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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended June 30,	
	Notes	**2014** *RMB'000* **(Unaudited)**	2013 *RMB'000* (Audited)
Revenue	*5*	**506,966**	419,692
Cost of sales and services		**(387,617)**	(332,268)
Gross profit		**119,349**	87,424
Other income		**39,686**	27,545
Other losses		**(2,675)**	(452)
Selling and distribution expenses		**(5,181)**	(4,747)
Administrative expenses		**(34,518)**	(25,107)
Finance costs		**(944)**	(11,531)
Other expenses		**(342)**	(2,971)
Profit before tax		**115,375**	70,161
Income tax expense	*7*	**(30,272)**	(17,745)
Profit and total comprehensive income for the period	*8*	**85,103**	52,416
Profit and total comprehensive income for the period attributable to:			
Equity holders of the Company		**82,384**	50,354
Non-controlling interests		**2,719**	2,062
		85,103	52,416
Earnings per share			
— basic (RMB yuan per share)	*9*	**0.10**	0.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**June 30, 2014 *RMB'000* (Unaudited)**	December 31, 2013 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment		**125,072**	123,249
Intangible assets		**317,949**	317,249
Receivables from invest-operate-transfer ("IOT") hospitals		**54,865**	51,184
Lease prepayments for land use right		**152,069**	157,855
Deferred tax assets		**998**	1,080
		650,953	650,617
Current assets			
Inventories		**35,802**	31,050
Trade receivables	*11*	**97,265**	83,818
Prepayments and other receivables		**38,124**	19,462
Amounts due from a related party		**68,919**	56,871
Short-term investments		**582,500**	176,000
Certificate of deposit		**365,966**	704,450
Cash and cash equivalents		**224,148**	401,770
		1,412,724	1,473,421
Current liabilities			
Trade payables	*12*	**153,815**	123,886
Other payables		**79,804**	54,138
Tax payables		**24,872**	24,895
Borrowings		**—**	200,000
		258,491	402,919
Net current assets		**1,154,233**	1,070,502
Total assets less current liabilities		**1,805,186**	1,721,119
Non-current liabilities			
Retirement benefit obligations		**4,228**	5,265
		4,228	5,265
Net assets		**1,800,958**	1,715,854

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Notes	**June 30, 2014** **RMB'000** **(Unaudited)**	December 31, 2013 *RMB'000* (Audited)
Capital and reserves			
Capital		**166**	166
Share premium		**1,542,270**	1,542,270
Reserves		**157,148**	74,764
Equity attributable to equity holders of the Company		**1,699,584**	1,617,200
Non-controlling interests		**101,374**	98,654
Total equity		**1,800,958**	1,715,854

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended June 30, 2014

1. General Information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on February 28, 2013. Its shares have been listed on the Main Board of the Stock Exchange from November 29, 2013. The registered office of the Company is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands, and its principal place of business is located at Beijing, the PRC. The Company is an investment holding company.

The Group is mainly engaged in the provision of general hospital services, provision of hospital management services, and supply chain business in Beijing, the PRC.

This unaudited consolidated interim financial statements are presented in RMB, which is the same as the functional currency of the Group.

These consolidated interim financial statements are unaudited and were approved by the Board on August 27, 2014.

2. Basis of Preparation

These consolidated interim financial statements for the six months ended June 30, 2014 have been prepared in accordance with IAS 34 Interim Financial Reporting and the applicable disclosure requirements of the Listing Rules. The consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRSs.

The accounting policies used in preparation of these consolidated interim financial statements are consistent with those adopted by the Group's consolidated annual financial statements for the year ended December 31, 2013, except for adoption of the new and revised IFRSs which are effective for the first time for the current interim accounting period.

The Group meets its day-to-day working capital requirements through its bank facilities. After making enquires, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated interim financial statements.

3. Application of a New Interpretation and Amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to IFRSs.

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

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

4. Financial Instruments and Financial Risk Management

Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk, such as currency risk and interest rate, credit risk and liquidity risk.

The consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2013.

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

5. Revenue

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

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

	Six months ended June 30,	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
General hospital services	**247,289**	214,692
Hospital management services	**16,743**	9,861
Supply chain business	**242,934**	195,139
	506,966	419,692

6. Segment Information

The Board of Directors is identified as the chief operating decision maker (the "CODM") of the Group for the purposes of resources allocation and performance assessment. The CODM reviews operating results and financial information on a company by company basis. This is also the basis upon which the Group is organized. Accordingly, each company is identified as an operating segment. When the group companies are operating in similar business model with similar target group of customers, and under the same regulatory environment, the Group's operating segments are aggregated and the Group's operating and reportable segments for segment reporting purpose are as follows:

(i) General hospital services

Revenue from this segment is derived from hospital services provided at Jian Gong Hospital and from premium healthcare services provided to high-end patients at Beijing Easylife.

(ii) Hospital management services

The Group provides comprehensive management services to hospitals under IOT agreements and receives from each IOT hospital an annual fee.

6. Segment Information (Continued)

(iii) Supply chain business

The Group derives revenue from sales of pharmaceuticals, medical devices and medical consumables, and ancillary services to Jian Gong Hospital, the IOT hospitals and clinics and external customers.

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

Segment revenue, results, assets and liabilities

	General hospital services *RMB'000*	Hospital management services *RMB'000*	Supply chain business *RMB'000*	Total *RMB'000*
For the six months ended June 30, 2014 (Unaudited)				
External revenues	**247,289**	**16,743**	**242,934**	**506,966**
Inter-segment revenue	**—**	**—**	**67,529**	**67,529**
Segment revenue	**247,289**	**16,743**	**310,463**	**574,495**
Eliminations				**(67,529)**
Consolidated revenue				**506,966**
Segment results	**19,650**	**12,504**	**83,356**	**115,510**
Unallocated finance cost				**(944)**
Unallocated foreign exchange loss				**(2,640)**
Other unallocated income and expense				**3,449**
Profit before tax				**115,375**
As at June 30, 2014 (Unaudited)				
Segment assets	**614,529**	**980,924**	**299,635**	**1,895,088**
Unallocated bank balances and certificate of deposit				**370,080**
Other unallocated assets				**277,858**
Elimination of inter-segment receivables				**(479,349)**
Consolidated assets				**2,063,677**
Segment liabilities	**104,377**	**443,609**	**179,495**	**727,481**
Other unallocated liabilities				**14,587**
Elimination of inter-segment payables				**(479,349)**

6. Segment Information (Continued)

(iii) Supply chain business (Continued)

Segment revenue, results, assets and liabilities (Continued)

	General hospital services *RMB'000*	Hospital management services *RMB'000*	Supply chain business *RMB'000*	Total *RMB'000*
Consolidated liabilities				**262,719**
Other segment information				
Amounts included in the measure of segment results or segment assets:				
Addition to non-current assets (Note)	**6,526**	**7,940**	**647**	**15,113**
Depreciation and amortization	**11,421**	**7,514**	**227**	**19,162**
Loss on disposal of property, plant and equipment, net	**(21)**	**—**	**—**	**(21)**
Interest and investment income	**1,599**	**11,523**	**2,088**	**15,210**
Amounts regularly provided to the CODM but not included in the measure of segment results:				
Unallocated finance cost	**N/A**	**N/A**	**N/A**	**944**
Foreign exchange loss	**N/A**	**N/A**	**N/A**	**2,640**
Income tax expense	**5,531**	**4,004**	**20,737**	**30,272**

Note: Non-current assets consist of property, plant and equipment, and intangible assets.

6. Segment Information (Continued)

(iii) Supply chain business (Continued)

Segment revenue, results, assets and liabilities (Continued)

	General hospital services	Hospital management services	Supply chain business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended June 30, 2013 (Audited)				
External revenues	214,692	9,861	195,139	419,692
Inter-segment revenue	—	—	53,165	53,165
Segment revenue	214,692	9,861	248,304	472,857
Eliminations				(53,165)
Consolidated revenue				419,692
Segment results	16,334	2,503	64,165	83,002
Unallocated finance cost				(9,500)
Unallocated expenses				(3,341)
Profit before tax				70,161
As at June 30, 2013 (Audited)				
Segment assets	601,800	618,754	261,484	1,482,038
Elimination of inter-segment receivables				(297,638)
Consolidated assets				1,184,400
Segment liabilities	122,668	655,678	124,002	902,348
Borrowings				200,000
Elimination of inter-segment payables				(297,638)
Consolidated liabilities				804,710

6. Segment Information (Continued)

(iii) Supply chain business (Continued)

Segment revenue, results, assets and liabilities (Continued)

	General hospital services	Hospital management services	Supply chain business	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other segment information				
Amounts included in the measure of segment results or segment assets:				
Addition to non-current assets (Note)	8,641	41	104	8,786
Depreciation and amortization	11,991	7,066	85	19,142
Gain on disposal of property, plant and equipment,	(18)	—	—	(18)
Interest and investment income	(365)	(3,237)	(405)	(4,007)
Segment finance cost	2,031	—	—	2,031
Amounts regularly provided to the CODM but not included in the measure of segment results:				
Unallocated finance cost	N/A	N/A	N/A	9,500
Income tax expense (credit)	4,089	(2,416)	16,072	17,745

Note: Non-current assets consist of property, plant and equipment, and intangible assets.

Segment revenue reported above represents revenue generated from both external and inter-segment customers. During the year, the inter-segment transactions are charged at regulated price for the sales of pharmaceutical, medical devices and consumables.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2. Segment results represent the profit before tax earned by each segment, without allocation of certain finance cost, foreign exchange loss and corporate expenses not directly related to the respective segment, which represents the internally generated financial information regularly reviewed by the CODM. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to operating segments other than assets of the Company and overseas subsidiaries and all liabilities are allocated to operating segments other than liabilities of Company and overseas subsidiaries and borrowings.

Income tax expenses have been allocated among the segments as additional information regularly provided to the management but not included in the measure of segment result while the relevant tax payables have been allocated into the segment liabilities.

Geographical information

No geographical information is presented as all of the Group's revenue is derived from activities in the PRC, and all of the Group's operations and non-current assets are located in the PRC.

6. Segment Information (Continued)

Information about major customers

Revenue from the customers, including revenue from hospital management services and supply chain business, contributing over 10% of the total revenue of the Group during the current interim period is as follows:

	Six months ended June 30,	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Yan Hua Hospital	**96,767**	83,472
Jing Mei Hospital	**92,388**	82,564

7. Income Tax Expense

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax. The PRC enterprise income tax has been provided at the rate of approximately 25% which is the prevailing rate of the enterprise income tax in the PRC during the current interim period.

	Six months ended June 30,	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current tax:		
PRC enterprise income tax ("EIT")	**30,190**	19,386
Deferred tax	**82**	(1,641)
Total income tax recognised in profit or loss	**30,272**	17,745

8. Profit for the Period

The Group's profit for the current interim period has been arrived at after charging:

	Six months ended June 30, 2014 RMB'000 (Unaudited)	2013 RMB'000 (Audited)
Depreciation of property, plant and equipment	**10,273**	10,466
Amortisation of lease prepayments for land use right	**1,710**	1,731
Amortisation of intangible assets (Included in cost of sales and services)	**7,179**	6,945
Total depreciation and amortization	**19,162**	19,142
Cost of inventories recognised as expense	**323,768**	275,759
Operating lease rentals in respect of rented premises	**1,171**	1,332
Directors' emoluments	**3,357**	2,854
Other staff cost		
Salaries and other allowances	**58,285**	41,955
Retirement benefit contributions	**3,252**	2,573
Total staff costs	**64,894**	47,382
Auditor's remuneration	**1,250**	665

9. 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:

	Six months ended June 30, 2014 RMB'000 (Unaudited)	2013 RMB'000 (Audited)
Earnings		
Profit for the purpose of basic and diluted earnings per share for the year attributable to equity holders of the Company	**82,384**	50,354
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	**833,763**	508,554

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 six months ended June 30, 2014 and 2013 and weighted average number of 833,763,000 shares and 508,554,254 shares of the Company for the six months ended June 30, 2014 and 2013 respectively.

10. Dividends

On March 28, 2014, the Board of Directors proposed a final dividend in respect of the year ended December 31, 2013 of HK$55,862,121, representing HK$6.7 cents per Share. The final dividend was paid on July 8, 2014.

The Board of Directors do not recommend the payment of an interim dividend.

11. 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 hospitals and clinics, and 90 days to 180 days for the hospital management services to the IOT hospitals and clinics after issuing the invoice. The following is an aged analysis of trade receivables presented based on the invoice date.

	As at	
	June 30, 2014	December 31, 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Unbilled or within 60 days	**80,515**	78,579
61 to 180 days	**16,733**	5,239
181 days to 1 year	**17**	—
	97,265	83,818

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.

12. 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 current interim period, based on the date of delivering of goods, is as follows:

	As at	
	June 30, 2014	December 31, 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 60 days	**131,900**	114,726
61–180 days	**20,190**	8,556
181 days–1 year	**1,563**	604
1–3 years	**162**	—
	153,815	123,886

13. Event after the Reporting Period

On July 7, 2014, the Company announced the adoption of a share award scheme ("Share Award Scheme") as a means to recognise the contribution of and provide incentives for the key management personnel including directors and senior management, employed experts and core employees of the Group. The Share Award Scheme shall be valid and effective for a period of 10 years commencing on July 7, 2014 ("Adoption Date") and is administrated by the Board and the trustee of the Share Award Scheme.

No shares have been awarded by the Company under the Share Award Scheme since the Adoption Date.

For further details of the Share Award Scheme, please refer to the announcement of the Company dated July 7, 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview and Outlook

As the Group continuously strives for better, safer, accessible and efficient patient care, approximately 1.7 million patients came to our in-network hospitals and clinics to find trusted answer and we are pleased to report a solid performance in the Review Period.

The Group continues to strengthen its existing businesses for sustainable growth organically. With a low debt ratio and strong cash flows, the Group is well positioned to seize the arising investment opportunities to create further value for Shareholders. We also continue to identify and develop value added businesses along the supply chain of healthcare services. Amidst the aging population, growing prevalence of chronic diseases, increasing public awareness and education about personal health, and growing government spending on healthcare sector, we are strongly confident on the business performance in 2014 and the Group's development prospect years ahead.

Financial Review

The Group recorded revenue of RMB507.0 million during the Review Period, represented an increase of 20.8% from the same period in 2013. Benefiting from the higher revenue contribution from and increased gross profit margins of the hospital management services segment and supply chain business segment, the Group's overall gross profit margin for the Review Period improved to 23.5% (six months ended June 30, 2013: 20.8%). During the Review Period, the net profit attributable to shareholders increased significantly to RMB82.4 million, represented a significant increase of 63.6% from the same period in 2013. Comparing with the unaudited adjusted net profit attributable to shareholders derived by excluding one-off items relating to our IPO of approximately RMB52.7 million during the same period in 2013, the profit attributable to shareholders during the Review Period increased by 56.5%.

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 primarily supply pharmaceuticals, medical devices and medical consumables, and ancillary services mainly 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:

	Six months ended June 30,	
	2014	2013
	(RMB'000)	*(RMB'000)*
Revenue	**247,289**	214,692
Cost of sales and services	**(205,526)**	(177,748)
Gross profit	**41,763**	36,944

Revenue from our general hospital services segment reached RMB247.3 million, represented an increase of 15.2% from the same period in 2013 and accounted for 48.8% of our total revenue during the Review Period, attributable to the continuous growth in total patient visits and average spending per patient visit. Jian Gong Hospital witnessed approximately 341,900 (six months ended June 30, 2013: approximately 313,700) patient visits, comprising approximately 336,300 outpatient visits (six months ended June 30, 2013: approximately 308,200) and 5,600 inpatient visits (six months ended June 30, 2013: approximately 5,500). The average spending per outpatient visit increased to approximately RMB443 (six months ended June 30, 2013: approximately RMB431), while there was a faster increase in average spending per inpatient visit to approximately RMB17,521 (six months ended June 30, 2013: approximately RMB14,788). There were more operations undertaken for the hospital's inpatients and a higher percentage of major and complex major operations that were generally more expensive and profitable during the Review Period.

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.

During the Review Period, Jian Gong Hospital's cost of sales and services increased to RMB205.5 million, represented an increase of 15.6% from the same period in 2013. The gross profit margin remained relatively stable at 16.9% during the Review Period (six months ended June 30, 2013: 17.2%).

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 during the Review Period. In return, we were entitled to receive management fee from each hospital or the hospital owners, 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 surged to RMB16.7 million, represented an increase of 69.8% from the same period in 2013 and accounted for 3.3% of our total revenue during the Review Period. 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:

	Six months ended June 30,	
	2014	2013
	(RMB'000)	*(RMB'000)*
Revenue	**16,743**	9,861
Cost of sales and services	**(7,180)**	(6,944)
Gross profit	**9,563**	2,917

	Six months ended June 30,	
	2014	2013
	(RMB'000)	*(RMB'000)*
Yan Hua Hospital Group	**7,641**	1,865
Mentougou Hospital	**1,694**	2,417
Jing Mei Hospital Group	**5,992**	5,579
Mentougou Traditional Chinese Medicine Hospital	**1,416**	—
Total	**16,743**	9,861

The management fee from Yan Hua Hospital Group was RMB7.6 million during the Review Period, surged by 309.7% from the same period in 2013. Yan Hua Hospital Group witnessed growth in patient visits, particularly inpatient visits. The average spending per inpatient visit also increased despite that the average spending per outpatient visit remained stable. Meanwhile, Yan Hua Hospital Group continued to enhance its operational efficiency and managed to reduce its operating expenses. As a result, there was a remarkable increase in net income before tax and also our management fee during the Review Period.

The management fee from Mentougou Hospital was RMB1.7 million during the Review Period, represented a decrease of 29.9% from the same period in 2013. In spite of the increase in patient visits received by Mentougou Hospital, average spending per patient visit decreased. Besides, the increase in cost of sales and services, particularly staff costs, costs of medical devices and medical consumables, outpaced the revenue growth. As a result, the hospital's net income before tax decreased, thereby lowering our management fee.

The management fee from Jing Mei Hospital Group was RMB6.0 million during the Review Period, represented an increase of 7.4% from the same period in 2013. The increase in patient visits was partially offset by a decrease in average spending per inpatient visit. The number of operations undertaken was fewer than that in the same period in 2013. Yet the hospital group's net income before tax increased and hence our management fee was also increased.

The management fee from Mentougou Traditional Chinese Medicine Hospital was RMB1.4 million during the Review Period. The Group did not derive any management fee from the hospital for the same period in 2013. Mentougou Traditional Chinese Medicine Hospital witnessed significant increase in number of patient visits as well as higher average spending per patient visit. In particular, the average spending per inpatient visit grew strongly. When renovation of its facilities was completed in the first half of 2013, Mentougou Traditional Chinese Medicine Hospital hired more medical practitioners and purchased advanced medical equipment so as to expand and improve its healthcare practice. As a result, the hospital's net income before tax increased and so as our management fee.

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 RMB7.2 million during the Review Period, represented an increase of 3.4% from the same period in 2013, due to additional investment in Yan Hua Hospital Group of RMB10.0 million each in July 2013 and June 2014. Since the revenue growth outpaced the increase in cost of sales and services, the gross profit margin of our hospital management services segment improved to 57.1% during the Review Period (six months ended June 30, 2013: 29.6%).

Supply chain business

Our supply chain business segment revenue is primarily derived from sales of pharmaceuticals, medical devices and medical consumables, and ancillary services mainly 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:

	Six months ended June 30,	
	2014	2013
	(RMB'000)	*(RMB'000)*
Revenue	**310,463**	248,304
Cost of sales and services	**(242,440)**	(200,741)
Gross profit	**68,023**	47,563

Our supply chain business segment revenue grew to RMB310.5 million during the Review Period, represented an increase of 25.0% from the same period in 2013, as a result of increased patient visits and our effort to further consolidate the procurement need of our in-network hospitals and clinics. Segment revenue from sales to Jian Gong Hospital amounted to RMB67.5 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 47.9% of our total revenue during the Review Period. Our in-network hospitals and clinics cared for approximately 1.7 million patients (six months ended June 30, 2013: approximately 1.5 million) in the Review Period. Having started to supply independently to Mentougou Hospital and Mentougou Traditional Chinese Medicine Hospital in 2013, we further consolidated their procurement needs and hence sales to these two hospitals grew rapidly during the Review Period.

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 mainly to the our in-network hospitals and clinics. Our supply chain business segment incurred cost of sales and services of RMB242.4 million during the Review Period, represented an increase of 20.8% from the same period in 2013. The gross profit margin of our supply chain business segment further improved to 21.9% during the Review Period (six months ended June 30, 2013: 19.2%), primarily attributable 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, in particular Mentougou Hospital and Mentougou Traditional Chinese Medicine Hospital, and (ii) the supply agreement with Hong Hui. 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.

During the Review Period, Jian Gong Hospital, Yan Hua Hospital Group and Jing Mei Hospital Group purchased a total of RMB394.2 million of pharmaceuticals, excluding the purchases of Excluded Pharmaceuticals. We were entitled to a MEB of RMB55.2 million pursuant to our supply agreement with Hong Hui, of which RMB21.1 million was recorded as fee income. Our gross profit margin of our supply chain business segment would have been 16.0% during the Review Period (six months ended June 30, 2013: 14.8%) had we (i) 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 (ii) 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 RMB119.3 million during the Review Period, increased by 36.5% from the same period in 2013. Overall gross profit margin for the Review Period improved to 23.5% (six months ended June 30, 2013: 20.8%), reflecting higher revenue contribution from and improved gross profit margins of the hospital management services segment and supply chain business segment.

Other Income

Other income increased to RMB39.7 million during the Review Period, represented an increase of 44.1% from the same period in 2013, mainly due to increased interest income from short-term investments in financial products operated by banks.

Other Losses

There was a foreign exchange loss of RMB2.6 million during the Review Period from our Hong Kong dollar denominated bank balance, resulting from the weakening of Hong Kong dollar against RMB.

Selling and Distribution Expenses

As we continued to pursue development in the supply chain business segment, our selling and distribution expenses grew to RMB5.2 million during the Review Period, represented an increase of 9.1% from the same period in 2013, due to hiring of new staff and increased staff costs.

Administrative Expenses

We incurred administrative expenses of RMB34.5 million during the Review Period, represented an increase of 37.5% from the same period in 2013, primarily attributable to higher staff costs incurred by Jian Gong Hospital and our office in Hong Kong and rental expenses incurred by our office in Hong Kong.

Finance Costs

We managed to reduce our finance costs to RMB1.0 million during the Review Period as a result of (i) repayment of RMB250 million shareholders' loan from Speed Key Limited immediately after IPO; (ii) repayment of RMB200 million loan borrowed from CITIC Trust Co., Ltd. in January 2014 and (iii) termination of finance lease by Jian Gong Hospital in August 2013.

Other Expenses

Other expenses, mainly included medical disputes expenditure, amounted to RMB0.3 million during the Review Period. Such expenses decreased sharply by 88.5% from the same period in 2013 due to certain one-off expenses relating to our IPO incurred in the first half of 2013.

Income Tax Expense

The income tax charge increased to RMB30.3 million during the Review Period, represented an increase of 70.6% from the same period in 2013, which was in line with the growth of profit before tax.

Net Profit

Profit attributable to shareholders amounted to RMB82.4 million during the Review Period, surged by 63.6% from the same period in 2013. Such increase principally reflected a combination of the improved gross profit across all of our business segments and our continuous effort to monitor expenditure so as to ensure operating expenditures are maintained at an acceptable level. The profit attributable to shareholders during the Review Period increased by 56.5% when comparing with the unaudited adjusted net profit attributable to shareholders derived by excluding one-off items relating to our IPO of approximately RMB52.7 million during the same period in 2013.

Liquidity and Capital Resources

As at June 30, 2014, the Group's cash and cash equivalents amounted to RMB224.1 million (December 31, 2013: RMB401.8 million) and the Group did not have any interest-bearing liabilities (December 31, 2013: RMB200.0 million).

Significant Investments, Acquisitions and Disposals

As at June 30, 2014, the Group's short-term investments, mainly represented investments in financial products operated by banks, amounted to RMB582.5 million (December 31, 2013: RMB176.0 million). At the same time, the Group had certificate of deposits of RMB366.0 million (December 31, 2013: RMB704.5 million).

The Group had no significant acquisitions and disposals during the Review Period.

Indebtedness

Borrowings

As at June 30, 2014, the Group did not have any interest-bearing liabilities (December 31, 2013: RMB200.0 million). The Group fully repaid the RMB200.0 million borrowing on January 17, 2014.

Contingent Liabilities

As at June 30, 2014, the Group did not have any contingent liabilities or guarantees that would have a material impact on the financial position or operations of the Group.

Exchange Rate Risk

The Group undertakes certain operating transactions in foreign currencies, which expose the Group to foreign currency risk, mainly to the risk of fluctuations in the Hong Kong dollar and U.S. dollar against RMB. We have not used any derivative contracts to hedge against its exposure to currency risk. The management manages the currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

Interest Rate Risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, which carry prevailing market interest rates and short-term investments. We currently do not have a specific policy to manage our interest rate risk and have not entered into interest rate swaps to hedge the exposure, but will closely monitor the interest rate risk exposure in the future.

Charges of Assets

The Group did not have any material charge of assets as at June 30, 2014.

Contractual Obligations

As at June 30, 2014, our contractual obligations amounted to approximately RMB55.3 million, which has been decreased by RMB13.4 million as compared to approximately RMB68.7 million as at December 31, 2013, primarily due to decrease in the outstanding commitment for investment to Yan Hua Hospital Group. The Group made an additional RMB10.0 million investment in Yan Hua Hospital Group in June 2014.

Gearing Ratio

On the basis of total interest-bearing liabilities divided by total assets, the Group's gearing ratio was zero as at June 30, 2014 (December 31, 2013: 9.4%).

Employee and Remuneration Policy

As at June 30, 2014, the Group had a total of 838 full time employees (December 31, 2013: 861 employees). During the Review Period, the staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB65.0 million (six months ended June 30, 2013: RMB47.0 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 remuneration of the Directors is reviewed by the remuneration committee of the Company and approved by the Board, having regard to the relevant Director's experience, responsibility, workload and the time devoted to the Group, the Company's operating results and comparable market statistics.

The Group has adopted a share option scheme ("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.

During the Review Period, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

The Company has also adopted a share award scheme ("Share Award Scheme") on July 7, 2014 ("Adoption Date") as a means to recognise the contribution of and provide incentives for the key management personnel including Directors and senior management, employed experts and core employees of the Group. The Share Award Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date and is administrated by the Board and the trustee of the Share Award Scheme.

INTERIM DIVIDEND

The Board of Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2014 (six months ended June 30, 2013: nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance and transparency. The Company confirms that it has complied with all material code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules ("CG Code") during the Review Period, save for the deviation from the code provisions A.2.1 and A.6.7 of the CG Code as mentioned below.

According to the code provision A.2.1, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Liang Hongze, the Chairman of the Board, is also the Chief Executive Officer of the Group. The Group does not intend to separate these two functions as both the Board and the senior management of the Group believe that vesting the roles of both Chairman and Chief Executive Officer in an experienced and qualified person such as Mr. Liang Hongze provides the Company with strong and consistent leadership while allowing effective and efficient planning and implementation of business decisions and strategies. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group.

Besides, in respect of code provision A.6.7, one non-executive Director and two independent non-executive Directors were unable to attend the annual general meeting of the Company held on June 5, 2014 due to other business commitments.

The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors on terms no less exacting than the required standard set out in the Model Code.

Having made specific enquiry with all Directors, the Company confirmed that all members of the Board complied with the Model Code throughout the Review Period. Senior managers, executives and staff who, because of their offices in the Company, are likely to possess inside information, have also been requested to comply with the provision of the Model Code and the Company confirmed that there was no incident of non-compliance of the Model Code by such employees.

REVIEW OF INTERIM RESULTS

The Audit Committee, comprising three independent non-executive Directors, has reviewed the unaudited interim results of the Group for the Review Period and considered that they were prepared in compliance with the relevant accounting standards, and that the Company has made appropriate disclosure thereof under the requirements of the Listing Rules.

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

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

PUBLICATION OF THE UNAUDITED INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is required to be published on the website of Hong Kong Exchanges and Clearing Limited (the "HKEx") at www.hkexnews.hk and the designated website of the Company at www.phg.com.cn respectively. The interim report of the Company for the six months ended June 30, 2014 will be despatched to the Shareholders and published on the HKEx's and the Company's websites in due course.

DEFINITIONS

"Audit Committee"	the audit committee of the Board
"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 established under the laws of the PRC on January 18, 2008, and a wholly-owned subsidiary of our Group
"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 established 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 Wantong"	Beijing Phoenix Wantong Investment Management Co., Ltd. (北京鳳凰萬同投資管理有限公司), formerly known as Phoenix Hospital Management (Beijing) Co., Ltd. (鳳凰醫院管理(北京)有限公司), a limited liability company established under the laws of the PRC on April 24, 2002, and wholly-owned by our Controlling Shareholders, Ms. Xu Jie and Ms. Xu Xiaojie and a connected person to our Company

"Board" or "Board of Directors"	the board of Directors of our Company
"Chairman"	the chairman of our Board
"Chief Executive Officer"	the chief executive officer of our Company
"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
"Group", "we" or "us"	our Company and its subsidiaries
"HK$" or "HKD" and "cent(s)"	Hong Kong dollar and cent(s) respectively, 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 established under laws of the PRC on March 15, 1994, a supplier of the Group
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRSs"	International Financial Reporting Standards
"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 Shares and listing of the Group on the Stock Exchange on November 29, 2013
"Jian Gong Hospital"	Beijing Jian Gong Hospital Co., Ltd. (北京市健宮醫院有限公司), a limited liability company established under the laws of the PRC on May 12, 2003 and a subsidiary of our Company, and its predecessor, Beijing Construction Worker Hospital (北京市建築工人醫院), before its reform
"Jing Mei Hospital"	Jing Mei Hospital (北京京煤集團總醫院), a not-for-profit hospital established 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 Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mentougou Hospital"	Mentougou Hospital (北京市門頭溝區醫院), a not-for-profit hospital established 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 established 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
"PRC"	the People's Republic of China excluding, for the purpose of this announcement, Taiwan, the Macau Special Administrative Region and Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"Remuneration Committee"	the remuneration committee of the Board
"Review Period"	the period from January 1, 2014 to June 30, 2014
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shareholder(s)"	holder(s) of the Share(s)
"Share(s)"	share(s) with par value of HK$0.00025 each in the capital of the Company
"Speed Key Limited"	a limited liability company incorporated in the BVI on January 30, 2013, a Controlling Shareholder and a connected person to the Company
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"U.S. dollar" or "US$"	United States dollar, the lawful currency of the United States
"United States" or "U.S."	the United States of America, its territories and possessions, and all areas subject to its jurisdiction

"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 Hospital Group"	collectively, Yan Hua Hospital and 17 community clinics affiliated with Yan Hua Hospital
"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 established 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

In this announcement, the terms "associate", "connected person", "connected transaction", "subsidiary" and "substantial shareholder" shall have the same meanings given to such terms in the Listing Rules, unless the context otherwise requires.

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

Hong Kong, August 27, 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. Rui Wei, as non-executive Directors; and Mr. Kwong Kwok Kong, Ms. Cheng Hong, Mr. Wang Bing and Mr. Sun Jianhua, as independent non-executive Directors.