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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 2018

FINANCIAL HIGHLIGHTS

- Revenue for the Reporting Period increased by 16.3% to RMB738.6 million (for the six months ended 30 June 2017: RMB635.3 million)

- Profit for the Reporting Period increased by 20.7% to RMB89.4 million (for the six months ended 30 June 2017: RMB74.1 million)

- Profit for the Reporting Period attributable to owners of the Company increased by 18.9% to RMB85.6 million (for the six months ended 30 June 2017: RMB72.0 million)

- Earnings per share for the Reporting Period increased by 19.1% to RMB25.6 cents (for the six months ended 30 June 2017: RMB21.5 cents)

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

INTERIM RESULTS

The board of directors (the "**Board**") of Guangdong Kanghua Healthcare Co., Ltd.* (the "**Company**", "**our Company**", "**we**" or "**us**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**" or "**our Group**"), for the six months ended 30 June 2018 (the "**Reporting Period**") together with the comparative figures for the corresponding period in 2017.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	*(unaudited)*
Revenue	3	**738,589**	635,302
Cost of revenue		**(570,541)**	(474,643)
Gross profit		**168,048**	160,659
Other income	4	**28,513**	11,787
Other gain and losses	5	**248**	(12,117)
Administrative expenses		**(80,580)**	(58,350)
Profit before taxation	6	**116,229**	101,979
Income tax expenses	7	**(26,796)**	(27,904)
Profit and total comprehensive income for the period		**89,433**	74,075
Profit and total comprehensive income for the period attributable to:			
– owners of the Company		**85,632**	72,043
– non-controlling interests		**3,801**	2,032
		89,433	74,075
Earnings per share, basic (RMB cents)	9	**25.6**	21.5

CONDENSED CONSOLIDATED STATEMENT OF FINANICAL POSITION

As at 30 June 2018

	NOTES	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**447,857**	434,109
Goodwill		**56,601**	—
Deposits paid for acquisition of property, plant and equipment		**83,949**	76,456
Financial asset at fair value through profit or loss	10	**16,545**	—
Available-for-sale investment	10	**—**	16,275
Other receivables		**81,000**	5,000
		685,952	531,840
Current assets			
Inventories		**46,712**	44,524
Accounts and other receivables	11	**281,446**	214,508
Financial assets at fair value through profit or loss	10	**518,509**	—
Available-for-sale investments	10	**—**	543,025
Restricted bank balances		**11,179**	14,700
Bank balances and cash		**294,708**	383,796
		1,152,554	1,200,553
Current liabilities			
Accounts and other payables	12	**405,834**	412,586
Amounts due to a shareholder		**682**	925
Tax payables		**36,517**	29,483
		443,033	442,994
Net current assets		**709,521**	757,559
Net assets		**1,395,473**	1,289,399
Capital and reserves			
Share capital		**334,394**	334,394
Reserves		**1,016,462**	930,830
Equity attributable to owners of the Company		**1,350,856**	1,265,224
Non-controlling interests		**44,617**	24,175
Total equity		**1,395,473**	1,289,399

NOTES:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("**IASB**") as well as with 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 financial assets at fair value through profit or loss ("**FVTPL**")/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 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Adoption of new accounting policies in respect of business combinations and goodwill

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with International Financial Reporting Standard ("**IFRS**") 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

Application of new and amendments to International Financial Reporting Standards ("IFRSs")

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014 - 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except as described below, the application of these new and amendments to IFRSs did not have any material impact on the Group's condensed consolidated financial statements.

2.1 Impact and changes in accounting policies of application on IFRS 15 Revenue from contracts with customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the the following major sources:

- Revenue from provision of hospital services;
- Revenue from provision of rehabilitation and other healthcare services;
- Revenue from provision of hospital management services; and
- Revenue from sale of pharmaceutical products.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

For revenue from (i) hospital services; (ii) rehabilitation and other healthcare services; and (iii) hospital management services, for which the control of the service is transferred when the Group had provided the related services over the service period, revenue is recognised when the patients simultaneously received healthcare services, physical examinations services and rehabilitation services and the managed hospital received management services.

For revenue from sale of pharmaceutical products for which control of pharmaceutical products is transferred at a point in time, revenue is recognised when the customer obtains the control of pharmaceutical products and Group has present right to payment and the collection of the consideration is probable.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

The application of IFRS 15 in the current interim period has had no material impact on the amounts and/or disclosures reported in the condensed consolidated financial statements.

2.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied IFRS 9 *Financial Instruments,* Amendments to IFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities; and (2) expected credit losses ("**ECL**") for financial assets.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

2.1.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("**OCI**") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or fair value through other comprehensive income ("**FVTOCI**") criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gain and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than one year past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and contract assets, for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9.

All loss allowance for financial assets including financial assets at FVTPL, accounts and other receivables, bank balances and cash and restricted bank balances are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

2.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Available-for-sale	**Financial assets at FVTPL required by IAS39/ IFRS9**
	RMB'000	*RMB'000*
Closing balance at 31 December 2017 - IAS 39	559,300	—
Reclassification from available-for-sale (both current and non-current)	(559,300)	559,300
Opening balance at 1 January 2018	—	559,300

The application of the expected credit loss model of IFRS 9 has no material impact on the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade and other receivables. In respect of bank balances, based on the historical financial information and reputation of the banks that the Group deposited to, the management of the Company has considered that the risk of default is low and their capacity to meet its contractual cash flow obligations in the near term is strong. Therefore, they considered it is not necessarily to recognise provision for ECL on bank balances in the condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in (i) provision of hospital services; (ii) provision of rehabilitation and other healthcare services; (iii) provision of hospital management services; and (iv) sale of pharmaceutical products.

Revenue

An analysis of the Group's revenue for the period is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Hospital services:		
– Inpatient healthcare services	**426,169**	378,265
– Outpatient healthcare services	**258,761**	230,910
– Physical examination services	**30,163**	24,938
Rehabilitation and other healthcare services:		
– Rehabilitation hospital services	**10,436**	N/A
– Rehabilitation centre services and other healthcare services	**4,215**	N/A
Hospital management service income	**1,922**	1,189
Sale of pharmaceutical products	**6,923**	N/A
	738,589	635,302

Segment information

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.

During the six months ended 30 June 2018, the Group acquired a new business which is principally engaged in provision of rehabilitation and other healthcare services (detailed in note 13). In light of the new business acquired during the current period, the directors of the Company have reallocated the Group's segment information and combined inpatient healthcare services, outpatient healthcare services and physical examination services into one single segment as hospital services. The directors of the Company are of the view that the revised presentation of the operating segment information better reflects the Group's business operations.

The Group's operating segments are classified as (i) hospital services; (ii) rehabilitation and other healthcare services; (iii) hospital management services; and (iv) sale of pharmaceutical products. The details of the Group's operating segments are as follows:

(i)	Hospital services:	(i) Inpatient healthcare services generally refer to the treatment of patients who are hospitalised overnight or for an indeterminate period of time. (ii) Outpatient healthcare services generally refer to the treatment of patients who are hospitalised for less than 24 hours. (iii) Physical examinations services generally refer to the clinical examination of individuals for signs of diseases and health advisory services.
(ii)	Rehabilitation and other healthcare services:	Rehabilitation services generally refer to the provision of special care services to patients with permanent or long-term physical or mental disabilities. Other healthcare services include elderly care and training service for the disabled.
(iii)	Hospital management services:	Provision of management services to a hospital owned by an independent third party.
(iv)	Sale of pharmaceutical products:	Sale of pharmaceutical products to patients of the Group's hospitals and outside customers.

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 2018 (unaudited)

	Hospital services	Rehabilitation and other healthcare services	Hospital management services	Sale of pharmaceutical products	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note a)		*(Note b)*	
SEGMENT REVENUE					
External sales	**715,093**	**14,651**	**1,922**	**6,923**	**738,589**
Segment profit	**157,804**	**7,819**	**981**	**1,444**	**168,048**
Other income					**28,513**
Other gain and losses					**248**
Other unallocated expenses					**(80,580)**
Profit before taxation					**116,229**

Notes:

(a) Rehabilitation and other healthcare services was acquired in April 2018.

(b) Sale of pharmaceutical products commenced in July 2017.

Six months ended 30 June 2017 (unaudited)

	Hospital services	Hospital management services	Total
	RMB'000	*RMB'000*	*RMB'000*
SEGMENT REVENUE			
External sales	634,113	1,189	635,302
Segment profit	160,351	308	160,659
Other income			11,787
Other gain and losses			(12,117)
Other unallocated expenses			(58,350)
Profit before taxation			101,979

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 gain and losses and other unallocated expenses. 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	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Bank and other interest income	**5,566**	6,328
Income from financial assets at FVTPL/available-for-sale investments	**16,164**	2,376
Rental income	**2,206**	2,183
Government subsidies (note)	**138**	227
Others	**4,439**	673
	28,513	11,787

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

5. OTHER GAIN AND LOSSES

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Net exchange gain(loss)	**1,096**	(9,848)
Impairment loss on accounts receivables	**(776)**	(2,181)
Loss on disposal of property, plant and equipment	**(72)**	(88)
	248	(12,117)

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**30,339**	22,217
Research and development expenditure	**389**	461
Operating lease rentals in respect of hospitals	**14,794**	13,175
Cost of inventories recognised as expenses (representing pharmaceutical products and consumables used, included in cost of revenue)	**346,815**	300,170

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Current tax:		
PRC Enterprise Income Tax ("**PRC EIT**")	**26,131**	29,876
Under(over)provision in respect of prior years	**665**	(1,972)
	26,796	27,904

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. DIVIDENDS

The directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

9. 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	
	2018	2017
	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	**85,632**	72,043
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**334,394,000**	334,394,000

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

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENTS

	At 30 June 2018	At 31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	*(audited)*
Unlisted trust fund (note i)	**16,545**	16,275
Portfolio investment fund (note ii)	**57,829**	51,185
Structured bank deposits (note iii)	**460,680**	491,840
	535,054	559,300

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Analysed as:		
Current	**518,509**	543,025
Non-current	**16,545**	16,275
	535,054	559,300

Notes:

(i) The unlisted trust 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 a portfolio investment fund with a fund manager in Hong Kong for investment returns. The portfolio includes a mixture of cash and shares which are primarily listed in Hong Kong and is measured at fair value.

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

11. ACCOUNTS AND OTHER RECEIVABLES

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Accounts receivables	**141,652**	95,037
Prepayments to suppliers	**13,189**	5,267
Deposit paid for an investment (note i)	**81,000**	5,000
Loan receivables (note ii)	**100,000**	100,000
Interest receivables	**6,703**	6,066
Others	**19,902**	8,138
Total accounts and other receivables	**362,446**	219,508
Analysed as:		
Current	**281,446**	214,508
Non-current	**81,000**	5,000
	362,446	219,508

Notes:

(i) During the six months ended 30 June 2018, an amount of RMB81,000,000 was paid by the Group to a vendor who is an independent third party of the Group, as a deposit paid for the proposed acquisition of Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd. (the "Managed Hospital"), which is a specialty hospital in cardiovascular diseases located in Chongqing. The Group provides hospital management services to the Managed Hospital prior to the proposed acquisition. Such deposit is refundable upon the unsuccessful of acquisition or will use to offset the remaining acquisition consideration.

The amount of RMB5,000,000 as at 31 December 2017 represented the deposit paid for the acquisition of Anhui Hualin Group (name defined in note 13). The acquisition was completed and deposit was utilised on 1 April 2018.

(ii) In June 2016, a wholly-owned subsidiary of the Company granted an unsecured loan of RMB50,000,000 to the Managed Hospital. In December 2016, the Group further provided an unsecured loan facility of RMB50,000,000 to the Managed Hospital, of which the Managed Hospital had made the first drawdown of RMB30,000,000 in the same month. In January 2017, the Managed Hospital had made the second drawdown of the unsecured loan facility of RMB20,000,000. 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 drawdown date. During the six months ended 30 June 2018, the loans of RMB50,000,000 and RMB20,000,000 were renewed upon maturity at a fixed rate of 0.42% per month and repayable within twelve months from the drawdown date.

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 2018	At 31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	*(audited)*
Within 30 days	**84,769**	71,637
31 to 90 days	**35,120**	14,379
91 to 180 days	**1,221**	4,102
181 to 365 days	**18,663**	2,802
Over 365 days	**1,879**	2,117
	141,652	95,037

12. ACCOUNTS AND OTHER PAYABLES

	At 30 June 2018 *RMB'000* *(unaudited)*	At 31 December 2017 *RMB'000* *(audited)*
Accounts payables	**286,858**	275,622
Accrued expenses	**37,153**	68,919
Construction payables	**17,802**	16,241
Receipt in advance	**45,802**	41,824
Other tax payables	**5,965**	3,979
Provision for medical dispute claims	**887**	503
Others	**11,367**	5,498
Other payables	**118,976**	136,964
Total accounts and other payables	**405,834**	412,586

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 2018 RMB'000 *(unaudited)*	At 31 December 2017 RMB'000 *(audited)*
Within 30 days	**123,103**	69,988
31 to 90 days	**48,197**	92,977
91 to 180 days	**70,189**	76,910
181 to 365 days	**30,469**	20,565
Over 365 days	**14,900**	15,182
	286,858	275,622

13. ACQUISITION OF A SUBSIDIARY

On 1 April 2018 ("**Date of Acquisition**"), the Group acquired 57% equity interest in Anhui Hualin Medical Investment Co., Ltd. ("**Anhui Hualin**"), a PRC entity, and its subsidiaries (collectively referred as "**Anhui Hualin Group**") by way of (i) an equity transfer of 49.71% equity interest in Anhui Hualin from the vendor, an independent third party, at a consideration of RMB58,660,000; and (ii) inject RMB20,000,000 capital into Anhui Hualin.

Anhui Hualin Group is engaged in the provision of rehabilitation and other healthcare services in the PRC. Anhui Hualin directly and indirectly (throught its wholly-owned subsidiary) holds interests in certain private non-enterprise entities in the PRC, including one class II rehabilitation hospital, one class I general hospital, nine rehabilitation centres for the disabled and one vocational training school in Anhui Province, the PRC.

Consideration comprised of:

	RMB'000
Cash paid during the current period	53,660
Capital injected into Anhui Hualin during the current period	20,000
Deposit paid during the year ended 31 December 2017	5,000
	78,660

Acquisition-related costs amounting to RMB707,000 have been excluded from the consideration transferred and have been recognised as administrative expenses in the condensed consolidated statement of profit or loss and other comprehensive income during the period.

Provisional fair value of assets and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	9,535
Inventories	1,237
Accounts and other receivables	19,205
Bank balances and cash	2,568
Accounts and other payables	(10,330)
Amount due to a shareholder	(3,515)
	18,700

Goodwill arising on acquisition:

	RMB'000
Consideration	78,660
Plus: non-controlling interests (43% of Anhui Hualin)	16,641
Less: net assets acquired	(18,700)
Less: increase in net asset pursuant to capital injection	(20,000)
Provisional goodwill arising on acquisition	56,601

Net cash outflow arising on acquisition for the current period:

	RMB'000
Consideration paid in cash	78,660
Less: deposit paid during the year ended 31 December 2017	(5,000)
Less: capital injection in Anhui Hualin in cash	(20,000)
Less: cash and cash equivalent balance acquired	(2,568)
Net cash outflow	51,092

The initial accounting for the acquisition of subsidiary has been determined provisionally for the intangible assets or goodwill to be identified and recognised awaiting the receipt of professional valuation in relation to the respective fair values.

Included in the profit for the interim period is RMB3,329,000 attributable to Anhui Hualin Group. Revenue for the interim period includes RMB14,650,000 is attributable to Anhui Hualin Group.

Had the acquisition of Anhui Hualin been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 June 2018 would have been RMB750,157,000, and the amount of profit for the interim period would have been RMB87,635,000.

14. EVENT AFTER THE REPORTING PERIOD

On 22 June 2018, the Company announced a possible acquisition and has entered into an acquisition agreement to acquire 60% equity interest in the Managed Hospital (defined as Zhonglian Cardiovascular Hospital elsewhere in this announcement) from an independent third party with a total consideration of RMB270 million. During the six months ended 30 June 2018, the Group paid a deposit relating to the possible acquisition amounting to RMB81 million. The acquisition of Zhonglian Cardiovascular Hospital was completed on 31 July 2018 and has become a non-wholly owned subsidiary of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Overview for the six months ended 30 June 2018

In the first half of 2018, the Group continued to deliver promising operating results and growth. During the current period, we have successfully acquired 57% equity interest in Anhui Hualin Medical Investment Co., Ltd.* (安徽樺霖醫療投資有限公司) ("**Anhui Hualin**"). Anhui Hualin directly and indirectly holds sponsor interests in certain private non-enterprise entities in the PRC, including one class II rehabilitation hospital, one class I general hospital, nine rehabilitation centres for the disabled and one vocational training school in Anhui Province, the PRC. The Board expects that the acquisition will generate significant synergistic value to the Group and further expand the Group's footprint in the healthcare industry in the PRC.

Furthermore, during the current period, the Group entered into the acquisition agreement to acquire the 60% equity interest of Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd.* (重慶康華眾聯心血管病醫院有限公司) ("**Zhonglian Cardiovascular Hospital**"). The acquisition was completed on 31 July 2018 and Zhonglian Cardiovascular Hospital has become a non-wholly-owned subsidiary of the Company. The Board considers that full integration and consolidation of Zhonglian Cardiovascular Hospital into the Group's operations will enable the Group to benefit from the operating prospects of Zhonglian Cardiovascular Hospital to a greater extent in the long term compared to the current management arrangement.

Hospital Services

The Group's owned hospitals, 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**"), have delivered solid and promising results, in particular (i) the total number of inpatient visits reached 30,507 (six months ended 30 June 2017: 28,208), representing a period-on-period increase of 8.2%; (ii) the overall average spending per inpatient visit amounted to RMB13,970 (six months ended 30 June 2017: RMB13,410), representing a period-on-period increase of 4.2%; (iii) the overall bed utilisation rate increased to 87.8% (six months ended 30 June 2017: 84.0%); (iv) the average length of stay was slightly lowered to 7.6 days (six months ended 30 June 2017: 7.8 days) as a result of further optimisation in clinical processes; (v) the total number of outpatient visits reached 765,370 (six months ended 30 June 2017: 718,752), representing a period-on-period increase of 6.5%; (vi) the overall average spending per outpatient visit amounted to RMB338 (six months ended 30 June 2017: RMB321), representing a period-on-period increase of 5.2%; and (vii) the total number of surgical operations reached 18,875 (six months ended 30 June 2017: 18,685), representing a period-on-period increase of 1.0%.

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	**2018**	2017
Inpatient healthcare services			
Number of registered bed	—	**2,460**	2,460
Inpatient visits	+8.2%	**30,507**	28,208
Average length of stay (days)	-0.2	**7.6**	7.8
Average spending per visit (RMB)	+4.2%	**13,969.5**	13,409.8
Outpatient healthcare services			
Outpatient visits	+6.5%	**765,370**	718,752
Average spending per visit (RMB)	+5.2%	**338.1**	321.3

Kanghua Hospital

In the first half of 2018, Kanghua Hospital has successfully passed Grade A Class III general hospital rating review by the Health and Family Planning Commission of Guangdong Province (廣東省衛生和計劃生育委員會). Such rating signifies an important milestone for Kanghua Hospital and recognition of our quality service offerings at Kanghua Hospital. The Board is optimistic that Kanghua Hospital will continue to excel in delivering exemplary healthcare services and maintain its leading position in the private healthcare market in the PRC. During the Reporting Period, Kanghua Hospital continued to strictly adhere to the operating standard of a Grade A Class III general hospital and improve on key aspects of operations, including comprehensive management, medical capability, quality of nursing care, pharmaceuticals and infection control. In particular, during the current period, (i) Kanghua Hospital's haematology centre has developed the capability to independently perform MICM diagnosis system of haematological diseases, which we believe is the first unit developing such independent capability in Dongguan; (ii) Kanghua Hospital's clinical trial centre passed review by an independent and qualified organisation and became one of the few private hospitals in the PRC to obtain clinical trial accreditation; (iii) Kanghua Hospital further strengthened its cooperation with lower-tier hospitals and community healthcare centres and has established a number of technical support access and mutual patient referral systems; and (iv) Kanghua Hospital committed considerable resources to recruiting quality healthcare professionals and management personnel from reputable hospitals in Guangzhou and providing external and internal comprehensive training opportunities to its staff.

During the current period, Kanghua Hospital – Huawei Clinic (康華醫院 - 華為門診部), an outpatient division of Kanghua Hospital that commenced operations in August 2017, experienced a significant increase in patient visits. Healthcare professionals of the clinic were given training and first-aid exercise to improve their emergency care capability and ensure they deliver standardised medical practice. The clinic also participated in numerous community activities, such as voluntary clinic, with a view to improving its reputation and attracting patients. During the current period, the clinic received more than 9,800 outpatient visits.

Renkang Hospital

Renkang Hospital has taken an active part in the establishment of medical union (醫聯體) in Dongguan and further the development of various disciplines. The hospital established maternal first-aid medical union with Dongguan Maternal and Child Health Hospital (東莞市婦幼保健院), and established respiratory specialized medical union with Dongguan People's Hospital (東莞市人民醫院). Furthermore, Renkang Hospital was also recognised as a cooperating hospital of the National Stroke Centre (國家卒中中心).

Renkang Hospital entered into cooperation with a leading enterprise in Chinese Medicine to establish a training base for Chinese doctors, which we believe is the first in Dongguan, with a view to further improveing Renkang Hospital's development on Chinese Medicine. Renkang Hospital obtained the qualification of Dongguan's occupational disease examination in 2017 and began offering such service in March 2018. During the current period, Renkang Hospital provided occupational disease examination service to more than 1,800 patients, and we expect that the market demand for such service will continue to rise.

During the current period, Renkang Hospital had begun the preliminary work for applying for a Grade A Class II general hospital rating. We expect that Renkang Hospital will be able to substantially complete clinical inspections and information preparation as soon as end of 2018 and submit the formal application to the relevant health authorities.

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

Healthcare disciplines	Change	For the six months ended 30 June **2018** ***RMB'000***	% of revenue of the Group's owned hospitals	2017 *RMB'000*	% of revenue of the Group's owned hospitals
O&G related disciplines (婦產科有關科室)	+5.0%	**141,145**	19.7	134,410	21.2
Cardiovascular related disciplines (心血管有關科室)	+14.0%	**89,618**	12.5	78,590	12.4
Internal medicine related disciplines (內科有關科室)	+25.9%	**85,539**	12.0	67,950	10.7
General surgery related disciplines (普通外科有關科室)	+13.6%	**63,051**	8.8	55,524	8.8
Orthopaedics related disciplines (骨科有關科室)	+13.8%	**50,065**	7.0	43,986	6.9
Neurology related disciplines (神經醫學有關科室)	+14.0%	**48,077**	6.7	42,188	6.7
Emergency medicine related disciplines (急診有關科室)	+3.0%	**37,449**	5.3	36,373	5.7
Paediatrics related disciplines (兒童醫學有關科室)	+13.8%	**23,934**	3.4	21,031	3.3
Medical aesthetic related disciplines (醫學美容有關科室)	-10.9%	**15,817**	2.2	17,751	2.8
Nephrology related disciplines (腎臟科有關科室)	+9.1%	**16,154**	2.3	14,812	2.3
Oncology related disciplines (腫瘤有關科室)	+20.6%	**13,930**	1.9	11,554	1.8
Physical examination (體檢科)	+21.0%	**30,163**	4.2	24,938	3.9
Other disciplines (其他臨床科室)	+17.8%	**100,151**	14.0	85,006	13.5
Total#		**715,093**	100.0	634,113	100.0

The amount does not include revenue from rehabilitation and other healthcare services, hospital management services and sale of pharmaceutical products.

Note: The Group's healthcare disciplines can generally be classified into clinical disciplines and medical technology disciplines. Medical technology disciplines provide diagnostic and treatment support according to the requirements of clinical disciplines from time to time. Revenue derived from services delivered through medical technology disciplines is generally recognised in the relevant clinical disciplines that utilised such services.

In the first half of 2018, Kanghua Hospital performed: (i) 917 cardiovascular interventional surgeries (six months ended 30 June 2017: 861), representing a period-on-period increase of 6.5%; and (ii) 5,619 surgeries with level 3 or level 4 complexities (six months ended 30 June 2017: 4,510), representing a period-on-period increase of 24.6%. Obstetrics and gynaecology ("**O&G**") disciplines, internal medicine disciplines, cardiovascular disciplines, general surgery disciplines and orthopaedics disciplines remained to be the top revenue generating disciplines of the Group for the first half of 2018, accounting for approximately 60.1% of the Group's total revenue in hospital services in the same period (six months ended 30 June 2017: 60.0%).

During the six months ended 30 June 2018, (a) our O&G related disciplines have become a stable revenue driver of the Group and have recorded a period-on-period revenue increase of 5.0%, primarily attributable to (i) the Group's continuous efforts of expanding O&G related workforce and medical facilities; (ii) the further penetration of two-child policy in the PRC; and (iii) continuous strong demand for reproductive medicine services with a period-on-period revenue increase of 11.1%; (b) revenue from cardiovascular related disciplines recorded a strong period-on-period increase of 14.0%, primarily attributable to the Group's significant improvements in clinical resources and service capabilities as well as the Group's continuous growth in industry reputation within Guangdong Province; (c) revenue from internal medicine related disciplines recorded a significant period-on-period increase of 25.9%, primarily attributable to the recruitment of reputable healthcare experts and professionals to improve the service quality and overall treatment efficacy; (d) revenue from oncology related disciplines recorded a significant period-on-period increase of 20.6%, a turnaround from last year's period-on-period decrease, primarily attributable to the recruitment of new oncology professionals in 2017, which had the effect of attracting patients to Kanghua Hospital; and (e) physical examination services recorded a period-on-period considerable increase of 21.0%, primarily as a result of the full impact of the additional revenue derived from Kanghua Hospital – Huawei Clinic (康華醫院 - 華為門診部), an outpatient division of the Group that commenced operations in August 2017. The Group will continue to recruit qualified and reputable healthcare professionals, accelerate the installation and implementation of medical facilities and comprehensively promote the development of these disciplines, as well as improving the capability to receive and treat critical patients.

The Group's special services are high-end healthcare services that extend beyond basic medical services and are specifically catered for the more affluent patients who are willing to pay a premium for 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 2018, the total revenue derived from special services amounted to RMB72.7 million (six months ended 30 June 2017: RMB60.3 million), representing a period-on-period increase of 20.5%. In the first half of 2018, the average spending per inpatient visit of VIP healthcare services amounted to RMB23,785.9 (six months ended 30 June 2017: RMB19,905.3), representing a period-on-period increase of 19.5%, primarily attributable to our more premium service offerings from Huaxin Building (華心樓) (a complex in Kanghua Hospital dedicated to VIP healthcare services), including comprehensive O&G services dedicated to VIP patients and our ability to increase the pricing as our services matures. Our revenue from VIP inpatient services recorded a period-on-period increase of 60.2%, primarily driven by the increase in average spending and inpatient visits. The demand for reproductive medicine remains strong with a period-on-period increase of 11.1% in revenue. The Group will continue to accelerate the expansion of Reproductive Medicine Center to enhance the capacity of the center and better meet the rapidly rising market demand.

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

		For the six months ended 30 June	
Special Services	**Change**	**2018**	2017
VIP healthcare services			
Number of beds in operation	—	**160**	130
Inpatient visits	+34.0%	**906**	676
Average spending per inpatient visit (RMB)	+19.5%	**23,785.9**	19,905.3
Outpatient visits	-2.7%	**27,330**	28,083
Average spending per outpatient visit (RMB)	+11.7%	**548.1**	490.8
Revenue (RMB'000)	+34.1%	**36,529**	27,239
Reproductive medicine			
Number of outpatient visits	+8.8%	**29,019**	26,670
Revenue (RMB'000)	+11.1%	**29,488**	26,537
Plastic and aesthetic surgery			
Revenue (RMB'000)	-10.9%	**2,258**	2,535
Laser treatment			
Revenue (RMB'000)	+9.9%	**4,387**	3,992
Total revenue from special services (RMB'000)	+20.5%	**72,662**	60,303

Rehabilitation and other Healthcare Services

During the current period, the Group has completed the acquisition of 57% equity interest in Anhui Hualin by way of (i) an equity transfer of 49.71% equity interest in Anhui Hualin from the vendor, an independent third party, at a consideration of RMB58.66 million; and (ii) capital injection into Anhui Hualin by the Group on a non-rata basis of RMB20.0 million. Anhui Hualin directly and indirectly holds sponsor interests in certain private non-enterprise entities in the PRC, including one class II rehabilitation hospital, one class I general hospital, nine rehabilitation centres for the disabled and one vocational training school in Anhui Province, the PRC (collectively referred to as the "**Anhui Hualin Group**"). The Board expects that the acquisition will considerably enhance the Group's business of disability rehabilitation services, generate significant synergistic value to the Group and further expand the Group's footprint in the healthcare industry in the PRC.

The Anhui Hualin Group has a stable cooperation with Anhui Disabled Persons Federation (安徽省殘疾人聯合會) and local governments in the provision of home-based care services for the elderly and training services for the disabled. The Anhui Hualin Group is also a major organisation offering children rehabilitation services in Auhui Province, the PRC.

Going forward, the Anhui Hualin Group will speed up the development of a class III rehabilitation center, a class III rehabilitation hospital and a specialized vocational training platform for disabled. We intend to forge Anhui Hualin to become an integrated rehabilitation service platform with medical rehabilitation, vocational rehabilitation, education rehabilitation and social rehabilitation. The Board also expects that the demand for quality rehabilitation services in the PRC will continue to grow.

As at 30 June 2018, the two hospitals in the Anhui Hualin Group had a total of 120 registered beds. Since the completion of the acquisition on 1 April 2018 to 30 June 2018, Anhui Hualin Group had received 7,361 outpatient visits, 567 inpatient visits and 86,823 rehabilitation patient visits. Revenue from rehabilitation and other healthcare services amounts to RMB14.7 million since its acquisition.

Hospital Management Services

In June 2016, the Group entered into a management agreement with Zhonglian Cardiovascular Hospital. It was the Group's first managed hospital and represented its first step of extending the Group's footprint to outside of Guangdong Province. Zhonglian Cardiovascular Hospital commenced operations in March 2017 and has developed at a promising pace. As at 30 June 2018, Zhonglian Cardiovascular Hospital had 43 doctors and 147 other healthcare professionals. With the view to establishing brand image, Zhonglian Cardiovascular Hospital has organised numerous community health lectures and charity healthcare services. During the current period, Zhonglian Cardiovascular Hospital has served more than 4,300 outpatients and more than 500 inpatients and performed more than 200 cardiovascular surgeries.

In February 2018, Zhonglian Cardiovascular Hospital entered into a cooperation agreement with Heart Federation (心臟聯盟), the largest cardiovascular diseases treatment and prevention service organisation in China, with respect to the sharing of healthcare resource, including healthcare professionals and medical capability. At the same time, the National Clinical Medical Research Center for Cardiovascular Diseases (國家心血管疾病臨床醫學研究中心) also set up a sub-center in Zhonglian Cardiovascular Hospital. The Board considers that above achievements fully reflect the prominence of the hospital's medical and clinical research capability, particularly in southwestern China.

In June 2018, the Group entered into the acquisition agreement to acquire the 60% equity interest of Zhonglian Cardiovascular Hospital. The acquisition was completed on 31 July 2018 and Zhonglian Cardiovascular Hospital has become a non-wholly-owned subsidiary of the Company. The Board considers that full integration and consolidation of Zhonglian Cardiovascular Hospital into the Group's operations will enable the Group to benefit from the operating prospects of Zhonglian Cardiovascular Hospital to a greater extent in the long term. The Board considers that the current performance of Zhonglian Cardiovascular Hospital meets expectations and is confident in its operating prospectus going forward.

Sale of Pharmaceutical Products

In July 2017, the Group established a pharmaceuticals and medical consumables trading company for the purpose of streamlining pharmaceuticals and medical consumables sales directly to the patients at the Group's hospitals and walk-in customers who may not be patients of the Group's hospitals. The Board believes the diversity of this operation can lower our overall cost of revenue through centralizing of purchase function and thereby increasing the overall margin of the Group.

Industry Outlook and Strategy

In March 2018, the State Council delivered the government's work of the past five years and laid out, among other things, key development aspects of healthcare reform for the year 2018, including:

- deepening comprehensive public hospital reform and making coordinated moves to reform healthcare pricing, staffing and remuneration, medicine distribution, and health insurance payment models; improving the quality of healthcare services and resolving the difficulties people face in accessing medical care;

- raising basic medical insurance and serious disease insurance benefits. Per capita government subsidies for basic health insurance for rural and non-working urban residents will be increased by RMB40, half of which will be used for the serious disease insurance scheme; expanding coverage of interprovincial on-the-spot settlement of medical bills through basic insurance accounts and making this applicable to community-level hospitals, and to rural migrant workers and other workers and business owners without local household registration;

- strengthening efforts to build up the ranks of general practitioners, and developing tiered diagnosis and treatment; increasing per capita government subsidies for basic public health services; improving maternal and child healthcare and preserving traditional Chinese medicine and supporting its development; and

- adopting proactive measures to tackle population aging, including developing at-home, community-based, and mutual-aid elderly care, promoting integrated medical and elderly care services, and improving the quality of services at senior care facilities.

We will proactively follow the State Council's directives and seize the opportunities presented by medical reform. We aim to establish an integrated healthcare platform and further develop our medical disciplines to improve our medical capability and quality with a view to meeting the increasing demand for quality healthcare. We will also seek appropriate opportunities to expand our healthcare network and promote collaboration and mutual referral among other healthcare institutions.

Future Plans for Material Investments and Capital Assets

Save as disclosed in this announcement, the Group did not have other plans for material investments or capital assets as of the date of this announcement.

FINANCIAL REVIEW

Segment Revenue

The Group generates revenue primarily from: (i) our hospital services - providing healthcare services through its owned hospitals, namely Kanghua Hospital and Renkang Hospital, comprising inpatient healthcare services, outpatient healthcare services and physical examination services; (ii) our rehabilitation and other healthcare services - providing rehabilitation services to patients with physical or mental disabilities and other healthcare related services including elderly care and training service for the disabled; (iii) providing hospital management services to a hospital owned by an independent third party, namely Zhonglian Cardiovascular Hospital; and (iv) sale of pharmaceutical products and medical consumables to patients of the Group's hospitals and walk-in customers who may not be patients of the Group's hospitals.

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

For the six months ended 30 June 2018 (unaudited)

	Hospital services *RMB'000*	Rehabilitation and other healthcare services *RMB'000* *(Note a)*	Hospital management services *RMB'000*	Sale of pharmaceutical products *RMB'000* *(Note b)*	Total *RMB'000*
Revenue	**715,093**	**14,651**	**1,922**	**6,923**	**738,589**
Cost of revenue	**(557,289)**	**(6,832)**	**(941)**	**(5,479)**	**(570,541)**
Gross profit	**157,804**	**7,819**	**981**	**1,444**	**168,048**
Gross profit margin	**22.1%**	**53.4%**	**51.0%**	**20.9%**	**22.8%**

Notes:

(a) Rehabilitation and other healthcare services was acquired in April 2018.

(b) Sale of pharmaceutical products commenced in July 2017.

For the six months ended 30 June 2017 (unaudited)

	Hospital services *RMB'000*	Hospital management services *RMB'000*	Total *RMB'000*
Revenue	634,113	1,189	635,302
Cost of revenue	(473,762)	(881)	(474,643)
Gross profit	160,351	308	160,659
Gross profit margin	25.3%	25.9%	25.3%

Revenue from the Group's hospital services amounts to RMB715.1 million (six months ended 30 June 2017: RMB634.1 million), representing a period-on-period increase of 12.8% and accounting for 96.8% (six months ended 30 June 2017: 99.8%) of the total revenue of the Group.

Included in revenue from hospital services comprised (i) revenue from inpatient healthcare services amounted to RMB426.2 million (six months ended 30 June 2017: RMB378.3 million) representing a period-on-period increase of 12.7%, accounting for 57.7% (six months ended 30 June 2017: 59.5%) of the total revenue of the Group; (ii) revenue from outpatient healthcare services amounts to RMB258.8 million (six months ended 30 June 2017: RMB230.9 million), representing a period-on-period increase of 12.1%, accounting for 35.0% (six months ended 30 June 2017: 36.3%) of the total revenue of the Group; and (iii) revenue from physical examination services amounted to RMB30.2 million (six months ended 30 June 2017: RMB24.9 million), representing a period-on-period increase of 21.0%, accounting for 4.1% (six months ended 30 June 2017: 3.9%) of the total revenue of the Group. The increase in revenue from hospital services is mainly due to (i) an increase in the number of inpatient, outpatient and physical examination visits during the period, (ii) increase in overall average spending; and (iii) the continuing strong growth in revenue of in our major disciplines and our VIP special services.

Revenue from rehabilitation and other healthcare services amounted to RMB14.7 million (six months ended 30 June 2017: nil), accounting for 2.0% (six months ended 30 June 2017: nil) of the total revenue of the Group. In April 2018, the Group acquired Anhui Hualin which is principally engaged in provision of rehabilitation services to patients with physical or mental disabilities and other healthcare related services including care services for elderly and training service for the disabled.

Revenue from hospital management services amounted to RMB1.9 million (six months ended 30 June 2017: RMB1.2 million), accounting for 0.3% (six months ended 30 June 2017: 0.2%) of the total revenue of the Group. The management agreement with Zhonglian Cardiovascular Hospital has a term from 1 July 2016 to 30 June 2026, during which the Group has exclusive management rights over the hospital and is entitled to a monthly management fee of RMB200,000 (before applicable tax) plus 5%

of hospital's monthly revenue. Zhonglian Cardiovascular Hospital only commenced operations on 1 March 2017 and is still in the phase of ramping up its operations. Apart from the fixed management fee of RMB200,000 per month (before applicable tax), the Group has received management income from the revenue generated by Zhonglian Cardiovascular Hospital.

Revenue from the sale of pharmaceutical products and medical consumables amounted to RMB6.9 million (six months ended 30 June 2017: nil), accounting for 0.9% (six months ended 30 June 2017: nil) of the total revenue of the Group. In July 2017, the Group established a pharmaceuticals and medical consumables trading company (which commenced operations in July 2017) for the purpose of streamlining pharmaceuticals and medical consumables sales directly to the patients at the Group's hospitals and walk-in customers who may not be patients of the Group's hospitals.

Cost of Revenue

Cost of revenue of the Group's hospital services (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 hospital services increased to RMB557.3 million (six months ended 30 June 2017: RMB473.8 million), representing a period-on-period increase of 17.6%, which was in line with the increase of revenue. Cost of revenue of the Group's rehabilitation and other healthcare services amounts to RMB6.8 million (six months ended 30 June 2017: nil), primarily consisted of staff costs, medical consumables, depreciation, utilities and rental expenses. Cost of revenue of the Group's hospital management services amounts to RMB0.94 million (six months ended 30 June 2017: RMB0.88 million) representing a period-on-period increase of 6.8%, which mainly represents staff costs in relation to management personnel assigned to Zhonglian Cardiovascular Hospital and other direct costs. Cost of revenue of the Group's sale of pharmaceutical products amounts to RMB5.5 million, mainly represent cost of purchase of pharmaceutical products.

For the six months ended 30 June 2018, pharmaceuticals, medical consumables and staff cost accounted for approximately 33.8% (six months ended 30 June 2017: 35.3%), 27.0% (six months ended 30 June 2017: 27.90%) and 27.3% (six months ended 30 June 2017: 23.1%), respectively, of the total cost of revenue of the Group. Our total staff related costs including salary, bonus and other benefits had increased by 41.5% as compared with the prior period, mainly attributable to (i) an increase in general salary level and bonus as well as other staff benefits with a view to retaining and attracting quality healthcare professionals in the healthcare industry that remains highly competitive; and (ii) the impact on acquisition of the Anhui Hualin Group.

Gross Profit and Gross Profit Margin

Total gross profit of the Group amounted to RMB168.0 million (six months ended 30 June 2017: RMB160.7 million), representing a period-on-period increase of 4.6%. The overall gross profit margin decreased to 22.8% (six months ended 30 June 2017: 25.3%), primarily due to:

(i) continual increased in intake of patients requiring acute and complex treatments, in particular with our growth in cardiovascular related disciplines, internal medicine related disciplines and oncology related disciplines. Such treatments typically involve more delicate, precise and advanced surgeries and diagnostics support and command a higher margin than basic medical services;

(ii) the 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 2018, the revenue from special services increased by 34.1% as compared with the prior period;

(iii) the increase in the average spending of patients and the ability to increase healthcare consultation prices at a faster pace than its cost of revenue leveraging the reputation of the "Kanghua" brand that is gaining wider recognition in the Guangdong region; and

(iv) however, the above impact has been offset by an increase in overall staff related costs of 41.5% and depreciation of 33.7%. The increase in staff related costs includes general increase in overall salary level, more competitive compensation packages offered to our healthcare professionals and distribution of bonus to reward medical staff. The increase in depreciation was mainly a result of newly purchased medical facilities and equipment that were put into operation during the period as well as additional depreciation charge relating to the Kanghua Hospital – Huawei Clinic and the acquisition of the Anhui Hualin Group.

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	**2018**	2017
Inpatient healthcare services			
Inpatient visits	+10.7%	**24,023**	21,703
Average length of stay (days)	-0.3	**7.6**	7.9
Average spending per visit (RMB)	+2.6%	**15,137.1**	14,760.5
Outpatient healthcare services			
Outpatient visits	+7.3%	**584,055**	544,169
Average spending per visit (RMB)	+4.7%	**367.0**	350.6

Renkang Hospital

		For the six months ended 30 June	
	Change	**2018**	2017
Inpatient healthcare services			
Inpatient visits	-0.3%	**6,484**	6,505
Average length of stay (days)	—	**7.4**	7.4
Average spending per visit (RMB)	+8.3%	**9,643.7**	8,903.6
Outpatient healthcare services			
Outpatient visits	+3.9%	**181,315**	174,583
Average spending per visit (RMB)	+6.6%	**244.9**	229.7

Other Income

The other income of the Group primarily consisted of bank and other interest income, income from financial assets at FVTPL/available-for-sale investment, government subsidies, rental income and others. In the first half of 2018, other income amounted to RMB28.5 million (six months ended 30 June 2017: RMB11.8 million), representing a period-on-period increase of approximately 141.9%, primarily due to (i) the increase in income generated from financial assets at FVTPL/available-for-sale investments to RMB16.2 million (six months ended 30 June 2017: RMB2.4 million); and (ii) partly offset by a decrease in bank and other interest income to RMB5.6 million (six months ended 30 June 2017: RMB6.3 million) mainly as a result of decrease in average bank balances. As part of the Group's cash management to maximise return on idle cash, the Group invested in certain principal-protected structured deposit products issued by a PRC commercial bank, unlisted trust fund and portfolio investment fund (all classified as financial assets at FVTPL/available-for-sale investments) to achieve higher interest income and return without interfering with business operations or capital expenditures to earn better return on our excess cash balance.

Other Gain and Losses

The other gain and losses of the Group primarily consisted of net exchange gain/loss, loss on disposal of property, plant and equipment and impairment loss on accounts receivables. In the first half of 2018, other gain and losses amounted to a net gain of RMB0.25 million (six months ended 30 June 2017: net loss of RMB12.1 million), primarily due to (i) a recorded net exchange gain of RMB1.1 million (six months ended 30 June 2017: net exchange loss of RMB9.8 million) mainly arising from our Hong Kong dollar denominated financial assets; and (ii) a decrease in impairment loss on accounts receivables.

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 2018, administrative expenses amounted to RMB80.6 million (six months ended 30 June 2017: RMB58.4 million), representing a period-on-period increase of approximately 38.1%, primarily due to (i) an increase in administrative staff related costs to RMB32.4 million (six months ended 30 June 2017: RMB21.9 million) as a result of general salary increase and increase in number of administrative staff headcounts; (ii) an increase in building rentals and management fee to RMB10.6 million (six months ended 30 June 2017: RMB8.2 million) as a result of more sub-contracted service fees was paid to cope with business growth; and (iii) an increase in office and administration costs as well as other utilities expenses due to expansion of our operations and acquisition of Anhui Hualin during the period.

Finance Costs

No finance costs were recorded during both periods as the Group had no bank borrowing throughout those periods.

Income Tax Expenses

The income tax expenses of the Group primarily consisted of PRC enterprise income tax. In the first half of 2018, income tax expenses amounted to RMB26.8 million (six months ended 30 June 2017: RMB27.9 million), representing a period-on-period decrease of approximately 4.0%. The subsidiaries of the Group are generally subject to income tax rate of 25% on their respective taxable income. Our effective tax rate in 2018 is 23.1% (six months ended 30 June 2017: 27.4%), the decrease is primarily due to certain investment income recorded in certain entities of our Group have not been taxable for tax purposes.

Profit for the Period

In the first half of 2018, profit attributable to the shareholders amounted to RMB85.6 million (six months ended 30 June 2017: RMB72.0 million), representing a period-on-period increase of approximately 18.9%.

FINANCIAL POSITION

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

During the six months ended 30 June 2018, the Group acquired property, plant and equipment and incurred expenditure on construction in progress of RMB24.5 million and RMB10.2 million, respectively, for the purpose of upgrading and expanding the service capacity of our hospital operations. The Group also acquired property, plant and equipment through acquisition of Anhui Hualin Group amounting to RMB9.5 million during the period. In addition, as at 30 June 2018, the Group has deposits paid for acquisition of property, plant and equipment amounting to RMB83.9 million (31 December 2017: RMB76.5 million). The deposits mainly represent amount paid for acquisition of new medical equipment and other new facilities as the Group continues to upgrade its medical facilities and expansion of operation capacity.

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 2018, accounts receivables increased to RMB141.7 million (31 December 2017: RMB95.0 million), of which 84.6% (31 December 2017: 90.5%) were aged within 90 days. Average accounts receivables turnover days for the current period is 29.0 days (six months ended 30 June 2017: 24.1 days). The increase in accounts receivables is primarily due to (i) expansion of our hospital's operation; and (ii) the newly acquired rehabilitation and other healthcare business operation during the current period.

The other receivables of the Group primarily consisted of prepayments to suppliers, loan receivables, deposit paid for an investment and interest receivables and others. As at 30 June 2018, other receivables increased to RMB220.8 million (31 December 2017: RMB124.5 million) primarily consist of and due to (i) at the end of the Reporting Period, the Group has unsecured loans of RMB100.0 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; (ii) an increase of interest receivables to RMB6.7 million (31 December 2017: RMB6.1 million) representing investment income from our financial assets at FVTPL/available-for-sale investments and interest income from loans granted to the Zhonglian Cardiovascular Hospital; (iii) a deposit paid for an investment of RMB81.0 million (31 December 2017: RMB5.0 million) in relation to our deposit paid for a potential acquisition of Zhonglian Cardiovascular Hospital; and (iv) increase of prepayments to suppliers to RMB13.2 million (31 December 2017: RMB5.3 million) due to increase in prepayments made to suppliers for purchase of pharmaceutical and other medical products as a result of expansion of our operations.

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 2018, accounts and other payables decreased to RMB405.8 million (31 December 2017: RMB412.6 million) primarily due to (i) increase in accounts payable to RMB286.9 million (31 December 2017: RMB275.6 million); (ii) decrease of accrued expenses to RMB37.2 million (31 December 2017: RMB68.9 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) increase in construction payable to RMB17.8 million (31 December 2017: RMB16.2 million) due to upgrade of renovation work of our hospitals and other facilities.

Net Current Assets

As at 30 June 2018, the Group recorded net current assets of RMB709.5 million (31 December 2017: RMB757.6 million).

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources

The Group continued to maintain a strong financial position with cash and cash equivalents of RMB294.7 million as at 30 June 2018 (31 December 2017: RMB383.8 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.

As at 30 June 2018, the Group had investments (classified as financial assets at FVTPL/available-for-sale investments) in aggregate of RMB535.1 million (31 December 2017: RMB559.3 million) primarily consisting of, (i) an unlisted fund of US$2.5 million (equivalent to approximately RMB16.5 million) (31 December 2017: US$2.5 million (equivalent to approximately RMB16.3 million)) representing an 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; (ii) portfolio investment fund of RMB57.8 million (31 December 2017: RMB51.2 million), representing an investment fund deposited with a discretionary fund manager in Hong Kong mandate to achieve appropriate return consistent with the Group's cash management policy. The portfolio included a mixture of cash and shares that are primarily listed in Hong Kong; and (iii) structured bank deposits of RMB460.7 million (31 December 2017: RMB491.8 million), representing principal-protected products issued by a PRC commercial bank.

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.

Cash Flow Analysis

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

		For the six months ended 30 June	
	Change	**2018**	2017
		RMB'000	RMB'000
Net cash generated from operating activities	-44.6%	**35,341**	63,762
Net cash used in investing activities	-77.1%	**(124,716)**	(543,519)
Net cash used in financing activities	-89.2%	**(243)**	(2,254)
Net decrease in cash and cash equivalents	-81.4%	**(89,618)**	(482,011)

Net cash generated from operating activities

During the current period, the net cash generated from operating activities amounted to RMB35.3 million (six months ended 30 June 2017: RMB63.8 million), representing a period-on-period decrease of 44.6%, which was primarily due to (i) the increase in profit before taxation for the current period; (ii) changes in working capital including increase in accounts receivables; and (iii) settlement of prior year's staff salary and special bonuses in the current period.

Net cash used in investing activities

During the current period, net cash used in investing activities amounted to RMB124.7 million (six months ended 30 June 2017: RMB543.5 million), representing a period-on-period decrease of 77.1%, which was primarily due to (i) a deposit paid for a potential acquisition of RMB81.0 million; (ii) a net cash outflow arising from acquisition of Anhui Hualin Group of RMB51.1 million; (iii) increase in income received from financial assets at FVTPL/available-for-sale investments to RMB9.9 million (six months ended 30 June 2017: RMB2.4 million); and (iv) a decrease in cash flow in relation to purchase of financial assets at FVTPL/available-for-sale investments as compare with prior period.

Net cash used in financing activities

During the current period, net cash used in financing activities amounted to RMB0.24 million (six months ended 30 June 2017: RMB2.25 million), representing a period-on-period decrease of 89.2%, which was due to the decrease in repayment of amount due to a shareholder. The Group had no outstanding bank or other borrowings during the current and prior interim period, thus, the Group had no significant financing cash outflow.

Significant Investment, Acquisition and Disposal

Anhui Hualin Group - Rehabilitation and other Healthcare Services

During the current period, the Group have successfully acquired 57% equity interest in Anhui Hualin by way of (i) an equity transfer of 49.71% equity interest in Anhui Hualin from the vendor, an independent third party, at a consideration of RMB58.66 million; and (ii) capital injection into Anhui Hualin by the Group on a non-rata basis of RMB20.0 million. Anhui Hualin directly and indirectly (through its wholly-owned subsidiary) holds sponsor interests in the managed and controlled entities, all of which are private non-enterprise entities in the PRC, including one class II rehabilitation hospital, one class I general hospital, nine rehabilitation centres for the disabled and one vocational training school in Anhui Province, the PRC.

Zhonglian Cardiovascular Hospital

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**").

As disclosed in the Company's announcement dated 12 December 2016, 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 could 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. The loan amounts of RMB30.0 million and RMB20.0 million were drawndown by Zhonglian Cardiovascular Hospital in December 2016 (the "**First Tranche December 2016 Loan**") and February 2017 (the "**Second Tranche December 2016 Loan**"), 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. The First Tranche December 2016 Loan and Second Tranche December 2016 Loan were renewed in the amount of RMB30.0 million in December 2017 and RMB20.0 million in February 2018, respectively, and carry a monthly interest rate of 0.42% for another year.

During the six months ended 30 June 2018, the loans of RMB50,000,000 and RMB20,000,000 were renewed upon maturity at a fixed rate of 0.42% per month and repayable within twelve months from the drawdown date.

As at 30 June 2018, the total loan balance provided to Zhonglian Cardiovascular Hospital in aggregate amounted to RMB100.0 million (31 December 2017: RMB100.0 million). Such loan balance represented less than 6% 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 2018.

Furthermore, during the current period, the Group entered into the acquisition agreement to acquire the 60% equity interest of Zhonglian Cardiovascular Hospital. The acquisition was completed on 31 July 2018 and Zhonglian Cardiovascular Hospital has become a non-wholly-owned subsidiary of the Company. As at 30 June 2018, the Group paid a deposit in respect of the acquisition amounting to RMB81.0 million. The Board considers that full integration and consolidation of Zhonglian Cardiovascular Hospital into the Group's operations will enable the Group to benefit from the operating prospects of Zhonglian Cardiovascular Hospital to a greater extent in the long term compared to the current management arrangement.

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.

Cash Management Activities

As part of the Group's cash management, the Group has from time to time invested into investment products issued by a reputable PRC commercial bank with terms ranging from 90-96 days and portfolio investment funds to achieve higher interest income without interfering with business operations or capital expenditures. The investment products are not rated by any credit agency but is classified as low-risk by the issuing bank and listed securities with low risk profile. 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.

Save as disclosed in this announcement, the Group had no significant investment, acquisition or disposal during the Reporting Period and there had not been any significant event 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 2018 was RMB34.8 million (six months ended 30 June 2017: RMB25.1 million). The Group has financed its capital expenditure through cash flows generated from operating activities.

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 2018, of the net proceeds from the initial public offering, (i) RMB33.8 million, representation approximately 4.3% of the net proceeds, has been utilised and used as general working capital; (ii) RMB15.0 million, representing approximately 1.9% of the net proceeds, has been utitlised and used on expansion of our current operations and upgrading our hospital's facilities; and (iii) RMB97.2 million, representing approximately 12.4% of the net proceeds, has been utitlised and used for acquisition and potential acquisition of businesses. As at 30 June 2018, out of the balance of the unutilised net proceeds of RMB636.7 million, RMB535.1 million has been used to purchase certain financial products (classified as financial assets at FVTPL/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 2018, the Group had no bank borrowings (31 December 2017: nil). As at 30 June 2018, the Group had no banking facilities (31 December 2017: nil).

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 2018, the total stated claim amount of the Group's on-going medical disputes was approximately RMB8.2 million (31 December 2017: RMB7.1 million) and there were certain medical disputes without claim amount stated. Based on the Group's assessment, during the six months ended 30 June 2018, approximately RMB0.8 million (six months ended 30 June 2017: RMB0.4 million) had been provided and included in accounts and other payables of the Group.

As at 30 June 2018, 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 2018, none of the Group's assets had been pledged (31 December 2017: 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 hospitals and rehabilitation centres operations. As at 30 June 2018, the future aggregate minimum lease payments under non-cancellable lease agreements were RMB281.8 million (31 December 2017: RMB270.7 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 2018, the capital commitments in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements were RMB79.4 million (31 December 2017: RMB82.8 million).

Financial Instruments

The Group's financial instruments primarily consisted of accounts and other receivables, financial assets at FVTPL/available-for-sale investments, bank balances and cash, restricted bank balances, accounts and other payables and amounts due to a shareholder. 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 2018, the Group's gearing ratio (total interest-bearing bank loans divided by total equity and multiplied by 100%) was zero (2017: zero).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: 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 Hong Kong Listing Rules 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 six months ended 30 June 2018 and has opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

The 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 2018 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 2018 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 2018 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
31 August 2018

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

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

Non-executive Director:
Mr. Lv Yubo

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond control of the Group. These forward-looking statements may prove to be incorrect and may not be realized in the future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Furthermore, this announcement also contains statements based on the Group's management accounts, which have not been audited or reviewed by the Group's auditor. Shareholders and potential investors should therefore not place undue reliance on such statements.

* *English translated name for identification purpose only.*