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PHOENIX HEALTHCARE GROUP 凤凰医疗集团

Phoenix Healthcare Group Co. Ltd
鳳凰醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1515)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2013

FINANCIAL HIGHLIGHTS

	Year ended December 31,	
	2013	2012
	(RMB'000)	*(RMB'000)*
Revenue	**887,354**	758,032
Profit and total comprehensive income for the year attributable to:		
Equity holders of the Company	**89,992**	101,088
Earnings per share		
— basic (RMB yuan per share)	**0.16**	0.19
— diluted (RMB yuan per share)	**0.16**	N/A
Proposed final dividend per share (HK$ per share)	**6.7 cents**	—

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

China Healthcare Industry

China is one of the world's largest medical service markets. In recent years, China's healthcare expenditure has seen rapid growth. However, the healthcare expenditure only accounted for 5.6% of Chinese GDP in 2012, a figure far below that of developed nations, representing a vast room for future growth of the Chinese medical service markets. As the major revenue contributor of healthcare service, Chinese hospitals recorded a total revenue of nearly RMB1,494.2 billion in 2012, and the figure is expected to grow to RMB3,098.7 billion by 2017.

On September 28, 2013, Chinese State Council promulgated Opinions on Promoting the Growth of Medical Service Sector (《關於促進健康服務業發展的若干意見》), which includes hospital reform in the comprehensive healthcare reform program and suggests optimization of medical service resources and acceleration of public hospital reform. The decree encourages local governments to offer healthcare services to the general public by more flexible approaches including setting up new hospitals, privatization of existing public hospitals, state-found-private-run mechanism, and further easing of restrictions on number, scale and location of for-profit hospitals and quantity of large medical equipments. On the 3rd Plenary Session of the 18th CPC Central Committee held on November 12, 2013, proposals were approved to further clarify the decisive roles of market in economic development, thus laying a key foundation for the deepening of the healthcare system reform, particularly the development of private hospitals and the reform of public hospitals.

Public Listing

As a pioneer of China's public hospital reform, the Group boasts rich experience in both public hospital reform and collective management of hospitals.

On November 29, 2013, the Group successfully completed its IPO on the main board of the Stock Exchange, making it the largest private hospital group ever listed on the exchange. The IPO has enabled the Group to further develop its channels for financing, and pave a way for the Group to continuously expand its existing network of hospitals and clinics, strengthen its group management and enhance its main businesses.

Industry Outlook

China's huge and fast-growing medical service market is only at the early stage of the opening up process, and the government has already started the privatization process of public hospitals, and escalated industrialization of healthcare service to the level of national development strategy, unveiling vast opportunities for investing in China's medical service industry.

Aging population, prevalence of chronic diseases, increase of medical service popularity and improvement of general public's affordability give sustainable and steady impetus to the growth of China's medical service market.

As the most time honored and the largest private healthcare group in China's medical service industry, the Group has been acknowledged and accredited by the government and state-owned enterprises.

Development Strategies

Growth strategies: strengthen market leadership through further expansion of our network of hospitals and clinics

- Continue to take part in public hospital reform and realize Group expansion and growth
- Focus on Beijing region which continues to be the Group's major market

Efficiency improvement strategies: further centralize key functionalities and standardize the operations of in-network hospitals and clinics to generate synergies

- Further consolidating the supply chain of our in-network hospitals and clinics
- Foster medical knowledge and expertise across our in-network hospitals and clinics via doctor sharing and cross referral
- Realize more efficient use of hospital facilities within the Group, for example, establish a central diagnosis and testing centre to enable more services at lower cost for our in-network hospitals and clinics
- Employ enterprise resource planning to monitor financial and operational data as well as to facilitate management decision making

Quality strategies: attract senior medical talents with a more advanced platform

- Implement Joint Commission International management on a comprehensive basis by employing more advanced clinical equipments and cultivating prestige clinical specialties in an orderly manner including cardiovasology, tumor, nerve, etc.

High-end medical service market: capitalize on the advantages of the Group and gradually expand its high-end medical service business.

FINANCIAL REVIEW

Segment Revenue

We derive revenue from our in-network hospitals and clinics via three sources: (i) general hospital services provided at Jian Gong Hospital and Beijing Easylife, (ii) hospital management services where we manage and collect management fees from our IOT hospitals and clinics, and (iii) supply chain business where we supply pharmaceuticals, medical devices and medical consumables to our in-network hospitals and clinics.

General hospital services

Revenue from our general hospital services segment is derived from Jian Gong Hospital and from premium healthcare services offered under Phoenix VIP services at Beijing Easylife. General hospital services revenue consists of primarily fees generated from the provision of outpatient and inpatient services, including fees for healthcare services, pharmaceuticals and medical devices and medical consumables. The following table sets out the revenue, cost of sales and services and gross profit contributed by our general hospital services segment during the periods indicated:

	Year ended December 31,	
	2013	2012
	(RMB'000)	*(RMB'000)*
Revenue	**470,435**	403,109
Cost of sales and services	**(384,898)**	(328,831)
Gross profit	**85,537**	74,278

Revenue from our general hospital services segment reached RMB470.4 million, represented a year-on-year increase of 16.7% and accounted for 53.0% of our total revenue for FY2013, as a result of growth in total patient visits and average spending per patient visit. The number of total patient visits at Jing Gong Hospital reached a new record of approximately 695,700 (FY2012: approximately 609,400), comprising of approximately 684,900 outpatient visits (FY2012: approximately 597,900) and 10,800 inpatient visits (FY2012: approximately 11,500). Inpatient visits were affected partly by the refurbishment and temporary closure of certain wards in Jing Gong Hospital, thereby decreasing the number of surgeries undertaken in FY2013. The average spending per outpatient visit increased to approximately RMB439 (FY2012: approximately RMB417), while there was also an improvement in average spending per inpatient visit to approximately RMB15,558 (FY2012: approximately RMB13,127) partly attributable to more advanced operations undertaken in the hospital.

The cost of sales and services of our general hospital services represents primarily costs of provision of healthcare services at Jian Gong Hospital, including costs of pharmaceuticals, medical devices and medical consumables, staff costs, and depreciation and amortization expenses.

In tandem with its continuous business expansion, Jian Gong Hospital's cost of sales and services grew to RMB384.9 million, represented a year-on-year increase of 17.1%. The gross profit margin remained stable at 18.2% (FY2012: 18.4%).

Hospital management services

We managed and operated a total of ten general hospitals, one traditional Chinese medicine hospital and 28 community clinics under the IOT model in FY2013. In return, we were entitled to receive from each hospital or the hospital owners management fee, primarily calculated with reference to percentage of revenue and/or net income before tax (收支結餘) generated by our IOT hospitals and clinics. Accordingly, the management fees we receive depend on the performance of such hospitals and clinics. For certain hospitals, our management fees are dependent on profitability and performance reviews.

Revenue from our hospital management services segment was RMB40.8 million, represented a year-on-year increase of 1.2% and accounted for 4.6% of our total revenue for FY2013. The following table sets out the revenue, cost of sales and services and gross profit contributed by our hospital management services segment during the periods indicated:

	Year ended December 31,	
	2013	2012
	(RMB'000)	*(RMB'000)*
Revenue	**40,765**	40,277
Cost of sales and services	**(14,074)**	(12,376)
Gross profit	**26,691**	27,901

	Year ended December 31,	
	2013	2012
	(RMB'000)	*(RMB'000)*
Yan Hua Hospital Group	**21,248**	22,626
Mentougou Hospital	**3,445**	5,438
Jing Mei Hospital Group	**12,305**	12,213
Mentougou Traditional Chinese Medicine Hospital	**3,767**	—
Total	**40,765**	40,277

The management fee from Yan Hua Hospital Group was RMB21.2 million, represented a decrease of 6.1% from FY2012. Despite an increase in revenue due to more patient visits and higher average spending per patient visit, Yan Hua Hospital Group's increased staff costs outpaced revenue increase, leading to a decrease in net income before tax and hence our management fee. The increase in staff costs was due to upward adjustments of base salary and one-off bonus payment, as well as an increase in the number of employees, which was in line with the management's strategy of further improving the service quality of the hospital group.

The management fee from Mentougou Hospital was RMB3.4 million, represented a decrease of 36.6% from FY2012. The increase in patient visits received by Mentougou Hospital and higher average spending per patient visit were offset by higher cost of services mainly due to increased staff costs and pharmaceutical costs. As a result, the hospital's net income before tax decreased, thereby reducing our management fee.

The management fee from Jing Mei Hospital Group was RMB12.3 million, represented an increase of 0.8% from FY2012. The increase in patient visits was partially offset by a decrease in average spending per inpatient visit, leading to marginal increase in the hospital group's net income before tax and hence our management fee.

The management fee from Mentougou Traditional Chinese Medicine Hospital was RMB3.8 million. As agreed with the Mentougou government, we were not entitled to any management fee for our first six-month management service for Mentougou Traditional Chinese Medicine Hospital in FY2012. The hospital witnessed increase in number of patient visits as well as higher average spending per patient visit in FY2013.

The cost of sales and services of our hospital management services represents the amortization of intangible assets which were all or part of the investments we made pursuant to the IOT agreements.

Our hospital management services incurred cost of sales and services of RMB14.1 million, represented a year-on-year increase of 13.7% due to an additional RMB10 million investment in Yan Hua Hospital Group in July 2013 and the first full year amortization of investments of RMB20 million and RMB25 million made in the Yan Hua Hospital Group and Mentougou Traditional Chinese Medicine Hospital, respectively, in 2012. Since the increased cost of sales and services outpaced revenue increase, the gross profit margin of our hospital management services segment decreased to 65.5% (FY2012: 69.3%).

Supply chain business

Our supply chain business segment revenue is primarily derived from sales of pharmaceuticals, medical devices and medical consumables to the IOT hospitals and clinics. The following table sets out the revenue, cost of sales and services and gross profit contributed by our supply chain business segment during the periods indicated:

	Year ended December 31,	
	2013	2012
	(RMB'000)	*(RMB'000)*
Revenue	**479,682**	431,020
Cost of sales and services	**(379,217)**	(348,395)
Gross profit	**100,465**	82,625

Our supply chain business segment revenue grew to RMB479.7 million, represented an increase of 11.3% from FY2012, primarily attributable to increased patient visits and our effort to further consolidate the procurement need of our in-network hospitals and clinics. Segment revenue from sales to Jiang Gong Hospital amounted to RMB103.5 million was recorded as inter-segment revenue and eliminated from the total revenue. After such inter-segment elimination, our supply chain business segment accounted for 42.4% of our total revenue for FY2013. The total number of patient visits at our in-network hospitals and clinics continuously increased to approximately 3.4 million (FY2012: approximately 3.1 million) in FY2013. During the year, we also started to independently supply pharmaceuticals to Mentougou Hospital and Mentougou Traditional Chinese Medicine Hospital in addition to the Hong Hui supply arrangement for Jian Gong Hospital, Yan Hau Hospital Group and Jing Mei Hospital Group.

The cost of sales and services of our supply chain business segment represents the procurement costs of pharmaceuticals, medical devices and medical consumables for resale to the our in-network hospitals and clinics. Our supply chain business segment incurred cost of sales and services of RMB379.2 million, represented a year-on-year increase of 8.8% from FY2012. The gross profit margin of our supply chain business segment improved to 20.9% (FY2012: 19.2%), primarily due to (i) greater volume discounts we were able to secure from our suppliers as a result of further consolidation of procurement needs of our in-network hospitals and clinics, and (ii) the implementation of supply agreement with Hong Hui since 2012, which was remained in force in FY2013. Pursuant to this agreement, we provide Hong Hui with the consolidated pharmaceutical orders of Jian Gong Hospital, Yan Hua Hospital Group and Jing Mei Hospital Group, except for certain Excluded Pharmaceuticals. In consideration for granting Hong Hui the priority to supply pharmaceuticals to these three hospitals, Hong Hui agrees to provide us with a minimum economic benefit ("MEB") and pay us the difference if the gross profit we generate from resale of pharmaceuticals is less than the MEB.

In FY2013, Jian Gong Hospital, Yan Hua Hospital Group and Jing Mei Hospital Group purchased a total of RMB780.6 million of pharmaceuticals, excluding the purchases of Excluded Pharmaceuticals. We were entitled to RMB109.3 million MEB pursuant to our supply agreement with Hong Hui, of which RMB58.7 million was recorded as fee income. Our gross profit margin of our supply chain business segment would have been 15.3% (2012: 14.4%) had we (a) reflected in the revenue of our supply chain business the purchases of pharmaceuticals by such three hospitals from Hong Hui and other suppliers arranged by Hong Hui; and (b) recorded in the gross profit of supply chain business the total fee income payment pursuant to the supply agreement with Hong Hui.

Gross Profit

Our overall gross profit reached RMB212.7 million, represented a year-on-year increased of 15.1%. Overall gross profit margin, however, decreased slightly to 24.0% (FY2012: 24.4%), reflecting a decrease in revenue contribution and gross profit margin of our hospital management services segment, which commanded a higher profit margin than other business segments, in spite of higher revenue contribution and improved gross profit margin of our supply chain business. Revenue contribution and gross profit margin of our general hospital services segment remained stable.

Other Income

Other income surged to RMB71.1 million, represented a year-on-year increase of 89.3%, mainly due to increase fee income from Hong Hui and suppliers arranged by Hong Hui, and interest derived from receivables from our IOT hospitals.

Other Gains and Losses

There was a foreign exchange loss of RMB7.0 million from our Hong Kong dollar denominated bank balance as a result of weakening of Hong Kong dollar against Renminbi.

Selling and Distribution Expenses

We enhanced our business development initiatives of our supply chain business segment and accordingly selling and distribution expenses, in particular staff costs, increased to RMB8.4 million, represented a year-on-year increase of 30.2%. We have been striving to increase our selling and distribution expenses cautiously in line with our supply chain business expansion.

Administrative Expenses

We incurred administrative expenses of RMB65.8 million, represented a year-on-year increase of 51.2%, primarily attributable to increased professional service fees and logistic expenses, and higher staff costs of our general hospital services and supply chain business.

Finance Costs

Our finance costs increased significantly to RMB35.2 million, represented a year-on-year increase of 44.3%, mainly attributable to increased interest expenses related to our RMB250 million borrowing at an annual interest rate of 12.0% from Speed Key Limited for the purpose of group restructuring for IPO. The loan was repaid upon IPO.

Other Expenses

It was predominately due to RMB22.1 million expenses incurred in relation to IPO, our other expenses surged by 22.2 times from FY2012.

Income Tax Expenses

The income tax charge increased to RMB46.9 million, represented a year-on-year increase of 28.2% despite a reduced profit before tax of RMB143.0 million (FY2012: RMB147.3 million) mainly due to the expense not deductible for tax purposes arising from the Company and overseas subsidiaries of RMB44.3 million (FY2012: nil).

Net Profit

Profit attributable to shareholders amounted to RMB90.0 million, represented a year-on-year decrease of 11.0%. The unaudited adjusted net profit attributable to shareholders derived by excluding one-off items relating to our IPO was approximately RMB139.0 million.

FINANCIAL POSITION

Inventories

The inventories decreased from RMB35.1 million as at December 31, 2012 to RMB31.1 million as at December 31, 2013, primarily due to decrease in inventories of pharmaceuticals.

Trade Receivables

As at December 31, 2013, the balance of trade receivables remained stable at RMB83.8 million (December 31, 2012: RMB83.0 million).

Trade and Other Payables

As at December 31, 2013, the balance of trade payables was RMB123.9 million (December 31, 2012: RMB122.3 million), arising from the purchase of pharmaceuticals, medical devices and medical consumables from our suppliers.

The Group's other payables remained stable at RMB54.1 million as at December 31, 2013 (December 31, 2012: RMB53.8 million).

Net Current Assets Position

As at December 31, 2013, the Group's net current assets amounted to RMB1,070.5 million.

LIQUIDITY AND CAPITAL RESOURCES

The following sets forth the information in relation to our Group's consolidated statement cash flows during the periods indicated:

	Year ended December 31,	
	2013	2012
	(RMB'000)	*(RMB'000)*
Net cash flow from operating activities	**169,676**	166,419
Net cash flow used in investing activities	**(841,754)**	(102,200)
Net cash flow from (used in) financing activities	**971,280**	(282,083)
Net increase (decrease) in cash and cash equivalents	**299,202**	(217,864)

Significant Investments, Acquisitions and Disposals

Save as the reorganisation stated in the Prospectus of the Company, the Group had no significant acquisitions and disposals during FY2013.

Capital Expenditures

Our capital expenditures principally consist of expenditures in respect of acquisition of property, plant and equipment and repayable investment amount to our in-network IOT hospitals and clinics during FY2013 and 2012. The amount of capital expenditures of the Group were approximately RMB31.3 million during FY2013.

Use of Net Proceeds from the Initial Public Offering

The shares of our Company were listed on the main board of the Hong Kong Stock Exchange on November 29, 2013 and on December 1, 2013 with net proceeds from the IPO of approximately HK$1,634 million (equivalent to RMB1,292 million) after deducting underwriting commissions and all related expenses. As at the date of this announcement, the Company does not anticipate any change to its plan on the use of proceeds as stated in the Prospectus.

INDEBTEDNESS

Borrowings

As at December 31, 2013, the Group's borrowings were RMB200 million, representing a decrease by RMB33.1 million from December 31, 2012, which was due to termination of a finance lease.

Contingent Liabilities

As at December 31, 2013, the Group did not have any material contingent liabilities or guarantees.

Pledge of Assets

As at December 31, 2013, the borrowing from CITIC Trust Co., Ltd of RMB200 million was secured by 53.51% equity interest in Jian Gong Hospital. The borrowing contract was early terminated on January 17, 2014, and the remaining balance of the borrowing as at December 31, 2013 was fully settled on the same date.

Contractual Obligations

As at December 31, 2013, our contractual obligations amounted to approximately RMB68.7 million, and decreased by RMB5.9 million as compared to approximately RMB74.6 million as at December 31, 2012, primarily due to decrease in the outstanding commitment for investment to Yan Hua Hospital Group. The Group made an additional RMB10 million investment in Yan Hua Hospital Group in July 2013.

Gearing Ratio

On the basis of total interest-bearing liabilities divided by total assets, the Group's gearing ratio was 9.4% (FY2012: 23.4%).

EMPLOYEE AND REMUNERATION POLICY

As at December 31, 2013, the Group had a total of 861 full time employees (December 31, 2012: 829 employees). For FY2013, the staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB108.5 million (FY2012: RMB87.1 million).

The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis, together with reference to the profitability of the Group, prevailing remuneration benchmarks in the industry, and market conditions within the general framework of the Group's remuneration system.

The Group has also adopted a share option scheme to provide an incentive or reward to eligible participants for their contribution or potential contribution to the Company and/or any of its subsidiaries.

FINAL DIVIDEND

The Board proposed payment of a final dividend of HK$6.7 cents per share for FY2013 (FY2012: nil). The proposed final dividend will be payable to shareholders whose names appear on the register of members of the Company on Tuesday, June 10, 2014.

OTHER INFORMATION

Annual General Meeting

The 2014 annual general meeting of the Company will be held on Thursday, June 5, 2014 (the "AGM"). A notice convening the AGM will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

Closure of Register of Members

For determining the qualification of members to attend and vote at the annual general meeting to be held on Thursday, June 5, 2014, the register of members of the Company will be closed from Tuesday, June 3, 2014 to Thursday, June 5, 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify as members to attend and vote at the Meeting, investors are urged to lodge all transfers of shares accompanied by the relevant share certificates and transfer forms with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, May 30, 2014.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, June 12, 2014 to Monday, June 16, 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, June 11, 2014.

CORPORATE GOVERNANCE PRACTICE

The Board is dedicated to establishing a sound corporate governance system for ensuring the formality and transparency of the procedures while safeguarding the interests of shareholders. The Company has applied the principles as set out in the CG Code as its own code of corporate governance and confirms that it has complied with all material code provisions and most of the recommended best practices under the CG Code throughout the period from the Listing Date to December 31, 2013, save for the deviations from code provisions which were primarily due to the short period of time since the Listing Date of the Company's shares as described below. The Company is committed to making necessary arrangements to comply with all the code provisions in due course.

According to code provision A.1.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals. There was only one Board meeting held during the year ended December 31, 2013 as the Company was just listed on November 29, 2013.

According to code provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. the Board believes that vesting the roles of both Chairman and Chief Executive Officer in an experienced and qualified person such as Mr. Liang provides the Company with strong and consistent leadership while allowing for effective and efficient planning and implementation of business decisions and strategies.

According to code provision A.2.7 of the CG Code, the chairman of the Board should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. Since the Company was just listed on November 29, 2013, the Chairman has not held such meeting. The Chairman has held a meeting with the non-executive Directors (including independent non-executive Directors) without the executive Directors present on March 28, 2014.

Further information of the corporate governance practice of the Company will be set out in the corporate governance report in the annual report of the Company for the year ended December 31, 2013.

MODEL CODE FOR SECURITIES TRANSACTIONS

At the Board meeting held on November 4, 2013, the Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors.

Having made specific enquiry, the Company confirmed that all members of the Board complied with the Model Code during the period from the Listing Date to December 31, 2013.

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

For the period from the Listing Date to December 31, 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Save as i) the hospital management right and investment framework agreement on February 1, 2008, and a hospital investment management agreement on February 4, 2008, which were supplemented in April 2008, December 2010, June 2011, June 2013, July 2013, September 2013 and October 2013 respectively between Beijing Phoenix, our wholly-owned subsidiary, Yan Hua Hospital Group and Yan Hua Phoenix (collectively, the "Yan Hua IOT Agreement") and ii) the sales agreement whereby Beijing Wanrong and Beijing Jiayi, wholly-owned indirect subsidiaries, supply pharmaceuticals, medical device and medical consumables to Yan Hua Hospital Group on a recurring basis, none of the Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended December 31, 2013.

The historical amount of management fee contemplated under the Yan Hua IOT Agreement for the financial year ended December 31, 2013 is RMB21.2 million, which exceeded the existing annual cap of RMB17.8 million for that year. Pursuant to Rule 14A.36(10) of the Listing Rules, the Company should re-comply with the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of Listing Rules. The Company will separately announce on the exceeding and revision of the existing annual caps.

AUDIT COMMITTEE

The Audit Committee was established by the Board at the time of the listing of the Company's shares on the Hong Kong Stock Exchange on November 4, 2013. The Audit Committee has its written terms of reference adopted in compliance with the CG Code. As at the date of this announcement, the Audit Committee comprises four independent non-executive Directors.

The Audit Committee is responsible for making recommendations to the Board for the appointment and removal of external auditors, reviewing financial statements and advising on the significant issues on financial reporting as well as monitoring the internal control procedures of the Company. The Audit Committee has reviewed the annual results of the Group for the year ended December 31, 2013.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2013 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of HKEx (www.hkexnews.hk) and the Company (www.phg.com.cn), and the 2013 annual report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the above websites in due course.

The board of directors (the "Board") of Phoenix Healthcare Group Co. Ltd (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2013 together with the comparative figures for the year ended December 31, 2012.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2013

		For the year ended December 31,	
		2013	2012
	Notes	***RMB'000***	*RMB'000*
Revenue	*4*	**887,354**	758,032
Cost of sales and services		**(674,660)**	(573,228)
Gross profit		**212,694**	184,804
Other income	*5*	**71,133**	37,584
Other gains and losses	*6*	**(6,990)**	236
Selling and distribution expenses		**(8,351)**	(6,412)
Administrative expenses		**(65,782)**	(43,500)
Finance costs	*7*	**(35,184)**	(24,379)
Other expenses	*8*	**(24,511)**	(1,055)
Profit before tax		**143,009**	147,278
Income tax expense	*9*	**(46,865)**	(36,544)
Profit and total comprehensive income for the year	*10*	**96,144**	110,734
Profit and total comprehensive income for the year attributable to:			
Equity holders of the Company		**89,992**	101,088
Non-controlling interests		**6,152**	9,646
		96,144	110,734
Earnings per share			
— basic (RMB yuan per share)	*11*	**0.16**	0.19
— diluted (RMB yuan per share)	*11*	**0.16**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2013

	Notes	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	12	**123,249**	121,522
Intangible assets	13	**317,249**	323,173
Receivables from invest-operate-transfer ("IOT") hospitals	14	**51,184**	48,478
Lease prepayments for land use right	15	**157,855**	161,318
Deferred tax assets	16	**1,080**	1,158
		650,617	655,649
Current assets			
Inventories	17	**31,050**	35,073
Trade receivables	18	**83,818**	83,010
Prepayments and other receivables	19	**19,462**	16,723
Amounts due from a related party	28	**56,871**	56,831
Short-term investments	20	**176,000**	60,450
Certificate of deposit	21	**704,450**	—
Cash and cash equivalents	21	**401,770**	113,124
		1,473,421	365,211
Current liabilities			
Trade payables	22	**123,886**	122,251
Other payables	23	**54,138**	53,773
Tax payables		**24,895**	19,465
Obligations under finance leases	24	**—**	1,077
Borrowings	25	**200,000**	5,803
		402,919	202,369
Net current assets		**1,070,502**	162,842
Total assets less current liabilities		**1,721,119**	818,491
Non-current liabilities			
Borrowings	25	**—**	227,271
Obligations under finance leases	24	**—**	4,904
Retirement benefit obligations	26	**5,265**	8,558
		5,265	240,733
Net assets		**1,715,854**	577,758

	Note	**2013**	2012
		RMB'000	*RMB'000*
Capital and reserves			
Capital	*27*	**166**	140,580
Share premium		**1,542,270**	—
Reserves		**74,764**	344,676
Equity attributable to equity holders of the Company		**1,617,200**	485,256
Non-controlling interests		**98,654**	92,502
Total equity		**1,715,854**	577,758

1. BASIS OF PREPARATION

Beijing Phoenix, formerly known as Beijing Phoenix United Hospital Management Joint Stock Co., Ltd. (北京鳳凰聯合醫院管理股份有限公司), was incorporated in the PRC as a joint-stock company by Beijing Wantong (as defined in note 28(a)) and Beijing Weike Lai'en Art Design Co., Ltd. (北京維可萊恩藝術設計有限公司) on November 6, 2007 and was then the holding company of the companies comprising the Group before the Reorganisation.

Pursuant to a series of capital injection and equity transfer arrangements from 2007 to 2012, prior to the Reorganisation, Beijing Phoenix was indirectly and beneficially owned by Ms Xu Xiaojie (徐小捷) and Ms Xu Jie (徐捷), who is Ms Xu Xiaojie's mother (collectively referred to as the "Xu's Family") who are acting in concert, certain institutional investors and certain individual shareholders as to 40.58%, 47.15% and 12.27% respectively.

In preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Reorganisation involved the following steps:

(1) Beijing Phoenix was converted into a limited liability company from a joint-stock company on March 8, 2013.

(2) On February 28, 2013, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with authorised share capital comprised of 3,800,000 shares at par value of HK$0.10 per share. On March 19, 2013, one nil paid subscriber share of the Company were transferred to Speed Key Limited, which is owned by the Xu's Family.

(3) On January 7, 2013, Unison Champ was incorporated as a limited liability company in the BVI. On March 13, 2013, the Company acquired 100% equity interest in Unison Champ which was incorporated by a third party as a limited liability company in the BVI. On March 22, 2013, Unison Champ became the sole shareholder of Phoenix International, which was incorporated as a limited liability company in Hong Kong on August 28, 2012.

(4) On April 17, 2013, each ordinary share of the Company with nominal value HK$0.10 was sub-divide into 100 ordinary shares of nominal value of HK$0.001 each.

In May and June 2013, the Company allotted and issued 89,739,900 shares and 46,260,000 shares to certain institutional investors and certain companies beneficially owned by individual shareholders at a consideration of RMB100 million.

(5) From April 9, 2013 to June 3, 2013, the Company, through Phoenix International and Star Target, acquired 100% equity interest in Beijing Phoenix at a total consideration of RMB499.6 million from its then shareholders.

(6) On July 2, 2013, Unison Champ acquired 100% equity interest in Pinyu, who is the sole shareholder of Star Target, from Green Talent Investments Limited ("Green Talent"), and in exchange, the Company allocated and issued 14,680,000 Shares to Green Talent, an institutional investor.

Upon completion of the above steps, the Company was owned by the Xu's Family, certain institutional investors and certain individual shareholders as to 46.02%, 43.63% and 10.35%, respectively, and the Company became the holding company of the companies comprising the Group. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied the IFRSs effective for its financial year ended December 31, 2013 in preparing the consolidated financial statements.

At the date of this report, the following new and revised IFRSs have been issued which are not yet effective. The Group has not early adopted these IFRSs.

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Dates of IFRS 9 and Transition Disclosures[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle[2]
IFRS 9	Financial Instruments[3]
IFRIC 21	Levies[1]

1 Effective for annual periods beginning on or after January 1, 2014

2 Effective for annual periods beginning on or after July 1, 2014

3 Available for application — the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised

4 Effective for annual periods beginning on or after July 1, 2014, with limited exceptions

Except for those as stated below, the adoption of these new and revised IFRSs is not expected to have material impact on the results and the financial position of the Group.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is available for earlier application and the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised.

The directors of the Company anticipate that the adoption of IFRS 9 in the future may not have significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at December 31, 2013. The new requirements on hedge accounting are not expected to have material impact to the Group.

IFRIC 21 "Levies"

IFRIC 21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of IFRIC 21 will have no material effect on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the IFRS. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

4. REVENUE

Revenue represents income from general hospital services, hospital management services, and sale of pharmaceuticals, medical devices and medical consumables under the supply chain business.

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

	For the year ended December 31,	
	2013	2012
	RMB'000	*RMB'000*
General hospital services	**470,435**	403,109
Hospital management services	**40,765**	40,277
Supply chain business	**376,154**	314,646
	887,354	758,032

5. OTHER INCOME

	For the year ended December 31,	
	2013	2012
	RMB'000	*RMB'000*
Fee income from suppliers *(Note)*	**58,686**	28,389
Interest and investment income on:		
bank deposits	**327**	594
short-term investments	**2,446**	2,959
receivables from IOT Hospitals	**7,860**	4,361
Government grant	**450**	150
Others	**1,364**	1,131
	71,133	37,584

Note: On January 10, 2012, the Group entered into a one-year supply agreement with its supplier, Hong Hui Pharmaceutical Co., Ltd. (紅惠醫藥有限公司) ("Hong Hui"), for the supply of pharmaceuticals to Jian Gong Hospital, Yan Hua Hospital and Jing Mei Hospital. The agreement was renewed for one year on December 27, 2012 and additional renewed agreement was signed on October 22, 2013. Under the supply agreement, Hong Hui arranged itself or other suppliers to supply pharmaceuticals to Jian Gong Hospital, Yan Hua Hospital and Jing Mei Hospital through the supply chain subsidiaries of the Group or directly to these three hospitals. In consideration of granting to Hong Hui the priority to supply pharmaceuticals to these three hospitals, Hong Hui agrees to pay the Group an amount calculated based on a percentage of the total pharmaceutical purchases made by Jian Gong Hospital, Yan Hua Hospital and Jing Mei Hospital (the "Minimum Economic Benefit"). The fee income represents the difference between the amount of the Minimum Economic Benefit and the gross profit generated by the Group from the sale of pharmaceuticals to the three hospitals. The fee income was received/receivable from Hong Hui or from other suppliers as arranged by Hong Hui.

6. OTHER GAINS AND LOSSES

	For the year ended December 31,	
	2013	2012
	RMB'000	*RMB'000*
(Loss)/gain and write-off on disposal of property, plant and equipment	**(1)**	236
Foreign exchange loss	**(6,989)**	—
	(6,990)	236

7. FINANCE COSTS

	For the year ended December 31,	
	2013	2012
	RMB'000	*RMB'000*
Interests on borrowings		
wholly repayable within five years	**32,742**	13,046
not wholly repayable within five years	**—**	837
Guarantee fee for the borrowings	**—**	10,022
Interest on finance leases	**2,442**	474
	35,184	24,379

8. OTHER EXPENSES

	For the year ended December 31,	
	2013	2012
	RMB'000	*RMB'000*
Expenses in relation to the listing	**22,078**	—
Medical disputes expenditure	**2,376**	332
Donation	**23**	500
Others	**34**	223
	24,511	1,055

9. INCOME TAX EXPENSE

Income tax expense recognised in profit or loss:

	For the year ended December 31,	
	2013	2012
	RMB'000	*RMB'000*
Current tax:		
PRC enterprise income tax ("EIT")	**46,787**	37,415
Deferred tax *(Note 16)*	**78**	(871)
Total income tax recognised in profit or loss	**46,865**	36,544

The PRC subsidiaries of the Group are subject to EIT at 25% during the year.

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during both years.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	For the year ended December 31,	
	2013	2012
	RMB'000	*RMB'000*
Profit before tax	**143,009**	147,278
Tax calculated at statutory tax rates of 25%	**35,752**	36,820
Tax effect of expenses not deductible for tax purposes	**11,113**	64
Others	**—**	(340)
Income tax expense	**46,865**	36,544

10. PROFIT FOR THE YEAR

The Group's profit for the year has been arrived at after charging:

	For the year ended December 31,	
	2013	2012
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**18,968**	20,325
Amortisation of lease prepayments for land use right	**3,463**	3,463
Amortisation of intangible assets		
(Included in cost of sales and services)	**14,074**	12,376
Total depreciation and amortization	**36,505**	36,164
Cost of inventories recognised as expense	**557,026**	437,209
Operating lease rentals in respect of rented premises	**2,022**	703
Directors' emoluments	**6,625**	4,532
Other staff cost		
Salaries and other allowances	**96,144**	77,802
Retirement benefit contributions	**5,696**	4,796
Total staff costs	**108,465**	87,130
Auditor's remuneration	**2,300**	1,015

11. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Group is based on the following data:

	For the year ended December 31,	
	2013	2012
	RMB'000	*RMB'000*
Earnings		
Profit for the purpose of basic and diluted earnings per share for the year attributable to equity holders of the Company	**89,992**	101,088
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	**575,793**	524,805
Effect of dilutive potential ordinary shares: the over-allotment option (in thousands)	**43**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	**575,836**	N/A

The calculation of the basic earnings per share is based on the consolidated profit of the Group attributable to equity holders of the Company for the years ended December 31, 2013 and 2012 and weighted average number of 575,793,000 shares and 524,805,000 shares of the Company for the year ended December 31, 2013 and 2012 respectively after taking into account the effect of the Reorganisation and the subdivision of shares. (details refer to Note 1 and 27).

No diluted earnings per share is presented for the year ended December 31, 2012 as the Company does not have any potential ordinary shares outstanding during the year.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold Improvement	Medical equipment	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At January 1, 2012	70,477	21,465	73,678	3,394	6,896	9,059	184,969
Additions	—	—	39,833	405	2,306	5,065	47,609
Transfer	—	9,943	—	—	—	(9,943)	—
Disposals/write-off	—	—	(6,192)	(867)	(221)	—	(7,280)
At December 31, 2012	70,477	31,408	107,319	2,932	8,981	4,181	225,298
Additions	—	—	15,765	182	2,051	2,738	20,736
Transfer	—	6,356	—	—	—	(6,356)	—
Disposals/write-off	—	—	(38,171)	(1,320)	(1,451)	—	(40,942)
At December 31, 2013	70,477	37,764	84,913	1,794	9,581	563	205,092
ACCUMULATED DEPRECIATION							
At January 1, 2012	28,500	4,295	51,892	2,503	3,496	—	90,686
Charge for the year	3,695	3,529	11,811	264	1,026	—	20,325
Eliminated on disposals/write-off	—	—	(6,179)	(867)	(189)	—	(7,235)
At December 31, 2012	32,195	7,824	57,524	1,900	4,333	—	103,776
Charge for the year	3,822	3,616	9,865	294	1,371	—	18,968
Eliminated on disposals/write-off	—	—	(38,133)	(1,320)	(1,448)	—	(40,901)
At December 31, 2013	36,017	11,440	29,256	874	4,256	—	81,843
CARRYING AMOUNT							
At December 31, 2012	38,282	23,584	49,795	1,032	4,648	4,181	121,522
At December 31, 2013	34,460	26,324	55,657	920	5,325	563	123,249

Buildings are located in the PRC on a medium-term land use right, which was contributed to Jian Gong Hospital by a non-controlling shareholder in May 2011 (see Note 15).

The above items of property, plant and equipment other than construction in progress are depreciated over their useful lives, after taking into account the estimated residual value, on a straight-line basis:

Buildings	20 years
Leasehold improvement	5–10 years
Medical equipment	5–8 years
Motor vehicles	5 years
Office equipment	3–5 years

As at December 31, 2013, the carrying amount of medical equipment of nil (December 31, 2012: RMB6,204,000) held under finance lease are pledged to secure the lease payments (see Note 24).

As at December 31, 2013, the carrying amount of medical equipment of nil (December 31, 2012: RMB26,765,000) were pledged to secure a borrowing granted to the Group (see Note 25).

13. INTANGIBLE ASSETS

The intangible assets of the Group represent operating rights under IOT agreements. The intangible assets have finite useful lives, and are amortised on a straight-line basis over the operating period set out in the IOT agreements which ranged from 19 to 48 years.

	For the year ended December 31,	
	2013	2012
	RMB'000	*RMB'000*
Cost:		
At beginning of the year	**343,138**	163,045
Additions:		
Payments made to contributors	**—**	150,000
Differences between the Repayable Investment Amounts made to IOT Hospitals and the fair value of the Repayable Investment Amounts upon initial recognition *(Note)*	**8,150**	30,093
At the end of the year	**351,288**	343,138
Accumulated amortization:		
At beginning of the year	**(19,965)**	(7,589)
Charge for the year	**(14,074)**	(12,376)
At the end of the year	**(34,039)**	(19,965)
Carrying amount at the end of the year	**317,249**	323,173

Note: Since the Repayable Investment Amounts are part of the respective IOT arrangements which the Group have been granted the operating rights of the IOT Hospitals in return, the differences between the Repayable Investment Amounts to the IOT Hospitals and the fair value of the Repayable Investment Amounts determined upon initial recognition are therefore accounted for as part of the IOT operating rights classified as intangible assets, and subject to amortization charges (included in cost of sales and services in the consolidated statements of profit or loss and other comprehensive income) over the operating period of the respective IOT arrangements.

14. RECEIVABLES FROM IOT HOSPITALS

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Receivables from the IOT Hospitals	**57,757**	55,098
Less: current portion included in prepayments and other receivables *(Note 19)*	**(6,573)**	(6,620)
Non-current portion	**51,184**	48,478

The Group made investment that will be repaid back to the Group ("Repayable Investment Amounts") to the IOT Hospitals in return for the operating rights of the IOT Hospitals over a tenure ranging from 19 to 48 years. These Repayable Investment Amounts are interest free and will be repaid to the Group in equal annual instalments during the tenure of the IOT arrangements. The carrying amount of these interest free Repayable Investment Amounts made by the Group to IOT Hospitals that will be repaid back to the Group is recorded as Receivables from IOT Hospitals and was measured at fair value upon initial recognition and subsequently carried at amortised cost using the effective interest method at an effective interest rate of 11% per annum over the tenure of the respective IOT arrangements.

15. LEASE PREPAYMENTS FOR LAND USE RIGHT

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Cost:		
At beginning of the year	**170,552**	170,552
Addition	**—**	—
At the end of the year	**170,552**	170,552
Accumulated amortization:		
At beginning of the year	**(5,771)**	(2,308)
Charge for the year	**(3,463)**	(3,463)
At the end of the year	**(9,234)**	(5,771)
Carrying amount at the end of the year	**161,318**	164,781

Analyse for reporting purpose as:

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Current portion included in prepayments and other receivables *(Note 19)*	**3,463**	3,463
Non-current portion	**157,855**	161,318
	161,318	164,781

The leasehold land with the land use right is held under medium-term leases and is situated in the PRC. In May 2011, the land use right was contributed by a non-controlling shareholder of Jian Gong Hospital, Beijing Construction Engineering Group, as a non-cash capital injection and was amortised over the remaining lease term of 49.3 years. The amount of the land use right is determined as the appraised value by a Chinese Certified Public Valuer , Beijing Tengqi Certified Public Valuators Co., Ltd (北京騰騏資產評估有限公司), located at 81 Zizhuyuan Road, Haidian District, Beijing, PRC, with the valuation report "Jing Teng Ping Bao Zi (京騰評報字) (2010) No. 020".

16. DEFERRED TAX ASSETS

The movement of the Group's deferred tax assets during the year is as follows:

	Accrued expenses	**Total**
	RMB'000	*RMB'000*
At January 1, 2012	287	287
Credit to profit or loss	871	871
At December 31, 2012	1,158	1,158
Charge to profit or loss	(78)	(78)
At December 31, 2013	1,080	1,080

Under the PRC EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profit of the PRC subsidiaries amounting to RMB276,871,000 as at December 31, 2013 (December 31, 2012: RMB153,277,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

17. INVENTORIES

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Pharmaceuticals	**24,713**	30,936
Medical devices and medical consumables	**6,337**	4,137
	31,050	35,073

18. TRADE RECEIVABLES

The Group allows a credit period of approximately 60 days for the general hospital service to the patients which is due from medical insurance programs, 60 days to 120 days for the sales of pharmaceutical, medical devices and consumables to the IOT Hospital, and 90 days to 180 days for the hospital management services to the IOT Hospitals after issuing the invoice. The following is an aged analysis of trade receivables presented based on the invoice date.

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Unbilled or within 60 days	**78,579**	64,907
61 to 180 days	**5,239**	18,103
	83,818	83,010

Trade receivables disclosed above were neither past due nor impaired. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date that credit were initially granted up to the end of each reporting period.

19. PREPAYMENTS AND OTHER RECEIVABLES

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Current portion of receivables from IOT Hospitals	**6,573**	6,620
Current portion of lease prepayment for land use right	**3,463**	3,463
Prepaid value-added tax	**3,920**	4,955
Fee income receivables	**2,628**	665
Prepaid rental	**894**	—
Others	**1,984**	1,020
	19,462	16,723

20. SHORT-TERM INVESTMENTS

The Group's short-term investments mainly represent investments in financial products operated by banks, with expected annual return ranging from 2.5% to 6.5% per annum which have been designated at fair value through profit or loss. The short-term investments as at December 31, 2013 were matured in January 2014 (December 31, 2012: January 2013).

There were no significant changes in the counterparties' credit risk and therefore there were no significant gains or losses attributed to changes in credit risk for these financial assets designated at fair value through profit or loss during both years.

21. CERTIFICATE OF DEPOSIT AND CASH AND CASH EQUIVALENTS

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Bank balance and cash (classified as cash and cash equivalents)	**401,770**	113,124
Certificate of deposits	**704,450**	—
	1,106,220	113,124
Cash and cash equivalents and certificate of deposit denominated in:		
— RMB	**793,637**	113,124
— USD	**1,712**	—
— HKD	**310,871**	—
	1,106,220	113,124

Bank balances carried interest at market rates which range from 0.15% to 4.00% per annum over both years. As at the December 31, 2013, the Group had the certificate of deposit of RMB704,450,000 (2012: nil) with interest rate of 4% per annum which will mature on March 17, 2014.

22. TRADE PAYABLES

Trade payables are non-interest bearing and are normally granted on a credit term of 0 to 90 days. An aged analysis of the Group's trade payables, as at the end of the year, based on the date of delivering of goods, is as follows:

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Within 60 days	**114,726**	105,069
61–180 days	**8,556**	16,844
181 days–1 year	**604**	278
1–2 years	**—**	60
	123,886	122,251

23. OTHER PAYABLES

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Staff cost payables	**17,210**	18,837
Other PRC tax payable	**7,145**	3,412
Payable for acquisition of the non-controlling interests *(Note)*	**7,115**	7,115
Unpaid expenses in relation to listing	**5,887**	—
Deposits from patients	**4,873**	4,571
Deposits from suppliers	**3,650**	12,350
Retirement benefit obligations *(Note 26 b)*	**2,621**	1,895
Payable for purchase of property, plant and equipment	**1,724**	2,279
Interest payable	**611**	611
Others	**3,302**	2,703
	54,138	53,773

Note: The amount represents the payable due to the non-controlling shareholder for the acquisition of the non-controlling interests on June 27, 2012. The balance is unsecured, non-interest-bearing, and repayable on demand.

24. OBLIGATIONS UNDER FINANCE LEASES

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Analysis for reporting purpose as		
Current portion	**—**	1,077
Non-current portion	**—**	4,904
	—	5,981

As at December 31, 2012, the Group had leased certain of its medical equipment under finance leases. All of the lease term is 6 years. Interest rate underlying all obligations under finance leases is fixed at respective contract dates ranging from 10.64% per annum to 10.94% per annum as at December 31, 2012. The rights to the leased assets are reverted to the lessor in the event of default of the lease obligations by the Group. All these finance lease contracts were early terminated and the remaining balance of all obligations under finance leases was fully settled on August 19, 2013.

	Minimum lease payments		**Present value of minimum lease payments**	
	As at December 31,		**As at December 31,**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**—**	1,151	**—**	1,077
In more than one year but not more than two years	**—**	1,307	**—**	1,100
In more than two years but not more than five years	**—**	4,855	**—**	3,299
In more than five years	**—**	1,114	**—**	505
Subtotal	**—**	8,427	**—**	5,981
Less: future finance charges	**—**	(2,446)	**—**	—
Present value of minimum lease payments	**—**	5,981	**—**	—

25. BORROWINGS

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Secured borrowings, fixed rate	**200,000**	233,074
Carrying amount repayable:		
Within one year	**200,000**	5,803
More than one year, but not exceeding two years	**—**	206,173
More than two years, but not exceeding five years	**—**	19,770
More than five years	**—**	1,328
	200,000	233,074
Less: amounts due within one year shown under current liability	**(200,000)**	(5,803)
Amount due after one year	**—**	227,271

The effective interest rates, which are also equal to contracted interest rates, per annum at the respective reporting dates, are as follows:

	As at December 31,	
	2013	2012
	%	%
Effective interest rate	**10.00**	9.85

As at December 31, 2012 and 2013, the borrowing from CITIC Trust Co., Ltd (中信信託有限責任公司) ("CITIC Trust") of RMB200,000,000 was secured by 53.51% equity interest in Jian Gong Hospital. The borrowing contract was early terminated on January 17, 2014, and the remaining balance of the borrowing as at December 31, 2013 was fully settled on the same date.

As at December 31, 2012, the remaining balance of the borrowing of RMB33,074,000 from China Hua Rong Financial Leasing Co., Ltd (華融金融租賃股份有限公司) ("Hua Rong") which was secured by the medical equipment of the Group with carrying amount of RMB26,765,000 at December 31, 2012. In 2012, the Group entered into a sale and leaseback transaction with Hua Rong on certain medical equipment with sale proceeds of RMB33,616,000. In accordance with the lease agreement, the term of the lease is 6 years and the Group has the option to purchase the assets at a nominal consideration at the end of the lease term. The effective interest rate underlying the borrowing is at 8.96% per annum. The arrangement does not in substance involve a lease and the proceeds are recognised as collateralised borrowings. On August 19, 2013, the lease agreement was early terminated, and the remaining balance of the borrowing as at December 31, 2012 was fully settled by the same date.

26. RETIREMENT BENEFIT OBLIGATIONS

(a) Defined contribution plans

The PRC employees of the Group are members of a state-managed retirement benefit plan operated by the government of the PRC. The PRC subsidiaries of the Company are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the employee benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The retirement benefit cost charged to profit or loss for the year ended December 31, 2013 amounts to RMB5,764,000 (2012: RMB4,838,000).

(b) Defined benefit plans

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Total estimated benefit payable to retired staffs	**7,886**	10,453
Less: Amounts due within one year included in other payable *(Note 23)*	**(2,621)**	(1,895)
Amounts due after 12 months	**5,265**	8,558

Pursuant to the agreement with Beijing Construction Engineering Group upon the reform of Jian Gong Hospital in 2003, the Group operated a defined benefit plan for 35 retirees. Under the plan, the retirees are entitled to a certain medical insurance and funeral compensation until death.

The plan exposes the Group to longevity risk. The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability.

The principal assumption used for the purposes of valuation was as follows:

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Discount rate	**3.85%**	3.85%
Expected rate of the average per capital disposable income growth	**4.50%**	4.50%
Average longevity at retirement age for current pensioners	**88**	87

Movement in the present value of the defined benefit obligation during the both year were as follows:

	For the year ended December 31,	
	2013	2012
	RMB'000	*RMB'000*
At beginning of the year	**10,453**	12,589
Benefit paid	**(2,567)**	(2,136)
At the end of the year	**7,886**	10,453

Significant assumptions for the determination of the defined obligation are discount rate, expected average per capital disposable income and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of each reporting period, while holding all other assumptions constant.

If the discount rate is higher (lower) by 1%, the defined benefit obligation would decrease (increase) by RMB612,000 (RMB671,000) for the year ended December 31, 2013 (2012: RMB 447,000 (RMB 934,000)).

If the expected average per capital disposable income growth increase (decrease) by 1%, the defined benefit obligation would increase (decrease) by RMB322,000 (RMB301,000) for the year ended December 31, 2013 (2012: RMB535,000 (RMB88,000)).

If the average longevity at retirement age for current pensioners increases (decreases) by one year for retirees, the defined benefit obligation would increase (decrease) by RMB 1,758,000 (RMB1,242,000) for the years ended December 31, 2013 (2012: RMB2,601,000 (RMB890,000)).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

As at December 31, 2013, the Group expected to make payment of RMB2,621,000 under the defined benefit plan in the next twelve months from the end of each reporting period (December 31, 2012: RMB1,895,000).

27. CAPITAL

The Company

	Number of shares	Share capital *HK$'000*	Share capital *RMB'000*
Authorised			
On incorporation *(Note i)*	3,800,000	380	302
Increase on subdivision of shares on April 17, 2013 *(Note ii)*	376,200,000	—	—
Increase on subdivision of shares on September 30, 2013 *(Note iv)*	1,140,000,000	—	—
At December 31, 2013	1,520,000,000	380	302
Issued and fully paid			
On incorporation *(Note i)*	1	—	—
Increase on subdivision of shares on April 17, 2013 *(Note ii)*	99	—	—
Issuance and allotment pursuant to the Reorganisation *(Note iii)*	150,679,900	151	120
Increase on subdivision of shares on September 30, 2013 *(Note iv)*	452,040,000	—	—
Issued on November 29, 2013 *(Note v)*	200,907,000	50	40
Issued on December 1, 2013 *(Note vi)*	30,136,000	8	6
At December 31, 2013	833,763,000	209	166

The Company was incorporated on February 28, 2013 and became the ultimate holding company of Beijing Phoenix on July 2, 2013. The issued capital at December 31, 2013 represents the issued share capital of the Company.

Notes:

(i) On February 28, 2013, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with authorised share capital comprised of 3,800,000 shares at par value of HK$0.10 per share. On March 19, 2013, one nil paid subscriber share of the Company transferred to Speed Key Limited.

(ii) On April 17, 2013, each ordinary share of the Company with nominal value HK$0.10 is sub-divided into 100 ordinary shares of nominal value of HK$0.001 each.

(iii) In May and June 2013, the Company allotted and issued 89,739,900 shares and 36,480,000 shares with par value of HK$0.001 per share to certain companies beneficially owned by institutional investors and individual shareholders of Beijing Phoenix, which were credited as fully paid from share premium upon completion of issue of shares by the Company. In June 2013, the Company also allotted and issued 9,780,000 shares with par value of HK$0.001 per share to two institutional investors at a total consideration of RMB100 million. On 2 July 2013, Unison Champ acquired 100% equity of Pinyu, who is the sole shareholder of Star Target, from Green Talent and in exchange, the Company allotted and issued 14,680,000 shares with par value of HK$0.001 per share to Green Talent, an institutional investor.

(iv) On September 30, 2013, each ordinary share of the Company with nominal value HK$0.001 is sub-divided into 4 ordinary shares of nominal value of HK$0.00025 each.

(v) On November 29, 2013, the Company issued 200,907,000 Shares with par value of HK$0.00025 each under the Global Offering at HK$7.38 per share.

(vi) On December 1, 2013, the over-allotment option has been fully exercised in respect of an aggregate of 30,136,000 shares at HK$7.38 per share.

(vii) The new shares issued rank pari passu with the existing shares in all respects.

The Group

For the purpose of the preparation of the consolidated statements of financial position, the balances of paid-in capital as at December 31, 2012 represented the paid-in capital of Beijing Phoenix amount to RMB140,580,000. Pursuant to the Reorganisation completed on July 2, 2013, the Company became the holding company of the entities comprising the Group. The issued capital as at December 31, 2013 represents the issued share capital of the Company.

28. RELATED PARTY TRANSACTIONS

(a) Names and relationships

Names and relationships with related parties are as follows:

Name	**Relationship**
Yan Hua Hospital	Entity controlled by a shareholder with significant influence over the Company
Beijing Phoenix Wantong Investment Management Co., Ltd (北京鳳凰萬同投資管理有限公司) ("Beijing Wantong")	Entity controlled by a shareholder with significant influence over the Company
Speed Key Limited	Shareholder of the Company

(b) Related party balances

At the end of the year, the Group had the following balances with related parties:

Amounts due from a related party

	As at December 31,	
Trade in nature	**2013**	2012
	RMB'000	*RMB'000*
Yan Hua Hospital	**56,871**	56,831

The Group allows a credit period of 60 days to 120 days for supply chain business and 90 days to 180 days for the hospital management service.

The following is an aged analysis of amount due from a related party which is trade in nature based on the invoice date at the end of each reporting period:

	As at December 31,	
	2013	2012
	RMB'000	*RMB'000*
Within 60 days	**45,503**	48,461
61–180 days	**11,368**	8,370
	56,871	56,831

As at December 31, 2013 and 2012, the Group did not have amount due from a related party which was past due.

GLOSSARY

"Beijing Easylife"	Beijing Phoenix Easylife Healthcare Consulting Co., Ltd. (北京鳳凰益生醫學技術諮詢有限公司), a limited liability company incorporated under the laws of the PRC on January 18, 2008, and a wholly-owned subsidiary of our Group
"Beijing Jiayi"	Beijing Phoenix Jiayi Medical Devices Co., Ltd. (北京鳳凰佳益醫療器械有限公司), formerly known as Beijing Phoenix Luoke Medical Technology Co., Ltd. (北京鳳凰洛克醫學技術有限公司) and Phoenix Wanfeng Medical Technology (Beijing) Co., Ltd. (鳳凰萬峰醫學技術(北京)有限公司), a limited liability company incorporated under the laws of the PRC on December 9, 2004, and a wholly-owned subsidiary of our Company
"Beijing Juxin Wantong"	Beijing Juxin Wantong Investment Co., Ltd. (北京聚信萬同投資有限公司), formerly known as Phoenix United Hospital Management (Beijing) Co., Ltd. (鳳凰聯盟醫院管理(北京)有限公司) and Phoenix Healthcare Investment Management (Beijing) Co., Ltd. (鳳凰醫療投資管理(北京)有限公司), a limited liability company incorporated under the laws of the PRC on June 9, 2003, and a wholly-owned subsidiary of Beijing Wantong a connected person to our Company
"Beijing Phoenix"	Beijing Phoenix United Hospital Management Consulting Co. Ltd. (北京鳳凰聯合醫院管理諮詢有限公司), formerly known as Beijing Phoenix United Hospital Management Co., Ltd. (北京鳳凰聯合醫院管理有限公司) and Beijing Phoenix United Hospital Management Joint Stock Co., Ltd. (北京鳳凰聯合醫院管理股份有限公司), a limited liability company incorporated under the laws of the PRC on November 6, 2007, and a wholly-owned subsidiary of our Company
"Beijing Wanrong"	Beijing Wanrong Yikang Medical Pharmaceutical Co., Ltd. (北京萬榮億康醫藥有限公司), a limited liability company incorporated under the laws of the PRC on March 20, 2000, and a wholly-owned subsidiary of our Company
"Board"	the board of Directors of our Company
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the chairman of our Board
"Chief Executive Officer"	the chief executive officer of our Company
"China" or "PRC"	the People's Republic of China; for the purpose of this announcement, "PRC" does not include Taiwan, the Macau Special Administrative Region and Hong Kong
"Company" or "our Company"	Phoenix Healthcare Group Co., Ltd, a company with limited liability incorporated in the Cayman Islands on February 28, 2013
"Controlling Shareholder(s)"	Has the meaning ascribed thereto under the Listing Rules and, depending on the context refers to Ms. Xu Jie (徐捷), Ms. Xu Xiaojie (徐小捷) and Speed Key Limited or any one of them
"Director(s)"	the directors of our Company or any one of them
"Excluded Pharmaceuticals"	certain pharmaceuticals such as prepared traditional Chinese medicine (中藥飲片) and pharmaceuticals sold at community clinics which are excluded from our supply agreement with Hong Hui

"Green Talent"	Green Talent Investments Limited, a limited liability company incorporated in the British Virgin Islands on March 26, 2012, our Shareholder
"Group"	Our Company and its subsidiaries
"HKEx"	Hong Kong Exchanges and Clearing Limited
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Hui"	Hong Hui Pharmaceutical Co., Ltd. (紅惠醫藥有限公司), a limited liability company incorporated under laws of the PRC on March 15, 1994, a supplier of our Group
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IOT"	the "invest-operate-transfer" model
"IOT hospitals and clinics"	third-party hospitals and clinics, which we manage and operate under the IOT model
"IPO"	initial public offering of the Shares on the main board of the Stock Exchange
"Jing Mei Hospital"	Jing Mei Hospital (北京京煤集團總醫院), a not-for-profit hospital incorporated under the laws of the PRC in 1956 and wholly owned by Beijing Coal, which we began managing in May 2011 pursuant to the Jing Mei IOT Agreement
"Jing Mei Hospital Group"	collectively, Jing Mei Hospital and seven Grade I hospitals and 11 community clinics affiliated with Jing Mei Hospital
"Jing Mei IOT Agreement"	collectively, the IOT agreement we entered into with Beijing Coal on May 5, 2011, as amended
"Listing Date"	the date which dealings in the Shares first commence on the Stock Exchange i.e. November 29, 2013
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Mentougou Hospital"	Mentougou Hospital (北京市門頭溝區醫院), a not-for-profit hospital incorporated under the laws of the PRC in 1951 and wholly owned by the Mentougou District government, which we began managing in June 2010 pursuant to the Mentougou IOT Agreement
"Mentougou IOT Agreement"	collectively, the IOT agreement we entered into with the Mentougou District government on July 30, 2010, as amended
"Mentougou TCM Hospital IOT Agreement"	the IOT agreement we entered into with the Mentougou District government on June 6, 2012
"Mentougou Traditional Chinese Medicine Hospital"	Mentougou Traditional Chinese Medicine Hospital (北京市門頭溝區中醫院), a not-for-profit hospital incorporated under the laws of the PRC in 1956 and wholly owned by the Mentougou District government, which we began managing in June 2012 pursuant to the Mentougou TCM Hospital IOT Agreement
"Pinyu"	a limited liability company incorporated in the BVI on January 3, 2013, a wholly-owned subsidiary of our Group

"Prospectus"	the prospectus dated November 18, 2013 issued by the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	share(s) with par value of HK$0.00025 each in the capital of our Company
"Shareholder(s)"	holder(s) of the Share(s)
"Star Target"	Star Target Investments Limited (星通投資有限公司), a limited liability company incorporated in Hong Kong on January 3, 2013, a wholly-owned subsidiary of our Group
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Unison Champ"	Unison Champ Limited, a limited liability company incorporated in the BVI on January 7, 2013, a wholly- owned subsidiary of our Company
"Yan Hua Hospital Group"	collectively, Yan Hua Hospital and 17 community clinics affiliated with Yan Hua Hospital
"Yan Hua Hospital"	Yan Hua Hospital (北京燕化醫院), a not-for-profit hospital established under the laws of the PRC in 1973 and wholly owned by Yan Hua Phoenix, which we started to manage and operate in February 2008 pursuant to the Yan Hua IOT Agreement and a connected person to our Company
"Yan Hua IOT Agreement"	collectively, the IOT agreement we entered into with Yan Hua Hospital Group and Yan Hua Phoenix on February 1, 2008, as amended
"Yan Hua Phoenix"	Beijing Yan Hua Phoenix Healthcare Asset Management Co., Ltd. (北京燕化鳳凰醫療資產管理有限公司), a limited liability company incorporated under the laws of the PRC on July 18, 2005, a wholly-owned subsidiary of Beijing Juxin Wantong and a connected person to our Company

By the order of the Board
Phoenix Healthcare Group Co. Ltd
Liang Hongze
Chairman

Hong Kong, March 28, 2014

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Liang Hongze, Ms. Xu Jie, Mr. Zhang Liang, Mr. Xu Zechang and Mr. Jiang Tianfan, as executive Directors; Mr. Yang Huisheng and Mr. Zhu Zhongyuan, as non-executive Directors; and Mr. Kwong Kwok Kong, Ms. Cheng Hong, Mr. Wang Bing and Mr. Sun Jianhua, as independent non-executive Directors.