a third-party hospital, namely Zhonglian Cardiovascular Hospital.

The following tables below set forth the revenue, costs of revenue, gross profit and gross profit margin of the Group by segment for the periods indicated:

For the six months ended 30 June 2017 (unaudited)

	Inpatient healthcare services	**Outpatient healthcare services**	**Physical examination services**	**Hospital management services**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue	**378,265**	**230,910**	**24,938**	**1,189**	**635,302**
Cost of revenue	**(310,430)**	**(150,991)**	**(12,341)**	**(881)**	**(474,643)**
Gross profit	**67,835**	**79,919**	**12,597**	**308**	**160,659**
Gross profit margin	**17.9%**	**34.6%**	**50.5%**	**25.9%**	**25.3%**

For the six months ended 30 June 2016 (unaudited)

	Inpatient healthcare services	Outpatient healthcare services	Physical examination services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	352,337	212,244	23,672	588,253
Cost of revenue	(296,389)	(144,231)	(11,964)	(452,584)
Gross profit	55,948	68,013	11,708	135,669
Gross profit margin	15.9%	32.0%	49.5%	23.1%

Revenue from the Group's inpatient healthcare services amounted to RMB378.3 million (2016: RMB352.3 million), representing a period-on-period increase of 7.4%, accounting for 59.5% (2016: 59.9%) of the total revenue of the Group, mainly due to (i) an increase in the number of inpatient visits during the period, (ii) increase in average inpatient spending; and (iii) the continuing strong growth in revenue of O&G related disciplines as a result of the penetration impact of the two-child policy in China.

Revenue from the Group's outpatient healthcare services amounts to RMB230.9 million (2016: RMB212.2 million), representing a period-on-period increase of 8.8%, accounting for 36.4% (2016: 36.1%) of the total revenue of the Group, mainly due to (i) an increase in the number of outpatient visits during the period, and (ii) increase in average outpatient spending partly due to higher prices of certain medical services charged at the Group's hospitals.

Revenue from physical examination services amounted to RMB24.9 million (2016: RMB23.7 million), representing a period-on-period increase of 5.4%, accounting for 3.9% (2016: 4.0%) of the total revenue of the Group, mainly due to an increase in the number of physical examination visits.

In June 2016, the Group entered into a management agreement with Zhonglian Cardiovascular Hospital and generate a new revenue segment of our Group. During the six months ended 30 June 2017, revenue from hospital management services amounted to RMB1.2 million (2016: nil) and accounting for 0.2% of the total revenue of the Group. The management agreement has a term from 1 July 2016 to 30 June 2026, during which the Group has exclusive management rights over Zhonglian Cardiovascular Hospital and is entitled to a monthly management fee of RMB200,000 (before applicable tax) plus 5% of Zhonglian Cardiovascular Hospital's monthly revenue. As Zhonglian Cardiovascular Hospital had only commenced operation in 1 March 2017 and is still in the phase of ramping up its operations, in addition to the fixed management fee of RMB200,000 per month (before applicable tax) and the Group has received minimal management income from the revenue generated by Zhonglian Cardiovascular Hospital.

Cost of Revenue

Cost of revenue of the Group's owned hospitals (consisting of inpatient healthcare services, outpatient healthcare services and physical examination services) primarily consisted of pharmaceuticals, medical consumables, staff cost, depreciation, service expenses, utilities expenses, rental expenses and other costs. Cost of revenue of the Group's owned hospitals increased to RMB474.6 million (2016: RMB452.6 million), representing a period-on-period increase of 4.9%, which was in line with the increase of revenue. For the six months ended 30 June 2017, pharmaceuticals, medical consumables and staff cost accounted for approximately 35.3% (2016: 40.3%), 27.9% (2016: 25.0%) and 23.1% (2016: 22.8%), respectively, of the total cost of revenue of the Group's owned hospitals. Cost of revenue of the Group's managed hospital mainly represents staff costs in relation to management personnel assigned to Zhonglian Cardiovascular Hospital.

Gross Profit and Gross Profit Margin

Total gross profit of the Group amounted to RMB160.7 million (2016: RMB135.7 million), representing a period-on-period increase of 18.4%. The overall gross profit margin increased to 25.3% (2016: 23.1%), primarily due to:

(i) continual growth in special services that are targeted towards high-end patients and typically command higher margin than basic healthcare services; in the first half of 2017, the revenue from special services accounted for 9.5% of the total revenue derived from the Group's owned hospitals, compared to 9.0% in the first half of 2016;

(ii) further lowering of the proportion of revenue derived from pharmaceutical sales; as a result of various pharmaceutical policies in the PRC, margin in pharmaceutical sales has been under pressure and is generally lower than that of the provision of clinical services;

(iii) increased intake of patients requiring acute and complex treatments. Such treatments typically involve more delicate, precise and advanced surgeries and diagnostics support and command a higher margin than basic medical services; and

(iv) the ability of Kanghua Hospital to uplift its healthcare consultation prices at a faster pace than its cost of revenue leveraging the increasing reputation of the "Kanghua" brand in the Guangdong region.

Key Operational Information of our Owned Hospitals

The follow table sets forth certain key operational information of each of the hospitals owned by the Group for the periods indicated:

Kanghua Hospital

		For the six months ended 30 June	
	Change	**2017**	2016
Inpatient healthcare services			
Inpatient visits	+7.2%	**21,703**	20,241
Average length of stay (days)	-0.1	**7.9**	8.0
Average spending per visit (RMB)	+0.9%	**14,760.5**	14,628.6
Outpatient healthcare services			
Outpatient visits	+6.5%	**544,169**	511,103
Average spending per visit (RMB)	+3.1%	**350.6**	340.0

Renkang Hospital

		For the six months ended 30 June	
	Change	**2017**	2016
Inpatient healthcare services			
Inpatient visits	-0.2%	**6,505**	6,518
Average length of stay (days)	-0.1	**7.4**	7.5
Average spending per visit (RMB)	+3.2%	**8,903.6**	8,628.4
Outpatient healthcare services			
Outpatient visits	-1.2%	**174,583**	176,781
Average spending per visit (RMB)	+5.5%	**229.7**	217.7

Other Income

The other income of the Group primarily consisted of bank and other interest income, income from available-for-sale investments, imputed interest income arising from amount due from a shareholder, government subsidies, rental income and others. In the first half of 2017, other income amounted to RMB11.8 million (2016: RMB14.5 million), representing a period-on-period decrease of approximately 18.7%, primarily due to (i) no imputed interest income arising from amount due from a shareholder was recorded in 2017 (2016: RMB10.6 million) as the amount was fully settled in July 2016; (ii) partly offset by an increase in bank and other interest income to RMB6.3 million (2016: RMB0.6 million) as our bank balances and loan receivable balances increased during the period; and (iii) income generated from available-for-sale investments of RMB2.4 million (2016: nil). During the Reporting Period, the Group has invested in certain financial products (classified as available-for-sale investments) issued by a PRC commercial bank to achieve higher interest income without interfering with our business operations or capital expenditures to earn better return on our excess cash balance.

Other Expenses and Losses

The other expenses and losses of the Group primarily consisted of net exchange loss, loss on disposal of property, plant and equipment, impairment loss on accounts receivables and listing related expenses. In the first half of 2017, other expenses and losses amounted to a loss of RMB12.1 million (2016: RMB5.2 million), representing a period-on-period increase of approximately 135.0%, primarily due to (i) a recorded net exchange loss of RMB9.8 million (2016: nil) arising from our Hong Kong dollar denominated bank balances from our initial public offering proceeds; (ii) no one-off listing related expenses was recorded during the Reporting Period (2016: RMB4.7 million) recognised in profit or loss and (iii) an increase in impairment loss on accounts receivables and a decrease loss on disposal of property, plant and equipment.

Administrative Expenses

The administrative expenses of the Group primarily consisted of staff costs, repairs and maintenance expenses, office expenses, depreciation and amortisation, rental expenses, utilities expenses, entertainment and travelling expenses and other expenses. In the first half of 2017, administrative expenses amounted to RMB58.4 million (2016: RMB49.6 million), representing a period-on-period increase of approximately 17.6%, primarily due to (i) an increase in administrative staff related costs to RMB21.9 million (2016: RMB20.9 million) as a result of general salary increase; (ii) an increase in building rentals and management fee to RMB8.2 million (2016: RMB6.4 million) as a result of more sub-contracted service fees was paid to cope with business growth; (iii) a decrease in repairs and maintenance expenses due to certain old medical machines and equipment were replaced; and (iv) an increase in depreciation and other administrative related expenses from expansion of our operations.

Finance Costs

The finance costs of the Group primarily consisted of interest on bank borrowings wholly repayable within five years. In the first half of 2016, finance costs amounted to RMB6.0 million (first half of 2017: nil). No finance costs were recorded in 2017 as all of the Group's bank borrowings were fully repaid in July 2016 and no bank borrowing was raised since then.

Income Tax Expenses

The income tax expenses of the Group primarily consisted of PRC Enterprise Income Tax and Hong Kong Profits Tax. In the first half of 2017, income tax expenses amounted to RMB27.9 million (2016: RMB24.3 million), representing a period-on-period increase of approximately 14.9%, primarily due to higher profit before tax of RMB102.0 million (2016: RMB89.4 million). The PRC subsidiaries of the Group are generally subject to income tax rate of 25% on their respective taxable income. Our Hong Kong subsidiary of the Group is subject to Hong Kong Profits Tax at 16.5%. No provision for Hong Kong Profits Tax had been made in both periods as the Group had no assessable profits arising in Hong Kong. Our effective tax rate in 2017 is 27.4% (2016: 27.2%), the increase is primarily due to certain expenses recorded in certain entities of our Group have not been deductible against the Group's profit, these expenses includes net exchange losses and administrative expenses recorded in our holding company.

Profit for the Period

In the first half of 2017, profit attributable to the Shareholders amounted to RMB72.0 million (2016: RMB63.9 million), representing a period-on-period increase of approximately 12.7%.

FINANCIAL POSITION

Property, Plant and Equipment and Deposits Paid for Acquisition of Property, Plant and Equipment

During the six months ended 30 June 2017, the Group acquired property, plant and equipment and incurred expenditure on construction in progress of RMB11.4 million and RMB13.7 million, respectively, for the purpose of upgrading and expanding the service capacity of our hospital operations. In addition, as at 30 June 2017, the Group has deposits paid for acquisition of property, plant and equipment amounting to RMB90.5 million (31 December 2016: RMB29.9 million). The deposits mainly represent amount paid for acquisition of new magnetic resonance imaging (MRI) medical equipment and other new facilities as well as medical equipment for our new Kanghua Hospital - Huawei Clinic and deposits for renovation work in respect of our phase 2 and 3 Huaxin Building (華心樓) (a complex in Kanghua Hospital dedicated to VIP healthcare services).

Accounts and Other Receivables

The account receivables of the Group primarily consisted of balances due from social insurance funds, certain corporate customers and individual patients. As at 30 June 2017, accounts receivables decreased slightly to RMB81.8 million (31 December 2016: RMB87.0 million), of which 93.2% (31 December 2016: 93.0%) were aged within 90 days. Average accounts receivables turnover days for 2017 is 24.2 days which remains relatively steady as compared with that of 31 December 2016 of 23.2 days.

The other receivables of the Group primarily consisted of prepayments to suppliers, loan receivables and interest receivables and others. As at 30 June 2017, other receivables increased to RMB128.6 million (31 December 2016: RMB103.5 million) primarily due to (i) at the end of the Reporting Period, the Group has granted unsecured loans of RMB100.0 million (31 December 2016: RMB80.0 million) to a hospital which is managed by the Group, the loans are interest-bearing at fixed rate of 0.42% per month and repayable within twelve months from the end of the Reporting Period; and (ii) an increase of interest receivables to RMB3.2 million (31 December 2016: nil) representing interest income from loans granted to the Managed Hospital.

Accounts and Other Payables

The accounts and other payables of the Group primarily consisted of accounts payables, accrued expenses, construction payables, receipt in advance and others. As at 30 June 2017, accounts and other payables decreased slightly to RMB356.2 million (31 December 2016: RMB386.4 million) primarily due to (i) decrease in accounts payable to RMB266.4 million (31 December 2016: RMB274.1 million); (ii) decrease of accrued expenses to RMB30.5 million (31 December 2016: 51.0 million) mainly due to decrease in accrued staff salary and other operational and administrative charges at the interim date as compared with the year-end date; and (iii) decrease in construction payable to RMB15.5 million (31 December 2016: 18.2 million) due to completion of certain renovation work during the period.

Net Current Assets

As at 30 June 2017, the Group recorded net current assets of RMB777.7 million (31 December 2016: RMB784.1 million).

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources

The Group continued to maintain a strong financial position with cash and cash equivalents of RMB451.2 million as at 30 June 2017 (31 December 2016: RMB936.4 million). The Group continues to generate steady cash inflow from operations and coupled with sufficient cash and bank balances, in the opinion of the directors of the Company, the Group will have adequate and sufficient liquidity and financial resources to meet the working capital requirement of the Group for at least the next twelve months from the end of the Reporting Period.

During the six months ended 30 June 2017, the Group has made investments (classified as available-for-sale investments) in (i) an unlisted fund amounting to US$2.5 million (equivalent to approximately RMB17.2 million). The unlisted fund represents investment in equity securities of a private company in the PRC for a minimum term of three years for the purpose of capital gain, strategic long-term investment and potential cooperation in healthcare; and (ii) structured bank deposits of RMB445.3 million, representing investment products that are principal-protected.

As part of the Group's cash management policy to manage excess cash, the Group purchases investment products from financial institutions to achieve higher interest income without interfering with business operations or capital expenditures. The Group carefully balances the risks and returns associated with the investment products when making the investment decisions. The senior management of the Group is closely involved in securitizing any decision of the Group to purchase investment products. The investment products should generally satisfy the following criteria, (i) its term should generally not exceed one year; (ii) it should not interfere with the Group's business operations or capital expenditures; (iii) it should be issued by a reputable bank which the Group has a long term relationship, preferably exceeding five years; and (iv) the underlying investment portfolio should generally be low risk.

Significant Investment, Acquisition and Disposal

Zhonglian Cardiovascular Hospital

In June 2016, the Group entered into a management agreement with respect to Zhonglian Cardiovascular Hospital, a specialty hospital in cardiovascular diseases in Chongqing and the Group's first managed hospital and its first presence outside of Guangdong Province. Zhonglian Cardiovascular Hospital will bear the "Kanghua" brand and is intended to be positioned as a regional integrated institution providing high level of cardiovascular healthcare services to patients from Chongqing and neighbouring provinces and regions. The management agreement has a term from 1 July 2016 to 30 June 2026, during which the Group has exclusive management rights over Zhonglian Cardiovascular Hospital and is entitled to a monthly management fee of RMB200,000 (before applicable tax) plus 5% of Zhonglian Cardiovascular Hospital's monthly revenue.

In June 2016, following arm's length negotiations with Zhonglian Cardiovascular Hospital, the Group provided an unsecured loan in the amount of RMB50.0 million to Zhonglian Cardiovascular Hospital with a view to supporting its launch preparations and operating cash flow during its ramp-up period. The principal amount of the loan is repayable at the expiry of one year and carries a monthly interest rate of 0.42% to be settled monthly in arrears (the "**June 2016 Loan**").

In December 2016, following arm's length negotiations with Zhonglian Cardiovascular Hospital, the Group provided an unsecured loan facility in the amount of RMB50 million to Zhonglian Cardiovascular Hospital, which may be drawndown in one or more tranches within two months. A monthly interest rate of 0.42% is payable by Zhonglian Cardiovascular Hospital monthly in arrears and the principal amount of each loan tranche is repayable by Zhonglian Cardiovascular Hospital at the expiry of 12 months from the relevant drawdown date. For further details of the loan facility, please refer to the announcement of the Company dated 12 December 2016. RMB30.0 million and RMB20.0 million were drawn down by Zhonglian Cardiovascular Hospital in December 2016 and February 2017, respectively.

In June 2017, the June 2016 Loan was renewed in the amount of RMB50.0 million and carries a monthly interest rate of 0.42% for another year.

As at 30 June 2017, the total loan balance provided to Zhonglian Cardiovascular Hospital in aggregate amounted to RMB100.0 million (31 December 2016: RMB80.0 million). Such loan balance represents less than 8% of the assets ratio as defined under Rule 14.07(1) of the Hong Kong Listing Rules, taking in account of the Group's total assets position as at 30 June 2017.

Save as disclosed in this announcement, the Group had no significant investment, acquisition or disposal during the Reporting Period and there has not been any significant events since the end of the Reporting Period and up to the date of this announcement.

Capital Expenditure

The Group regularly makes capital expenditures to expand its operations, maintain its medical facilities and improve its operating efficiency. Capital expenditure primarily consists of purchases of property, plant and equipment. The capital expenditure of the Group in the first half of 2017 in aggregate was RMB25.1 million. The Group has financed its capital expenditure through cash flows generated from operating activities.

Capital Structure

The capital structure of the Group consists of debt, which include amounts due to shareholders, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

USE OF PROCEED FROM THE INITIAL PUBLIC OFFERING

The Company's H shares were listed on the Stock Exchange on 8 November 2016. The Company's net proceeds from the initial public offering of its H shares amounts to approximately RMB782.6 million (equivalently to approximately HK$874.9 million) after deducting underwriting commissions and all related expenses. The net proceeds from the initial public offering have been and will be utilised in accordance with the purposes set out in the prospectus of the Company dated 27 October 2016 (the "**Prospectus**").

Up to 30 June 2017, approximately RMB34.5 million of the net proceeds from the initial public offering, representing approximately 4.4% of the net proceeds, has been utilised and has been used as general working capital. As at 30 June 2017, out of the balance of the unutilised net proceeds of RMB748.1 million, RMB462.5 million has been used to purchase certain financial products (classified as available-for-sale investments) to achieve higher interest income and capital return without interfering with our business operations or capital expenditures to earn better return on our excess cash balance, and the remaining balance has been kept at the bank accounts of the Group (included in bank balances and cash). As at the date of this announcement, the Company does not anticipate any material change to its plan on the use of proceeds as stated in the Prospectus.

INDEBTEDNESS

Bank Loans

As at 30 June 2017, the Group had no bank borrowings (31 December 2016: nil). As at 30 June 2017, the Group had no available banking facilities.

Contingent Liabilities

The Group is subject to legal proceedings and claims in the ordinary of business primarily arising from medical disputes brought on by patients. Provision for medical disputes is made based on the status of potential and active claims outstanding as at the end of the relevant period, and primarily taking into account any judicial appraisal or court determination against the Group. As at 30 June 2017, the total stated claim amount of the Group's on-going medical disputes was approximately RMB8.2 million (31 December 2016: RMB11.3 million) and there were certain medical disputes without claim amount stated. Based on the Group's assessment, as at 30 June 2017, approximately RMB0.4 million (31 December 2016: RMB0.5 million) had been provided and included in accounts and other payables of the Group.

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

Pledge of Assets

As at 30 June 2017, none of the Group's assets had been pledged (31 December 2016: none).

Contractual Obligations

The contractual obligations of the Group primarily consisted of operating lease commitments and capital commitments.

The operating lease commitments of the Group were primarily attributable to the lease of the land and buildings underlying the Group's hospital operations. As at 30 June 2017, the future aggregate minimum lease payments under non-cancellable lease agreements were RMB283.1 million (31 December 2016: RMB295.4 million).

The capital commitments of the Group were primarily attributable to construction costs relating to the expansion and renovation of the Group's medical facilities. As at 30 June 2017, the capital commitments in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements were RMB52.0 million (31 December 2016: RMB49.0 million).

Financial Instruments

The Group's financial instruments primarily consisted of accounts and other receivables, available-for-sale investments, bank balances and cash, restricted bank balances, accounts and other payables and amounts due to shareholders. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Exposure to fluctuation in Exchange rates

The proceeds of raised by the Company in its initial public offering of its H Shares is denominated in Hong Kong dollars. The Group deposits certain of its financial assets in Hong Kong dollars, and is mainly exposed to fluctuation in exchange rates of Hong Kong dollars against RMB. The Group is therefore exposed to foreign exchange risk.

The Group has not used any derivatives financial instruments to hedge against it exposure to currency risk. The management manages the currency risk by closely monitoring the movement of the foreign currency rates and will consider hedging significant foreign currency exposure should such need arise.

Gearing Ratio

As at 30 June 2017, the Group's gearing ratio (total interest-bearing bank loans divided by total equity and multiplied by 100%) was zero (31 December 2016: zero).

INTERIM DIVIDEND

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

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Hong Kong Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he has complied with the required standards as set out in the Model Code during the Reporting Period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company complied with all code provisions in the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there was no significant event after the Reporting Period.

REVIEW OF INTERIM RESULTS

The Company's audit committee has reviewed the Group's interim results for the Reporting Period and has opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

The Company's audit committee consists of three independent non-executive directors of the Company, Mr. Chan Sing Nun (the chairman of the audit committee), Mr. Yeung Ming Lai and Dr. Chen Keji. Among them, Mr. Chan Sing Nun has the appropriate professional qualifications (a certified public accountant accredited by the Hong Kong Institute of Certified Public Accountants).

The auditor of the Company has also reviewed the Group's interim results for the six months ended 30 June 2017 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF THE 2017 CONDENSED CONSOLIDATED INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kanghuagp.com). The 2017 interim report of the Company containing all the information required by the Hong Kong Listing Rules will be dispatched to the shareholders of the Company and made available on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our appreciation to the management team and staff of the Group for their contribution and also to extend my sincere gratitude to all our shareholders and business partners for their continuous support.

By order of the Board
Guangdong Kanghua Healthcare Co., Ltd.*
WANG Junyang
Chairman

Hong Kong
29 August 2017

As at the date of this announcement, the Board comprises:

Executive Directors:
Mr. Wang Junyang *(Chairman)*
Mr. Chen Wangzhi *(Chief executive officer)*
Mr. Wong Wai Hung Simon *(Vice chairman)*
Ms. Wang Aiqin

Non-executive Director:
Mr. Lv Yubo

Independent non-executive Directors:
Mr. Yeung Ming Lai
Dr. Chen Keji
Mr. Chan Sing Nun

* *For identification purpose only.*