PHOENIX
HEALTHCARE
GROUP
凤凰医疗集团

Phoenix Healthcare Group Co. Ltd

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1515

Interim Report 2014


北京市门头沟区医院
BEIJING MENTOUGOU DISTRICT HOSPITAL

Contents

CORPORATE INFORMATION

Directors

Executive Directors:

Mr. Liang Hongze *(Chairman and Chief Executive Officer)*
Ms. Xu Jie
Mr. Zhang Liang *(Vice Chairman and General Manager)*
Mr. Xu Zechang *(Vice General Manager)*
Mr. Jiang Tianfan
(Chief Financial Officer and Secretary of the Board)

Non-executive Directors:

Mr. Yang Huisheng
Mr. Rui Wei
(appointed on July 3, 2014)
Mr. Zhu Zhongyuan
(resigned on July 3, 2014)

Independent non-executive Directors:

Mr. Kwong Kwok Kong
Ms. Cheng Hong
Mr. Wang Bing
Mr. Sun Jianhua

Audit Committee

Mr. Kwong Kwok Kong *(Chairman)*
Ms. Cheng Hong
Mr. Sun Jianhua

Remuneration Committee

Mr. Wang Bing *(Chairman)*
Mr. Sun Jianhua
Mr. Zhang Liang

Nomination Committee

Ms. Cheng Hong *(Chairman)*
Mr. Wang Bing
Mr. Liang Hongze

Authorized Representatives

Mr. Jiang Tianfan
Mr. Or Wing Kee

Joint Company Secretaries

Mr. Or Wing Kee
Mr. Wong Kwok Hung Kendrick

Headquarters and Principal Place of Business in China

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Xicheng District
Beijing 100050
China

Principal Place of Business in Hong Kong

Suites 1214–1215
Two Pacific Place
88 Queensway
Hong Kong

Registered Office

Harneys Services (Cayman) Limited
4th Floor, Harbour Place
103 South Church Street
P.O. Box 10240, Grand Cayman
KY1-1002, Cayman Islands

Principal Share Registrar and Transfer Office in Cayman Islands

Harneys Services (Cayman) Limited
4th Floor, Harbour Place
103 South Church Street
P.O. Box 10240, Grand Cayman
KY1-1002, Cayman Islands

Hong Kong Branch Share Registrar

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

Auditors

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

Legal Adviser

Brandt Chan & Partners
in association with Dentons HK LLP
3201 Jardine House
1 Connaught Place
Central
Hong Kong

Compliance Adviser

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Principal Bankers

China Merchants Bank
2nd Floor, Tower A
156 Fuxingmennei Street
Xicheng District
Beijing, China

Industrial and Commercial Bank of China
55 Taoranting Road
Xuanwu District
Beijing, China

Stock Code

1515

Company Website

www.phg.com.cn

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 did 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.

The Board

The Board currently comprises eleven Directors, including five executive Directors, viz, Mr. Liang Hongze, Ms. Xu Jie, Mr. Zhang Liang, Mr. Xu Zechang and Mr. Jiang Tianfan; two non-executive Directors, viz, Mr. Yang Huisheng and Mr. Rui Wei; and four independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise, viz, Mr. Kwong Kwok Kong, Ms. Cheng Hong, Mr. Wang Bing and Mr. Sun Jianhua.

Note: Mr. Zhu Zhongyuan has resigned as non-executive Director of the Company and Mr. Rui Wei has been appointed as non-executive Director of the Company both on July 3, 2014.

The Corporate Information on pages 2 to 3 of this interim report includes changes up to the date of this interim report.

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.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporations

As at June 30, 2014, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be and were entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Long positions in shares

Name of Director/chief executive	Capacity	Number of ordinary shares held (long position)	Approximate percentage of shareholding %
Mr. Liang Hongze	Interest in Controlled Corporation	62,360,000[1]	7.48
Ms. Xu Jie	Family interest in Controlled Corporation	277,360,000[2]	33.27
Mr. Zhang Liang	Personal beneficial interest in corporate shareholder	62,360,000	7.48
Mr. Xu Zechang	Personal beneficial interest in corporate shareholder	62,360,000	7.48
Mr. Jiang Tianfan	Personal beneficial interest in corporate shareholder	62,360,000	7.48

Notes:

1. The 62,360,000 shares are owned by Hyde International Investment Limited, which is controlled by Mr. Liang Hongze.

2. The 277,360,000 shares are owned by Speed Key Limited, which is entirely owned by Ms. Xu Xiaojie, the daughter of Ms. Xu Jie.

Save as disclosed above, as at June 30, 2014, so far as is known to any Directors or chief executive of the Company, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Share Option Scheme

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.

Share Award Scheme

Subsequent to the Review Period and up to the date of this interim report, the Company 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.

The Board will implement the Share Award Scheme in accordance with the scheme rules including but not limited to providing necessary funds to the trustee for purchase of no more than 5% of the total number of issued Shares of the Company as at the Adoption Date with each selected participant receiving not more than 1% of the total number of issued Shares as at the Adoption Date. The Company shall comply with the relevant Listing Rules when grating the awarded shares. If the awards are made to the Directors, such awards shall constitute connected transaction under Chapter 14A of the Listing Rules and the Company shall comply with the relevant requirements under the Listing Rules.

No shares have been awarded by the Company under the Share Award Scheme since the Adoption Date up to the date of this interim report.

Interests of Substantial Shareholders and Other Persons in Shares and Underlying Shares

As at June 30, 2014, the following persons (other than the Directors and chief executive of the Company) had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company.

Interests of Substantial Shareholders and Other Persons in Shares and Underlying Shares (Continued)

Name of Shareholder	Capacity	Number of ordinary shares held (long position)	Approximate percentage of shareholding %
Speed Key Limited[1]	Beneficial Owner	277,360,000	33.27
Ms. Xu Xiaojie[1]	Interest in Controlled Corporation	277,360,000	33.27
Senmart Investments Limited	Interest in Controlled Corporation	145,920,000	17.50
Mr. Zhu Zhiwei	Interest in Controlled Corporation	179,120,000	21.48
Hyde International Investment Limited	Beneficial Owner	62,360,000	7.48
Green Talent Investments Limited[2]	Beneficial Owner	58,720,000	7.04
Greenwoods Bloom Fund II, L.P.[2]	Interest in Controlled Corporation	58,720,000	7.04
Greenwoods Bloom Fund, L.P.[2]	Interest in Controlled Corporation	58,720,000	7.04
Ms. Tang Hua[2]	Interest in Controlled Corporation	58,720,000	7.04
JP Morgan Chase & Co.	Interest in Controlled Corporation	41,772,500	5.01

Notes:

1. Speed Key Limited is entirely owned by Ms. Xu Xiaojie,the daughter of Ms. Xu Jie.

2. Green Talent Investments Limited is controlled by Greenwoods Bloom Fund II, L.P., which is in turn controlled by Greenwoods Bloom Fund, L.P., Greenwoods Bloom Fund, L.P. is owned by Ms. Tang Hua.

Other than as disclosed above, as at June 30, 2014, the Directors have not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

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.

On behalf of the Board
Liang Hongze
Chairman

Hong Kong, August 27, 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six months ended June 30, 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	8	**(944)**	(11,531)
Other expenses		**(342)**	(2,971)
Profit before tax		**115,375**	70,161
Income tax expense	9	**(30,272)**	(17,745)
Profit and total comprehensive income for the period	10	**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)	11	**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	13	**125,072**	123,249
Intangible assets	14	**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	15	**998**	1,080
		650,953	650,617
Current assets			
Inventories	16	**35,802**	31,050
Trade receivables	17	**97,265**	83,818
Prepayments and other receivables		**38,124**	19,462
Amounts due from a related party	23	**68,919**	56,871
Short-term investments	18	**582,500**	176,000
Certificate of deposit	19	**365,966**	704,450
Cash and cash equivalents	19	**224,148**	401,770
		1,412,724	1,473,421
Current liabilities			
Trade payables	20	**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

	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

The notes on pages 24 to 42 form an integral part of these interim consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Attributable to non-controlling interests RMB'000	Total RMB'000
Balance at January 1, 2014	166	1,542,270	(335,027)	13,045	396,746	1,617,200	98,654	1,715,854
Profit and total comprehensive income for the period	—	—	—	—	82,384	82,384	2,720	85,104
Exchange loss from capital injection to Beijing Phoenix by its shareholders	—	—	—	—	—	—	—	—
Balance at June 30, 2014 (Unaudited)	166	1,542,270	(335,027)	13,045	479,130	1,699,584	101,374	1,800,958
Balance at January 1, 2013	140,580	—	24,877	5,787	314,012	485,256	92,502	577,758
Profit and total comprehensive Income for the period	—	—	—	—	50,354	50,354	2,062	52,416
Issue of shares by the Company	109	99,891	—	—	—	100,000	—	100,000
Adjustments arising from the Reorganization	(140,580)	—	(209,904)	—	—	(350,484)	—	(350,484)
Balance at June 30, 2013 (Audited)	109	99,891	(185,027)	5,787	364,366	285,126	94,564	379,690

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended June 30, 2014 RMB'000 (Unaudited)	2013 RMB'000 (Audited)
Profit before tax	**115,375**	70,161
Adjustments for:		
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	**7,179**	6,945
Interest and investment income	**(18,167)**	(3,770)
Finance costs	**944**	11,531
Loss (gain) on disposal of property, plant and equipment, net	**21**	(18)
Foreign exchange loss	**2,650**	470
Operating cash flows before movements in working capital	**119,985**	97,516
Movements in working capital		
(Increase) decrease in inventories	**(4,752)**	4,824
Increase in trade receivables	**(13,326)**	(27,508)
Increase in prepayments and other receivables	**(18,587)**	(75)
(Increase) decrease in amount due from a related party	**(12,048)**	20,826
Increase (decrease) in trade payables	**29,930**	(107)
Increase in other payables	**33,541**	441
Cash generated from operations	**134,743**	95,917
Income taxes paid	**(30,213)**	(23,852)
Net cash generated from operating activities	**104,530**	72,065
Cash flows from investing activities		
Interest received from short-term investments	**14,932**	653
Purchase of short-term investments	**(1,791,600)**	(390,460)
Proceeds from disposal of short-term investments	**1,385,100**	428,910
Purchase and withdrawal of certificate of deposit	**338,484**	—
Purchases of property, plant and equipment	**(16,343)**	(6,664)
Payments to IOT Hospitals under IOT agreements	**(10,000)**	—
Advance to a related party	**—**	(92,000)
Repayment from IOT Hospitals	**1,450**	1,466
Proceeds from disposal of property, plant and equipment	**31**	19
Net cash used in investing activities	**(77,946)**	(58,076)

	Note	Six months ended June 30, 2014 RMB'000 (Unaudited)	2013 RMB'000 (Audited)
Cash flows from financing activities			
Interest paid		**(1,556)**	(10,111)
Capital injection by a shareholder of Pinyu		**—**	150,000
Acquisition of equity interest of Beijing Phoenix		**—**	(134,695)
Repayment of the borrowings		**(200,000)**	(2,945)
Repayment of obligations under finance leases		**—**	(651)
Net cash (used in) generated from financing activities		**(201,556)**	1,598
Net (decrease) increase in cash and cash equivalents		**(174,972)**	15,587
Cash and cash equivalents at the beginning of the period		**401,770**	113,124
Effect of foreign exchange rate changes		**(2,650)**	(465)
Cash and cash equivalents at the end of the period	19	**224,148**	128,246
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash	19	**224,148**	128,246

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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.

(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.

6. Segment Information (Continued)

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)
Consolidated liabilities				262,719

6. Segment Information (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
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)

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
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)

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
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.

6. Segment Information (Continued)

Segment revenue, results, assets and liabilities (Continued)

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.

Information about major customers

Revenue from the customers, including revenue from hospital management services and supply chain business (details of the major customers' revenue by segment are disclosed in Note 7), 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. IOT Arrangements

The IOT agreements entered between the Group and the contributors of IOT Hospitals as described in the Group's annual report for the year ended December 31, 2013 remain unchanged.

(i) The amount of management fee received/receivable by the Group and revenue derived from supply chain business to the IOT Hospitals during current interim period is as follows:

For the six months ended June 30, 2014 (Unaudited)

	Hospital management services RMB'000	Supply chain business RMB'000	Total RMB'000
Yan Hua Hospital	7,641	89,126	96,767
Mentougou Hospital	1,694	50,138	51,832
Jing Mei Hospital	5,992	86,346	92,338
Mentougou Traditional Chinese Medicine Hospital	1,416	15,946	17,362
	16,743	241,556	258,299

For the six months ended June 30, 2013 (Audited)

	Hospital management services RMB'000	Supply chain business RMB'000	Total RMB'000
Yan Hua Hospital	1,865	81,607	83,472
Mentougou Hospital	2,417	29,660	32,077
Jing Mei Hospital	5,579	76,985	82,564
Mentougou Traditional Chinese Medicine Hospital	—	6,630	6,630
	9,861	194,882	204,743

7. IOT Arrangements (Continued)

(ii) The amount of trade receivables with the IOT Hospitals and receivables from IOT Hospitals at the end of the current interim period are as follows:

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Trade receivables:		
Yan Hua Hospital	**68,937**	56,871
Mentougou Hospital	**27,806**	28,737
Jing Mei Hospital	**41,188**	28,625
Mentougou Traditional Chinese Medicine Hospital	**9,362**	8,538
	147,293	122,771

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Receivables from the IOT Hospitals:		
Yan Hua Hospital	**21,527**	18,339
Mentougou Hospital	**30,228**	28,651
Mentougou Traditional Chinese Medicine Hospital	**9,908**	10,767
	61,663	57,757
Less: current portion included in prepayments and other receivables	**(6,798)**	(6,573)
Non-current portion	**54,865**	51,184

8. Finance Costs

	Six months ended June 30, 2014 RMB'000 (Unaudited)	2013 RMB'000 (Audited)
Interests on borrowings wholly repayable within five years	**944**	11,136
Interest on finance leases	**—**	395
	944	11,531

9. 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 RMB'000 (Unaudited)	2013 RMB'000 (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

10. 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	2013
	RMB'000	RMB'000
	(Unaudited)	(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

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:

	Six months ended June 30, 2014 RMB'000 (Unaudited)	Six months ended June 30, 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.

12. 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.

13. Property, Plant and Equipment

During the current interim period, the Group spent approximately RMB7,234,000 (six months ended June 30, 2013: RMB8,786,000) on additions to upgrade its medical equipment, motor vehicles, and office equipment for better serving the patients. In the same period, the Group had disposals of approximately RMB3,541,000 (six months ended June 30, 2013: RMB14,307,000) mainly due to scheduled replacements.

14. Intangible Assets

	As at June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000 (Audited)
Cost:		
At beginning of the period	**351,288**	343,138
Additions:		
Differences between the Repayable Investment Amounts made to IOT Hospitals and the fair value of the Repayable Investment Amounts upon initial recognition (Note)	**7,879**	8,150
At the end of the period	**359,167**	351,288
Accumulated amortization:		
At beginning of the period	**(34,039)**	(19,965)
Charge for the period	**(7,179)**	(14,074)
At the end of the period	**(41,218)**	(34,039)
Carrying amount at the end of the period	**317,949**	317,249

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.

15. Deferred Tax Assets

The movement of the Group's deferred tax assets during the current interim period is as follows:

	Accrued expenses RMB'000	Total RMB'000
At January 1, 2013 (Audited)	1,158	1,158
Charge to profit or loss	(78)	(78)
At December 31, 2013 (Audited)	1,080	1,080
Charge to profit or loss	(82)	(82)
At June 30, 2014 (Unaudited)	998	998

16. Inventories

	As at June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000 (Audited)
Pharmaceuticals	28,500	24,713
Medical devices and medical consumables	7,302	4,137
	35,802	31,050

17. 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 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.

18. Short-Term Investments

The Group's short-term investments mainly represent investments in financial products operated by banks, with expected annual return ranging from 1.8% to 6.0% per annum which have been designated at fair value through profit or loss. The short-term investments as at June 30, 2014 will be maturing before November 2014 (December 31, 2013: January 2014).

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 the current interim period.

19. Certificate of Deposit and Cash and Cash Equivalents

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Bank balance and cash (classified as cash and cash equivalents)	**224,148**	401,770
Certificate of deposit	**365,966**	704,450
	590,114	1,106,220
Cash and cash equivalents and certificate of deposit denominated in:		
— RMB	**586,212**	793,637
— USD	**1,551**	1,712
— HKD	**2,351**	310,871
	590,114	1,106,220

Bank balances carried interest at market rates which range from 0.15% to 4.00% per annum over both periods. As at June 30, 2014, the Group had the certificate of deposit of RMB365,966,000 (June 30, 2013: RMB704,450,000) with interest rate of 3.6% per annum which will mature before September 2014.

20. 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 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (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

21. Capital Commitments

The following is the details of capital expenditure contracted for but not provided in these interim consolidated financial statements.

	As at June 30, 2014 RMB'000 (Unaudited)	As at December 31, 2013 RMB'000 (Audited)
Commitment for acquisition of property, plant and equipment	**2,286**	5,659
Commitment for Repayable Investment Amounts to Yan Hua Hospital under IOT agreement	**53,000**	63,000
	55,286	68,659

22. Contingent Liabilities

The Group is involved as defendants in certain medical disputes arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group and accordingly, no provision is made in this regard.

23. 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	Entity controlled by a shareholder with significant influence over the Company
Speed Key Limited	Shareholder of the Company

23. Related Party Transactions (Continued)

(b) Related party balances

At June 30, 2014, other than the transactions with Yan Hua Hospital and receivables from Yan Hua Hospital under IOT arrangements set out in Note 7, the Group had the following balances with related parties:

Amounts due from a related party

	As at	
Trade in nature	**June 30, 2014 RMB'000 (Unaudited)**	December 31, 2013 RMB'000 (Audited)
Yan Hua Hospital	**68,937**	56,871

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:

	As at	
	June 30, 2014 RMB'000 (Unaudited)	December 31, 2013 RMB'000 (Audited)
Within 60 days	**27,457**	45,503
61–180 days	**41,480**	11,368
	68,937	56,871

As at June 30, 2014, the Group did not have amount due from a related party which was past due.

24. 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.

"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 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 established under the laws of the PRC on November 6, 2007, and a wholly-owned subsidiary of 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
"BVI"	the British Virgin Islands
"Chairman"	the chairman of our Board
"Chief Executive Officer"	the chief executive officer of our Company
"Chief Financial Officer"	the chief financial officer of our Company
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this interim report, 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

DEFINITIONS (CONTINUED)

"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
"Pinyu"	a limited liability company incorporated in the BVI on January 3, 2013, a wholly-owned subsidiary of our Company
"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 Option Scheme"	the share option scheme conditionally adopted by the Company pursuant to a resolution passed by our Shareholders on September 30, 2013
"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

DEFINITIONS (CONTINUED)

"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 interim report, 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.