溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.
(A joint stock limited liability company incorporated in the People's Republic of China)
Stock code: 2120

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2019

1 INTRODUCTION

1.1 The Board of Directors (the "**Board**") of Wenzhou Kangning Hospital Co., Ltd. (the "**Company**") is pleased to announce the consolidated annual results of the Company and its Subsidiaries (collectively, the "**Group**", "**we**" or "**our**") for the financial year ended December 31, 2019 (the "**Reporting Period**") with comparative figures for the preceding financial year ended December 31, 2018.

1.2 The financial statements (the "**Financial Statements**") of the Group for the Reporting Period are prepared in accordance with China Accounting Standards for Business Enterprises.

2 FINANCIAL HIGHLIGHTS

2.1 Principal Financial Data and Indicators

	For the year ended December 31,	
	2019	2018
	(RMB'000)	*(RMB'000)*
Revenue	**860,692**	745,972
Profit before income tax	**55,523**	106,910
Income tax expense	**(17,295)**	(31,941)
Net profit	**38,228**	74,969
Net profit attributable to equity holders of the Company	**57,289**	80,596
Non-controlling interests	**(19,061)**	(5,627)

	As of December 31, 2019	As of December 31, 2018
	(RMB'000)	*(RMB'000)*
Total assets	**2,117,352**	1,840,724
Total liabilities	**855,843**	635,451
Total equity	**1,261,509**	1,205,273
Equity attributable to equity holders of the Company	**1,164,484**	1,120,995
Non-controlling interests	**97,025**	84,278

3 BUSINESS REVIEW AND OUTLOOK

3.1 Business Review

In 2019, the National Healthcare Security Administration implemented a series of reform measures to control medical insurance expenditure, such as procurement with volume in 4+7 pilot cities and the reform of medical insurance payment methods. The Group actively adjusted its strategy to adapt to medical insurance supervision requirements. While ensuring the quality of healthcare services, the Group improved and adjusted the charging structure to control medical expenses. The following progress has been made:

In 2019, the Group's owned hospital business developed steadily. Hangzhou Yining Hospital, Taizhou Kangning Hospital and Luqiao Cining Hospital, which were opened in 2018 as well as Wenling Nanfang Hospital, Nanjing Yining Hospital, Guanxian Yining Hospital and Heze Yining Hospital, which were consolidated by mergers and acquisitions, all have been on the right track in their business development. The businesses of the Group's mature hospitals have developed stably, the service volume of Pingyang Kangning Hospital and Geriatric Hospital has increased fast as compared with that of the same period of last year. In the second half of 2019, Cangnan Kangning Hospital relocated to the new building and put into operation, and added 300 new beds. The business of Qingtian Kangning Hospital and Yongjia Kangning Hospital has been constrained by space concerns, however, these hospitals have implemented new district relocation projects and are expected to add 500 new beds. As of December 31, 2019, the number of the Group's owned hospitals increased to 21 (December 31, 2018: 18) and the number of beds under operation increased to 6,073 (December 31, 2018: 5,140). In addition, in order to focus on the owned hospital development, the Group has taken cut its management and consulting business, which no longer serves as a main business for the accounting and reporting purpose.

In 2019, while steadily developing our existing hospitals, the Group continued to develop the healthcare facilities network through mergers and acquisitions. We collectively held 51% equity interest in Beijing Yining Hospital through capital increase and collectively held 65% equity interest in Huainan Kangning Hospital through acquiring equity interest (for details, please refer to the announcement of the Company dated May 14, 2019), and collectively held 64.55% equity interest in Changchun Kanglin Psychological Hospital Co., Ltd. through acquiring equity interest and capital increase (for details, please refer to the announcement of the Company dated September 9, 2019).

In 2019, while developing its business, the Group continued to improve its overall competitiveness. The first batch of students graduated from "Kangning Class" has effectively ease tension caused by insufficient talents of the Group. The promotion of information technology softwares independently researched and developmented, with mental characteristics has greatly improved the efficiency of the medical personnel. The brand framework, preliminary completed, continued to increase our recognition and reputation in the industry and with the public. In addition, the work station of overseas academician and the key laboratory in Wenzhou City have further enhanced the research level of the Group.

Looking into the future, with the further development of building a healthy China and the strong demand for healthcare service, the medical insurance payment methods will be more scientific and reasonable. While expanding the healthcare service network, the Group will further optimize the service positioning, actively dock with commercial insurance, vigorously expand non-medical insurance business, further develop high-end markets with special needs, explore the internet medical service model and strive to achieve stable and sustainable development of healthcare business.

3.2 Business Highlights

In 2019, the Group's informatization was further improved, and a series of core systems of psychiatric specialty hospitals were initially achieved independent research and development and independent copyright and were officially sold. In addition, the Group also jointly established overseas academician work stations with Canadian experts, and was committed to cooperating in artificial intelligence research and medical clinical education.

3.3 Business Outlook

The Group's financial position and operating results are mainly subject to the following risks:

(i) Risk relating to high reimbursement amount from public medical insurance. From 2017 to 2019, reimbursement amount from public medical insurance accounted for 53.8%, 56.6% and 58.2% of the total cash received from sales of goods and rendering of service for the respective years. If the Group's healthcare facilities are unable to maintain the qualification of designated medical insurance institutions in the future, or there are adverse changes on the national public medical insurance policy in respect of treatment of mental illness, the Group's operating results will be affected adversely;

(ii) Risk relating to shortage of professional medical talents. Under the laws and regulations of the PRC, healthcare facilities shall maintain a certain number of medical staff. With the increase in the number of healthcare facilities of the Group, if we are unable to recruit or maintain adequate medical staff, we will face difficulty to provide patients with the desirable medical services, which in return will adversely affect our operating results; and

(iii) Risk relating to failure to renew qualifications and licenses required for our operations. Healthcare facilities are required to obtain the Medical Practice License before carrying out their businesses, which usually has valid period and requires regular inspection by the regulatory authorities. If the healthcare facilities of the Group are unable to renew their licenses in the future due to poor management or non-compliant operation, our operating results will be affected adversely.

Looking into the future, the Group will leverage on the favorable environment in China, the government of which encourages the social capital to establish healthcare facilities to implement and improve a number of medium- and long-term strategic layouts. While continuing to expand the network of healthcare facilities and strengthen the Group's market position, the Group will strengthen scientific research, personnel training and informatization construction, with a view to improving its service level of healthcare facilities.

4 MANAGEMENT DISCUSSION AND ANALYSIS

4.1 Financial Review

The Group recorded revenue of RMB860.7 million during the Reporting Period, representing an increase of 15.4% as compared with 2018. Among them, the revenue from operating owned hospitals amounted to RMB793.5 million, representing an increase of 12.3% as compared with 2018. During the Reporting Period, the average inpatient spending per bed-day of the Group's owned hospitals has decreased, thus the gross profit margin of our owned hospitals decreased to 22.3% (2018: 33.2%). As such, the overall gross profit of the Group decreased to RMB204.5 million, representing a decrease of 18.9% as compared with that of 2018. During the Reporting Period, net profit attributable to equity holders of the Company amounted to RMB57.3 million, representing a decrease of 28.9% as compared with 2018.

4.1.1 Revenue and Cost of Revenue

The Group generates revenue mainly through the following three ways: (i) revenue from operating its owned hospitals; (ii) revenue of other healthcare related business; and (iii) revenue of the property business.

The table below sets forth a breakdown of total revenue for the periods indicated:

	For the year ended December 31,	
	2019	2018
	(RMB'000)	*(RMB'000)*
Revenue from operating owned hospitals	**793,490**	706,651
Revenue from other healthcare related business	**27,506**	22,281
Revenue of the property business	**39,696**	17,040
Total revenue	**860,692**	745,972

Revenue and cost of revenue from operating the owned hospitals

Revenue from operating the owned hospitals consists of fees charged for the outpatient visits and the inpatient services at the Group's various hospitals, including treatment and general healthcare services and pharmaceutical sales. The table below sets forth a breakdown of our revenue, cost of revenue and gross profit for the owned hospitals for the periods indicated:

	For the year ended December 31,	
	2019	2018
	(RMB'000)	*(RMB'000)*
Treatment and general healthcare services		
Revenue	**587,874**	539,548
Cost of revenue	**441,786**	331,883
Gross profit	**146,088**	207,665
Pharmaceutical sales		
Revenue	**205,616**	167,103
Cost of revenue	**174,398**	140,330
Gross profit	**31,218**	26,773
Owned hospitals		
Revenue	**793,490**	706,651
Cost of revenue	**616,184**	472,213
Gross profit	**177,306**	234,438

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB793.5 million, representing an increase of RMB86.8 million as compared with 2018, mainly due to the fast business development of Guanxian Yining Hospital, Hangzhou Yining Hospital and Taizhou Kangning Hospital. During the Reporting Period, the gross profit of the Group's owned hospitals decreased by 24.4% as compared with that of 2018, mainly due to (i) the bed utilization rate was relatively low in newly opened owned hospitals in 2018; (ii) the Group adjusted its internal medical service constructure to adapt to the reform of the medical insurance payment methods; (iii) the substantial increase in employee benefits and expenses brought by the expanding network of medical facilities in the Group; and (iv) pharmaceutical sales prices declined as a result of the drug expenditure cutting.

The table below sets forth a breakdown of revenue of the Group's owned hospital by inpatients and outpatients for the periods indicated, with relevant operating data:

	For the year ended December 31, 2019	2018
Inpatients		
Inpatient bed as at period end	**6,073**	5,140
Effective inpatient service bed-day capacity	**2,216,645**	1,876,100
Utilization rate (%)	**84.2**	80.3
Number of inpatient bed-days	**1,865,922**	1,506,762
Treatment and general healthcare services revenue attributable to inpatients *(RMB'000)*	**557,994**	516,794
Average inpatient spending per bed-day on treatment and general healthcare services *(RMB)*	**299**	343
Pharmaceutical sales revenue attributable to inpatients *(RMB'000)*	**110,260**	87,609
Average inpatient spending per bed-day on pharmaceutical sales *(RMB)*	**59**	58
Total inpatient revenue *(RMB'000)*	**668,254**	604,403
Total average inpatient spending per bed-day *(RMB)*	**358**	401
Outpatients		
Number of outpatient visits	**226,720**	188,488
Treatment and general healthcare services revenue attributable to outpatients *(RMB'000)*	**29,880**	22,754
Average outpatient spending per visit on treatment and general healthcare services *(RMB)*	**132**	121
Pharmaceutical sales revenue attributable to outpatients *(RMB'000)*	**95,356**	79,494
Average outpatient spending per visit on pharmaceutical sales *(RMB)*	**420**	422
Total outpatient revenue *(RMB'000)*	**125,236**	102,248
Total average outpatient spending per visit *(RMB)*	**552**	543
Total treatment and general healthcare services revenue *(RMB'000)*	**587,874**	539,548
Total pharmaceutical sales revenue *(RMB'000)*	**205,616**	167,103

During the Reporting Period, inpatient revenue amounted to RMB668.3 million, representing an increase of 10.6% as compared with 2018, primarily due to: (i) the number of the Group's inpatient bed-days increased by 23.8% arising from the increase of inpatient beds in Wenling Nanfang Hospital, Taizhou Kangning Hospital, Hangzhou Yining Hospital, Heze Yining Hospital and Guanxian Yining Hospital; and (ii) the average inpatient spending per bed-day of the Group's owned hospitals decreased by 10.7% caused by reform of medical insurance payment methods. The proportion of inpatient revenue to revenue from operating owned hospitals decreased to 84.2% (2018: 85.5%).

During the Reporting Period, outpatient revenue amounted to RMB125.2 million, representing an increase of 22.5% as compared with 2018, primarily due to: (i) the increase of outpatient visits by 20.3%; and (ii) the average outpatient spending per visit increased by 1.6% as the number of high-end patients rose. The proportion of outpatient revenue to revenue from operating owned hospitals increased to 15.8% (2018: 14.5%).

During the Reporting Period, due to the increase of both inpatient and outpatient business, revenue from treatment and general healthcare services increased by 9.0% as compared with 2018, the proportion of which to revenue from operating our owned hospitals decreased to 74.1% (2018: 76.4%); revenue from pharmaceutical sales increased by 23.0% as compared with 2018, accounting for 25.9% of revenue from operating owned hospitals (2018: 23.6%), of which: the proportion of revenue from inpatient pharmaceutical sales to total inpatient revenue increased to 16.5% (2018: 14.5%), and the proportion of revenue from outpatient pharmaceutical sales to total outpatient revenue reduced to 76.1% (2018: 77.7%).

Cost of revenue of the Group's owned hospitals primarily consisted of pharmaceuticals and consumables used, employee benefits and expenses, leasing expenses, depreciation of right-of-use assets, depreciation and amortization, canteen expenses and testing fees. The table below sets forth a breakdown of cost of revenue of the Group's owned hospitals for the periods indicated:

	For the year ended December 31,	
	2019	2018
	(RMB'000)	*(RMB'000)*
Pharmaceuticals and consumables used	**222,516**	177,106
Employee benefits and expenses	**206,523**	158,047
Leasing expenses	**2,225**	27,938
Depreciation of right-of-use assets	**29,860**	—
Depreciation and amortization	**62,804**	45,222
Canteen expenses	**35,940**	25,331
Testing fees	**17,325**	14,093
Others	**38,991**	24,476
Cost of revenue of owned hospitals	**616,184**	472,213

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB616.2 million, representing an increase of 30.5% as compared with 2018, which was higher than the increase in revenue from owned hospitals. It was mainly due to: (i) the increase of 25.6% in pharmaceutical and consumables expenses relating to increase in revenue from pharmaceutical sales; (ii) the increase of 30.7% in employee benefits and expenses arising from the increase in beds in operation of owned hospitals; (iii) leasing expenses and depreciation of right-of-use assets increased by 14.8% as compared with that of 2018; and (iv) the depreciation and amortization increased by 38.9% as compared with that of 2018, mainly caused by the expansion of the healthcare facilities' network.

From the cost structure perspective, the proportion of pharmaceuticals and consumables used in the cost of revenue of owned hospitals decreased to 36.1% (2018: 37.5%). The proportion of employee benefits and expenses to cost of revenue of owned hospitals was 33.5%, remaining the same as compared with that in 2018. The proportion of leasing expenses, the depreciation of right-of-use assets together with depreciation and amortization to cost of revenue of owned hospitals slightly decreased to 15.4% (2018: 15.5%).

Revenue from other healthcare related business

The revenue from other healthcare related business of the Group includes revenue from consulting business, revenue from information technology business, etc. During the Reporting Period, revenue from the other healthcare related business of the Group amounted to RMB27.5 million, of which management and consulting business revenue was RMB21.7 million (2018: RMB19.7 million); the revenue from information technology business was RMB0.9 million (2018: nil) generated by the sales of information software developed by Yelimi Company, which was established in December 2018.

Revenue from the property business

The Group's revenue of the property business includes property leasing income, property sales income, etc. During the Reporting Period, revenue of the property business increased to RMB39.7 million (2018: RMB17.0 million), mainly due to the disposition of investment property sales income of RMB32.6 million was recorded by Wenzhou Guoda during the Reporting Period.

4.1.2 Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB204.5 million, decreased by 18.9% as compared with 2018. The gross profit of the owned hospitals businesses amounted to RMB177.3 million, representing a decrease of 24.4% as compared with 2018. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

	For the year ended December 31,	
	2019	2018
Treatment and general healthcare services	**24.9%**	38.5%
Pharmaceutical sales	**15.2%**	16.0%
Owned hospitals businesses	**22.3%**	33.2%
Property and other businesses	**40.5%**	45.3%
Consolidated gross profit margin	**23.8%**	33.8%

During the Reporting Period, consolidated gross profit margin of the Group decreased to 23.8% (2018: 33.8%), of which the gross profit margin of treatment and general healthcare services decreased by 13.6 percentage points as compared with 2018, mainly due to the decrease in the average inpatient spending per bed-day resulting from medical insurance expenditure containment. The gross profit margin of pharmaceutical sales decreased by 0.8 percentage point as compared with 2018, mainly due to the payment standard for certain drugs have been further cut down, which was caused by implementation of the nationwide lowest drug price linkage in Zhejiang Province from May 1, 2019.

4.1.3 Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB5.2 million (2018: RMB5.7 million), mainly included property tax related to the new building of Wenzhou Kangning Hospital as well as taxes related to the property business of Wenzhou Guoda.

4.1.4 Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB8.0 million (2018: RMB5.1 million), which increased a lot as compared with 2018, mainly because the Group has set up the brand department to enhance the brand influence. The selling expenses accounted for 1.0% of the revenue from operating owned hospitals of the Group (2018: 0.7%).

4.1.5 Administrative Expenses

During the Reporting Period, administrative expenses of the Group primarily consist of benefits and expenses for the management and administrative staff, depreciation and amortization, consultancy expenses, travelling expenses and other expenses. The table below sets forth a breakdown of administrative expenses of the Group for the periods indicated:

	For the year ended December 31,	
	2019	2018
	(RMB'000)	*(RMB'000)*
Employee benefits and expenses	**75,186**	55,281
Depreciation and amortization	**12,198**	8,723
Consultancy expenses	**11,121**	10,218
Travelling expenses	**4,509**	3,694
Others	**20,325**	20,085
Total administrative expenses	**123,339**	98,001

During the Reporting Period, the administrative expenses of the Group amounted to RMB123.3 million, representing an increase of 25.9% as compared with 2018, mainly due to the increase of 36.0% of our employee benefits and expenses arising from the increase of our management staff. During the Reporting Period, the proportion of the administrative expenses to the revenue from operating owned hospitals of the Group increased to 15.5% (2018: 13.9%).

4.1.6 Research and Development Expenses

During the Reporting Period, the Group's research and development expenses amounted to RMB6.0 million (2018: RMB5.7 million), representing an increase of 5.0% as compared with 2018. The proportion of research and development expenses to the revenue from operating owned hospitals of the Group was 0.8% (2018: 0.8%).

4.1.7 Finance Expenses – Net

Our finance income includes interest income from bank deposits, and the finance expenses include exchange losses, borrowing interest expense, the interest expenses on lease liabilities and the amortization of unrecognized financial charge in relation to long-term payables. The table below sets forth a breakdown of our finance income and expense for the periods indicated:

	For the year ended December 31,	
	2019	2018
	(RMB'000)	*(RMB'000)*
Interest income	**4,477**	3,683
Exchange (losses)/gains	**(643)**	4,074
Borrowing interest expense	**(12,307)**	(8,850)
Interest expenses on lease liabilities	**(12,415)**	—
Amortization of unrecognized financial charge	**(1,841)**	(5,511)
Others	**(759)**	(567)
Finance expenses – net	**(23,488)**	(7,171)

During the Reporting Period, the net finance expenses of the Group amounted to RMB23.5 million, representing an increase of RMB16.3 million as compared with 2018, mainly due to: (i) an increase of RMB3.5 million arising from interest expense of bank borrowings during the Reporting Period; and (ii) an increase of RMB12.4 million arising from the interest expenses on lease liabilities caused by adoption of the revised Accounting Standards for Enterprises No. 21 - Leases (the "**New Lease Standard**") released by Ministry of Finance of China.

4.1.8 Investment Gains/(Losses)

Our investment gains/(losses) consist of share of investments gains/(losses) accounted for using the equity method and gains arising from disposal of long-term equity investment. The table below sets forth a breakdown of our investments gains/(losses) for the periods indicated:

	For the year ended December 31,	
	2019	2018
	(RMB'000)	*(RMB'000)*
Share of losses of investments accounted for using the equity method	**(3,403)**	(10,029)
Gains arising from disposal of long-term equity investment	**26,213**	1,727
Interest from structured deposit	**702**	–
Dividend income from funds	**824**	–
	24,336	(8,302)

During the Reporting Period, our investment gains amounted to RMB24.3 million, mainly due to RMB22.3 million of investment gains arising from disposal of equity investment from the capital increase in Beijing Yining Hospital of the Group and transferring from other equity, RMB3.9 million of investment gains from disposal of equity investment from the capital increase in Huainan Kangning Hospital and RMB6.6 million of the share of losses of investments accounted for using the equity method in associates.

4.1.9 Assets Impairment Losses and Credit Impairment Losses

During the Reporting Period, assets impairment losses and credit impairment losses increased to RMB29.3 million in total (2018: RMB23.5 million), accounting for 3.4% of the Group's total revenue (2018: 3.2%). As at December 31, 2019 and 2018, the provisions for bad debts of accounts receivables of the Group's owned hospitals businesses amounted to RMB21.4 million and RMB21.5 million respectively and accounted for 7.1% and 7.3% of total accounts receivables of the owned hospitals businesses at the corresponding time.

4.1.10 Non-Operating Income (Expenses) and Other Gains

Our non-operating income mainly consists of government subsidies, and non-operating expenses mainly consist of donation expenses and losses from scrapping of non-current assets. The table below sets forth a breakdown of our non-operating income, non-operating expenses and other gains for the periods indicated:

	For the year ended December 31,	
	2019	2018
	(RMB'000)	*(RMB'000)*
Derecognition of contractual rights of managing Yanjiao Furen Hospital	**25,666**	–
Government subsidies	**2,755**	6,714
Other non-operating income	**968**	468
Non-operating income	**29,389**	7,182
Losses from scrapping of non-current assets	**13,240**	–
Donation expenses	**2,987**	5,254
Other non-operating expenses	**3,486**	788
Non-operating expenses	**19,713**	6,042
Other gains	**10,393**	8,538

During the Reporting Period, the non-operating income of the Group increased to RMB29.4 million, primarily due to the suspension of management business in Yanjiao Furen Hospital, and the net value transferred from long-term payables offsetting against the intangible assets; the non-operating expenses of the Group increased to RMB19.7 million, primarily due to the losses of RMB13.2 million from scrapping of non-current assets, which was mainly resulted from the suspension of management business of Yanjiao Furen Hospital. Other gains of the Group increased to RMB10.4 million, primarily due to the increase of the government subsidies in relation to human resources by RMB4.8 million.

4.1.11 Income Tax Expense

During the Reporting Period, income tax expense decreased to RMB17.3 million (2018: RMB31.9 million), representing a decrease of 45.9% as compared with 2018, mainly due to the decrease of 48.1% of the Group's profits before tax during the Reporting Period as compared with 2018. As for the years of 2019 and 2018, our actual tax rates were 31.1% and 29.9%, respectively. The slight increase in actual tax rates for the Reporting Period was mainly due to the increase in the deductible losses for which no deferred tax asset was recognised.

4.2 Financial Position

4.2.1 Inventory

As of December 31, 2019, inventory balances amounted to RMB23.6 million (as of December 31, 2018: RMB20.8 million), mainly include: (i) the medical inventory and turnover materials of RMB21.0 million (as of December 31, 2018: RMB18.2 million); and (ii) completed development properties of RMB2.6 million (as of December 31, 2018: RMB2.6 million), representing Phase II Works of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda, Room 2701, Room 2806, Room 2807 and Room 2808. The table below sets forth the details of completed development properties held by us during the Reporting Period:

Completed property	Phase II Works of Business Center of Wenzhou Higher Education Mega Center, Room 2701, Room 2806, Room 2807 and Room 2808
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	19.3
Total floor area (Approx.) (Sq. m.)	325.73
Usage	Commercial, financial and office
Stage	Completed and accepted
Completion date	June 30, 2017

4.2.2 Accounts Receivables

As of December 31, 2019, the balance of accounts receivables amounted to RMB310.5 million (as of December 31, 2018: RMB299.8 million), among which, the balance of accounts receivables for owned hospitals businesses amounted to RMB281.7 million, representing an increase of 3.09% as compared with that of December 31, 2018, mainly due to the increase of our revenue from operating owned hospitals during the Reporting Period as compared with that of 2018, which was in line with the increase of business volume of our healthcare facilities.

During the Reporting Period, the accounts receivables turnover days of the Group's owned hospitals businesses were 128 days (2018: 122 days).

4.2.3 Other Receivables and Prepayments

As of December 31, 2019, other receivables and prepayments decreased to RMB68.7 million (as of December 31, 2018: RMB74.7 million).

4.2.4 Investment Properties

As of December 31, 2019, the balance of investment properties amounted to RMB110.9 million (as of December 31, 2018: RMB128.6 million), representing Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3/F) and Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2/F to 11/F) held by Wenzhou Guoda. During the Reporting Period, Phase I Works of Business Center of Wenzhou Higher Education Mega Center (4/F) has been entirely sold, and there was no significant change in the fair value of the remaining investment properties. Set out in the following table are the details of the investment properties held by us at the end of Reporting Period:

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3/F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	2,133.52
Total floor area (Approx.) (Sq. m.)	7,367.61
Usage	Non-residential
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the related properties are freehold properties
Investment property	Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2/F to 11/F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City Zhejiang Province, the PRC

Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	11,850.34
Usage	Commercial, office and hotel
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the related properties are freehold properties

4.2.5 Other Non-current Financial Assets

As of December 31, 2019, balance of other non-current financial assets amounted to RMB51.3 million (as of December 31, 2018: RMB51.0 million). During the Reporting Period, the fair value of other non-current financial assets increased by RMB0.3 million as compared with that of 2018.

4.2.6 Right-of-use Assets

As of December 31, 2019, right-of-use assets amounted to RMB235.3 million (as of December 31, 2018: Nil), mainly due to the adoption of the New Lease Standard.

4.2.7 Accounts Payables

As of December 31, 2019, accounts payables increased slightly to RMB75.6 million (as of December 31, 2018: RMB73.6 million).

4.2.8 Contract Liability

As of December 31, 2019, contract liability increased to RMB8.6 million (as of December 31, 2018: RMB2.2 million).

4.2.9 Other Payables

As of December 31, 2019, other payables increased to RMB133.3 million (as of December 31, 2018: RMB129.8 million).

4.3 Liquidity and Capital Resources

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

	For the year ended December 31,	
	2019	2018
	(RMB'000)	*(RMB'000)*
Net cash generated from operating activities	**111,290**	66,521
Net cash used in investing activities	**(140,531)**	(155,481)
Net cash generated from financing activities	**7,762**	37,374
Net decrease in cash and cash equivalents	**(22,115)**	(50,472)

4.3.1 Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB111.3 million, primarily consisting of net profit of RMB38.2 million and adjustments of RMB109.8 million for depreciation and amortisation of various assets. Changes in working capital resulted in cash outflow of RMB50.5 million. We had cash outflow of RMB37.2 million attributable to our various taxes paid.

4.3.2 Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities amounted to RMB140.5 million, primarily due to the amount of RMB127.5 million for purchasing property, plant and equipment, including the amounts paid for the relocation projects of Qingtian Kangning Hospital and Yongjia Kangning Hospital, and the renovation of Phase II of Geriatric Hospital.

4.3.3 Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities amounted to RMB7.8 million, mainly due to a net inflow of RMB85.0 million in bank borrowings and an outflow of approximately RMB58.0 million caused by repayment of leasing liability.

4.3.4 Significant Investment, Acquisition and Disposal

The Group had no significant investment, acquisition and disposal during the Reporting Period.

4.4 Indebtedness

4.4.1 Bank Borrowings

As of December 31, 2019, the balance of bank borrowings of the Group amounted to RMB310.0 million (as of December 31, 2018: RMB225.0 million), primarily attributable to repayment of borrowings of RMB185.0 million and an increase in borrowings of RMB270.0 million during the Reporting Period.

4.4.2 Contingent liability

As of December 31, 2019, the Group had no contingent liability or guarantees that would have a material impact on the financial position or operation of the Group.

4.4.3 Asset Pledge

Wenzhou Guoda, a Subsidiary of the Group, had pledged its completed properties, Phase II of Business Center of Wenzhou Higher Education Mega Center, to the China Zheshang Bank as pledge for providing corresponding credit facilities to the Company. As of December 31, 2019, no loan has been applied to the China Zheshang Bank.

4.4.4 Lease Liabilities

The lease liabilities of the Group primarily consist of operating lease arrangements. As of December 31, 2019, the present values of unsettled lease payments under non-cancellable lease agreements, after deducting an amount of RMB27.1 million which is due within one year, were RMB183.8 million.

4.4.5 Financial Instruments

Financial instruments of the Group consist of accounts receivable, other non-current financial assets, other receivables, cash and cash equivalents, bank borrowings, accounts payable and other payables. The Company's management manages and monitors these exposures to ensure effective measures are implemented in a timely manner.

4.4.6 Exposure to Fluctuation in Exchange Rates

The Group deposits certain of its financial assets in foreign currencies, which mainly involve risks of fluctuations in the exchange rate of HKD against RMB. The Group is exposed to foreign exchange risks accordingly.

As of December 31, 2019, the Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

4.4.7 Gearing Ratio

As of December 31, 2019, the Group's gearing ratio (total liabilities divided by total assets) was 40.4% (as of December 31, 2018: 34.5%), mainly due to an increase of the gearing ratio caused by the recognition of use right assets and leasing liabilities with the adoption of New Lease Standard.

4.4.8 Employees and Remuneration Policy

As of December 31, 2019, the Group had a total of 2,845 full-time employees (as of December 31, 2018: 2,581 full-time employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB288.7 million (2018: RMB221.6 million). The average employees' remuneration is RMB109.5 thousand per year (including social medical insurance scheme and housing grant scheme bore by the Group). The remuneration is determined with reference to the salary level in the same industry and the qualifications, experience and performance of an employee.

In order to fully mobilize the enthusiasm of senior management and core technical personnel of the Group, the Company drafted the Equity Incentive Scheme for the Year 2018 of Wenzhou Kangning Hospital Co., Ltd. (the "**Equity Incentive Scheme**"), which was considered and approved at the annual general meeting of the Company for the year 2017 which has been convened on June 13, 2018 (the "**2017 AGM**"). Unless otherwise specified, capitalized terms used below shall have the same meanings as those defined in the announcement of the Company dated May 29, 2018 and the supplementing circular of the Company dated May 30, 2018.

After the consideration and approval at the 2017 AGM, and confirmation at the 8th meeting of the second session of the Board of the Company held on August 20, 2018, the actual first grant comprised of 165 persons, the actual aggregate number of Shares first granted was 1,818,529 Shares.

After the consideration and approval at the 15th meeting of the second session of the Board of the Company convened on August 26, 2019, incentive Shares were granted to the second phase participants. The second phase participants include core technical personnel of the Company and other persons who, in the opinion of the Board, shall be incentivized. The grant of the second phase grant scheme comprised of 37 persons, and the total number of Shares granted was 273,161 Shares. As 14 persons voluntarily abstained to subscribe, the actual grant comprised of 23 persons, and the actual aggregate number of Shares granted was 180,516 Shares, representing 0.2391% of total issued share capital of the Company at the grant date. The details are shown as the following table. The Participants shall pay the subscription amounts calculated by the amount of grants multiplied by the grant price (RMB10.47 per Share).

Category of personnel	Number of persons granted (person)	Number of Shares granted (Share)	Number of grant representing total issued share capital of the Company
Core technical personnel	17	142,311	0.1885%
Other persons who, in the opinion of the Board, shall be incentivized	6	38,204	0.0506%
Total	23	180,516	0.2391%

The Shares granted to the participants are restricted Shares of the Company.

The incentive Shares under the incentive scheme comprise reserved Shares of Wenzhou Zhenyan Kangning Investment Management L.P.(溫州箴言康寧投資管理合夥企業(有限合夥)) built with incentive Shares under the first grant. Participants shall subscribe for and contribute capital at the Grant Price and become a limited partner of the Partnership.

The locked-up period of the incentive Shares granted to the participants is 48 months, calculated from the date the participants are granted the incentive Shares.

Incentive Shares under the grant shall be unlocked in one go after 48 months from the date of the grant.

5 SIGNIFICANT EVENTS

5.1 Dividend

The Board does not recommend the payment of a final dividend for the year ended December 31, 2019.

6 PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

7 REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed the Group's annual results for the financial year ended December 31, 2019 and opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

The Audit Committee consists of two independent non-executive Directors of the Company, Mr. HUANG Zhi (the chairman of the Audit Committee) and Mr. GOT Chong Key Clevin, and one non-executive Director of the Company, Mr. LIN Lijun. Among them, Mr. HUANG Zhi has the appropriate professional qualification (a Chinese certified public accountant accredited by the Chinese Institute of Certified Public Accountants).

8 COMPLIANCE WITH CG CODE

The Company has complied with all code provisions in the CG Code during the Reporting Period.

9 COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as a code of conduct of the Company for its Directors' and Supervisors' securities transactions in the Company. Having made specific enquiry of all Directors and Supervisors of the Company, the Directors and the Supervisors of the Company have complied with the requirements set out in the Model Code during the Reporting Period.

10 EVENTS AFTER THE REPORTING PERIOD

After the outbreak of Coronavirus Disease 2019 ("**COVID-19 outbreak**") in early 2020, a series of precautionary and control measures have been implemented across the country. The COVID-19 outbreak has certain effects on the operation of macro economy, while to what degree it may be impacted depends on the the situation of prevention and control, the duration of the epidemic and the implementation of the relevant regulation and control policies.

The COVID-19 outbreak has also affected, to a certain extent, the Group's medical service income in the first quarter of 2020. The Group will continue to pay close attention to the development of the COVID-19 outbreak and its impact on the Group, and we will continue to take positive measures and assess its impact on the Group's financial condition, results of operations, etc.

Save as stated above and the events disclosed in paragraph 5 heading "Significant Events" in this announcement, there were no significant events occurred since the end of the Reporting Period to the date of this announcement.

11 AUDITORS AND WORKING SCOPE

The consolidated financial statements of the Group for the year ended December 31, 2019, which have been prepared in accordance with China Accounting Standards for Business Enterprises have been audited by PricewaterhouseCoopers Zhong Tian LLP ("**PricewaterhouseCoopers**"), who has issued a standard audit report with unqualified opinions on the consolidated financial statements.

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated cashflow statement and consolidated statement of changes in shareholders equity and the related notes thereto for the year ended December 31, 2019 as set out in the announcement have been agreed by PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for 2019. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

12 FINANCIAL REPORT

12.1 Accounting Policies

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises – Basic Standard, and the specific accounting standards and the relevant regulations issued by the Ministry of Finance on February 15, 2006 and in subsequent periods (hereafter collectively referred to as "**the Accounting Standards for Business Enterprises**" or "**CAS**").

The financial statements are prepared on a going concern basis.

The new Hong Kong Companies Ordinance became effective on March 3, 2014. Certain related disclosures in this financial statement have been disclosed according to requirements of the Hong Kong Companies Ordinance.

12.1.1 Changes of Significant Accounting Policies

The Ministry of Finance released the revised Accounting Standards for Enterprises No. 21 – Leases (hereinafter referred to as "**New Lease Standard**") in 2018, and instituted Notice on Revising and Circulating the Format of Financial Statements of General Enterprises for the year 2019 (Cai Kuai [2019] No.6), revised Accounting Standards for Business Enterprises No.7-Exchange of Non-Monetary Assets (hereinafter referred to as "**Standards for Exchange of Non-Monetary Assets**") and Accounting Standards for Business Enterprises No.12-Debt Restructuring (hereinafter referred to as "**Standards for Debt Restructuring**"). The Group has adopted standards and notice above to prepare the financial statements for the year 2019. There are no phenomenal influences brought by revised Standards for Exchange of Non-Monetary Assets and Standards for Debt Restructuring, while influences of other revision on statements of the Group and the Company are listed as follow:

(a) Leases

The Group and the Company initially implemented the New Leasing Rules on January 1, 2019. According to relevant regulations, the Group and the Company decided not to re-evaluate contracts signed before the date of initial implementation. The Group adjusted the amount of the related items in 2019 financial statements, and comparative financial statements in 2018 were not restated. The Company has no lease contract on January 1, 2019, so the initial implementation of the New Lease Standard has no phenomenal influence on the Company.

Contents and reasons of the modification of accounting policies	The line items affected	The amounts affected 1 January, 2019 The Group *(RMB)*
For operating lease contracts that existed prior to the initial implementation of the New Lease Standard, the Group adopts different methods according to the remaining lease period:	Right-of-use assets Lease liabilities Non-current liabilities due within one year	234,963,917 (198,596,521) (26,230,361)
If the remaining lease period is longer than one year, the Group recognises lease liabilities based on the remaining lease payment and incremental borrowing rate on January 1, 2019 ("**Date of Initial Implementation**").Right-of-use assets are recognised as the same amount as lease liabilities, and are adjusted according to the prepaid rent.	Prepayment Other non-current assets Other payable	(9,871,004) (4,097,899) 3,831,868
If the remaining lease period is less than one year, the Group adopts a simplified method of not recognising the right-of-use assets and lease liabilities, with no significant impact on the financial statements.		
For operating lease contracts with low value that existed prior to the initial implementation of the New Lease Standard, the Group adopts simplified method of not recognising the right-of-use assets and lease liabilities, with no significant impact on the financial statements.		

On January 1, 2019, when the Group measured the lease liabilities, the same discount rate was adopted for lease contracts with similar characteristics, and the weighted average rates of incremental borrowing used was from 4.53%.

On January 1, 2019, the Group adjusted the unpaid minimum operating lease payments disclosed under the original lease standard to the adjustment schedules for lease liabilities recognized under the new lease standard as follows:

	the Group
Future minimum operating lease payments disclosed as at December 31, 2018	274,950,045
Present value of the above said minimum operating lease payments discounted at incremental borrowing rate	224,826,882
Lease liabilities recognised as at January 1, 2019 (including non-current liabilities due within one year)	224,826,882

Note: The Group and the Company disclosed on December 31, 2018 that the factors that have not paid the minimum operating lease payments do not include the option of renewal. When determining the lease liabilities on the Date of initial Implementation, the Group and the Company will include the lease payments for the renewal period into the calculation of the lease liabilities for the lease that is reasonably determined to be the option of renewal.

12.2 Annual Consolidated Financial Information

The annual consolidated financial information of the Group prepared in accordance with the China Accounting Standard for Business Enterprises is set out as follows:

12.2.1 Annual Consolidated Income Statement

(All amounts in RMB unless otherwise stated)

Item	Year ended December 31, **2019**	2018
1. Revenue	**860,691,729**	745,971,888
Less: Cost of sales	**(656,184,564)**	(493,729,636)
Taxes and surcharges	**(5,226,869)**	(5,720,201)
Selling and distribution expenses	**(7,977,677)**	(5,141,918)
General and administrative expenses	**(123,338,942)**	(98,001,249)
Research and development expenses	**(6,018,107)**	(5,733,120)
Finance expenses-net	**(23,488,174)**	(7,171,247)
Including: Interest expenses	**(26,563,406)**	(14,361,002)
Interest income	**4,477,337**	3,682,615
Add: Other gains	**10,392,548**	8,538,235
Investment gains/(losses)	**24,336,266**	(8,302,493)
Including: Share of losses of associates	**(3,403,144)**	(10,029,269)
Gains from change in fair value	**1,917,462**	–
Credit impairment losses	**(29,256,324)**	(18,695,980)
Asset impairment losses	**–**	(4,823,557)
Losses on disposal of assets	**–**	(1,420,551)
2. Operating profit	**45,847,348**	105,770,171
Add: Non-operating income	**29,388,527**	7,182,072
Less: Non-operating expenses	**(19,713,068)**	(6,041,975)
3. Total profit	**55,522,807**	106,910,268
Less: Income tax expenses	**(17,295,189)**	(31,941,040)

Item	Year ended December 31, **2019**	2018
4. Net profit	**38,227,618**	74,969,228
Classified by continuity of operations		
Net profit from continuing operations	**38,227,618**	74,969,228
Net profit from discontinued operations	**–**	–
Classified by ownership of the equity		
Net profit attributable to shareholders of the company	**57,289,394**	80,595,677
Non-controlling interests	**(19,061,776)**	(5,626,449)
5. Total comprehensive income	**38,227,618**	74,969,228
Attributable to		
Shareholders of the Parent Company	**57,289,394**	80,595,677
Non-controlling interests	**(19,061,776)**	(5,626,449)
6. Earnings per share		
– Basic *(RMB per share)*	**0.78**	1.10
– Diluted *(RMB per share)*	**0.77**	1.09

12.2.2 Annual Consolidated Balance Sheets

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	**December 31, 2019**	December 31, 2018
Current assets		
Cash at bank and on hand	**176,030,550**	187,076,694
Financial assets held for trading	**30,000,000**	–
Accounts receivable	**310,520,612**	299,750,063
Other receivables	**63,317,366**	58,051,581
Prepayment	**5,366,020**	16,683,839
Inventories	**23,568,236**	20,813,747
Current portion of non-current assets	**12,688,704**	12,688,704
Total current assets	**621,491,488**	595,064,628
Non-current assets		
Other non-current financial assets	**51,281,869**	50,974,323
Long-term equity investments	**89,943,193**	100,321,983
Investment properties	**110,856,100**	128,568,963
Fixed assets	**552,490,802**	444,322,834
Construction in progress	**72,180,620**	131,187,406
Right-of-use assets	**235,312,149**	—
Intangible assets	**130,298,128**	185,257,977
Goodwill	**54,346,633**	19,296,005
Long-term prepaid expenses	**151,083,314**	144,386,669
Deferred tax assets	**46,275,930**	33,825,347
Other non-current assets	**1,791,629**	7,517,900
Total non-current assets	**1,495,860,367**	1,245,659,407
TOTAL ASSETS	**2,117,351,855**	1,840,724,035

LIABILITIES AND OWNERS' EQUITY	**December 31, 2019**	December 31, 2018
Current liabilities		
Short-term borrowings	**250,000,000**	145,000,000
Accounts payable	**75,554,960**	73,644,717
Contract liability	**8,562,126**	2,244,706
Employee benefits payable	**36,063,277**	28,270,410
Taxes payable	**33,430,060**	41,119,676
Other payables	**133,348,712**	129,807,988
Current portion of non-current liabilities	**79,741,922**	63,757,304
Total current liabilities	**616,701,057**	483,844,801
Non-current liabilities		
Long-term borrowings	**20,000,000**	40,000,000
Lease liabilities	**183,808,151**	—
Long-term payables	**2,260,000**	86,645,200
Accrued liability	**2,000,000**	–
Deferred income	**9,949,267**	10,253,059
Deferred tax liabilities	**21,124,118**	14,707,619
Total non-current liabilities	**239,141,536**	151,605,878
Total liabilities	**855,842,593**	635,450,679
Shareholders' equity		
Share capital	**75,500,000**	75,500,000
Capital surplus	**824,715,445**	827,379,886
Less: Treasury Share	**(21,721,144)**	(21,910,000)
Surplus reserve	**33,189,321**	29,981,034
Retained earnings	**252,800,715**	210,044,608
Total equity attributable to shareholders of the parent company	**1,164,484,337**	1,120,995,528
Non-controlling interests	**97,024,925**	84,277,828
Total shareholders' equity	**1,261,509,262**	1,205,273,356
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,117,351,855**	1,840,724,035

12.2.3 Annual Consolidated Statements of Cash Flow

(All amounts in RMB Yuan unless otherwise stated)

Item	Year Ended December 31, 2019	2018
1. Cash flows from operating activities		
Cash received from sales of goods or rendering of services	**807,539,631**	654,660,709
Cash received relating to other operating activities	**18,344,424**	31,999,794
Sub-total of cash inflows	**825,884,055**	686,660,503
Cash paid for goods and services	**(285,388,760)**	(241,731,386)
Cash paid to and on behalf of employees	**(281,555,432)**	(218,086,294)
Payments of taxes and surcharges	**(37,151,952)**	(39,374,238)
Cash paid relating to other operating activities	**(110,498,137)**	(120,948,057)
Sub-total of cash outflows	**(714,594,281)**	(620,139,975)
Net cash flows from operating activities	**111,289,774**	66,520,528
2. Cash flows from investing activities		
Cash received from disposal of investments	**447,094**	–
Cash received from investment gain	**1,526,505**	–
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**32,924,720**	–
Net cash received from disposal of Subsidiaries and other business units	**1,860,358**	–
Cash received relating to other investing activities	**3,610,001**	363,629,965
Sub-total of cash inflows	**40,368,678**	363,629,965
Cash paid to acquire fixed assets, intangible assets and other long-term assets	**(127,544,732)**	(145,499,984)
Cash paid to acquire investments	**(48,455,000)**	(25,190,000)
Net cash paid to acquire Subsidiaries and other business units	**(552,505)**	(17,520,196)
Cash paid relating to other investing activities	**(4,347,100)**	(330,900,393)
Sub-total of cash outflows	**(180,899,337)**	(519,110,573)
Net cash flows used in investing activities	**(140,530,659)**	(155,480,608)

Item	Year Ended December 31, 2019	2018
3. Cash flows generated from financing activities		
Cash received from capital contributions	**12,345,000**	34,820,000
Including: Cash received from capital contributions by non-controlling Shareholders of Subsidiaries	**12,345,000**	12,910,000
Cash received from borrowings	**270,000,000**	190,440,000
Cash received relating to other financing activities	**11,960,000**	–
Sub-total of cash inflows	**294,305,000**	225,260,000
Cash repayments of borrowings	**(185,000,000)**	(169,285,600)
Cash payments for interest expenses and distribution of dividends or profits	**(29,036,189)**	(18,600,234)
Cash payments relating to other financing activities	**(72,507,242)**	–
Sub-total of cash outflows	**(286,543,431)**	(187,885,834)
Net cash flows generated from financing activities	**7,761,569**	37,374,166
4. Effect of foreign exchange rate changes on cash and cash equivalents	**(635,428)**	1,113,949
5. Net decrease in cash and cash equivalents	**(22,114,744)**	(50,471,965)
Add: Cash and cash equivalents at beginning of the year	**187,066,694**	237,538,659
6. Cash and cash equivalents at end of the year	**164,951,950**	187,066,694

12.2.4 Consolidated Statement of Changes In Equity

(All amounts in RMB Yuan unless otherwise stated)

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Non-controlling interests	Total owners' equity
Balance at January 1, 2019	75,500,000	827,379,886	(21,910,000)	29,981,034	210,044,608	84,277,828	1,205,273,356
Movements for the year of 2019							
Total comprehensive income							
Net profit	–	–	–	–	57,289,394	(19,061,776)	38,227,618
Capital contribution and withdrawal by shareholders							
Capital contribution by Shareholders	–	–	–	–	–	12,345,000	12,345,000
Share-based payment included in shareholders' equity	–	5,920,526	–	–	–	–	5,920,526
Transactions with non-controlling Shareholders	–	(3,690,389)	–	–	–	(4,969,611)	(8,660,000)
Capital withdrawal by Shareholders	–	(188,856)	188,856	–	–	–	–
Others	–	(4,705,722)	–	–	–	(2,152,086)	(6,857,808)
Business combination involving enterprises not under common control	–	–	–	–	–	26,585,570	26,585,570
Profit distribution							
Appropriation for surplus reserve	–	–	–	3,208,287	(3,208,287)	–	–
Profit distribution to equity shareholders	–	–	–	–	(11,325,000)	–	(11,325,000)
Balance at December 31, 2019	75,500,000	824,715,445	(21,721,144)	33,189,321	252,800,715	97,024,925	1,261,509,262

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Non-controlling interests	Total owners' equity
Balance at December 31, 2017	73,040,000	808,244,186	–	23,710,012	146,840,254	58,662,363	1,110,496,815
Add: change in accounting policies	–	–	–	–	(164,301)	–	(164,301)
Balance at January 1, 2018 (restated)	73,040,000	808,244,186	–	23,710,012	146,675,953	58,662,363	1,110,332,514
Movements for the year of 2018							
Total comprehensive income							
Net profit	–	–	–	–	80,595,677	(5,626,449)	74,969,228
Capital contribution and withdrawal by shareholders							
Capital contribution by Shareholders	2,460,000	19,450,000	(21,910,000)	–	–	12,910,000	12,910,000
Share-based payment included in shareholders' equity	–	2,372,415	–	–	–	–	2,372,415
Transactions with non-controlling Shareholders	–	(3,597,311)	–	–	–	(4,157,192)	(7,754,503)
Others	–	910,596	–	–	–	–	910,596
Business combination involving enterprises not under common control	–	–	–	–	–	22,489,106	22,489,106
Profit distribution							
Appropriation for surplus reserve	–	–	–	6,271,022	(6,271,022)	–	–
Profit distribution to shareholders	–	–	–	–	(10,956,000)	–	(10,956,000)
Balance at December 31, 2018	75,500,000	827,379,886	(21,910,000)	29,981,034	210,044,608	84,277,828	1,205,273,356

12.3 Notes to the Consolidated Annual Financial Information prepared in accordance with the China Accounting Standard for Business Enterprises

12.3.1 Accounts receivable

	December 31, 2019	December 31, 2018
	RMB	*RMB*
Due from related parties	**8,250,000**	6,749,917
Due from third parties	**330,174,215**	318,519,503
Subtotal	**338,424,215**	325,269,420
Less: Provision for bad debts	**(27,903,603)**	(25,519,357)
	310,520,612	299,750,063

According to the Group's credit policy, all bills are payable upon issuance.

Aging analysis of accounts receivable based on the billing date is as follows:

	December 31, 2019	December 31, 2018
	RMB	*RMB*
Within 1 year	**266,932,953**	261,000,854
1 - 2 years	**57,988,407**	51,396,190
2 - 3 years	**13,089,001**	12,862,881
Over 3 years	**413,854**	9,495
	338,424,215	325,269,420

12.3.2 Accounts payable

The aging analysis of accounts payable based on the billing date is as follows:

	December 31, 2019	December 31, 2018
	RMB	*RMB*
Within 3 months	**65,881,555**	43,099,493
3- 6 months	**7,479,995**	3,971,590
6-12 months	**1,381,101**	836,832
1 – 2 years	**506,880**	25,470,222
2 – 3 years	**94,816**	50,357
Over 3 years	**210,613**	216,223
	75,554,960	73,644,717

12.3.3 Revenue and cost of sales

	Year ended December 31, 2019		Year ended December 31, 2018	
	Revenue	**Cost**	Revenue	Cost
Main businesses	**793,489,663**	**616,183,633**	706,651,478	472,212,855
Other businesses	**67,202,066**	**40,000,931**	39,320,410	21,516,781
	860,691,729	**656,184,564**	745,971,888	493,729,636

Revenue and cost of sale from main businesses

	Year ended December 31, 2019		Year ended December 31, 2018	
	Revenue	**Cost**	Revenue	Cost
Pharmaceutical sales	**205,615,871**	**174,397,815**	167,103,194	140,329,511
Treatments and general healthcare services	**587,873,792**	**441,785,818**	539,548,284	331,883,344
	793,489,663	**616,183,633**	706,651,478	472,212,855

Revenue and cost of sale from other businesses

	Year ended December 31, 2019		Year ended December 31, 2018	
	Revenue	**Cost**	Revenue	Cost
Real estate sales	**32,554,016**	**28,968,498**	9,471,045	7,260,685
Management service(i)	**21,713,950**	**9,093,928**	19,747,723	12,816,061
Rental income	**7,141,598**	**–**	7,568,944	–
Others	**5,792,502**	**1,938,505**	2,532,698	1,440,035
	67,202,066	**40,000,931**	39,320,410	21,516,781

(i) In 2019, considering the management service income accounts for a small proportion of the Group's total revenue, the management re-assessed the Group's main business and reclassify the management service from main business to other business, and the 2018 comparative figures were adjusted accordingly.

12.3.4 Expenses by nature

The cost of sale, selling and distribution expenses, general and administrative expenses and research and development expenses in the income statement are listed as follows by nature:

	Year ended December 31,	
	2019	2018
Employee and welfare benefits	**288,688,273**	221,649,507
Pharmaceutical and medical consumables used	**225,091,256**	179,200,817
Costs of real estate sold	**28,968,498**	7,260,685
Depreciation of fixed assets	**34,807,048**	28,914,368
Depreciation of right-of-use assets	**29,859,521**	—
Amortisation of intangible assets	**10,874,756**	9,933,744
Amortisation of long-term prepaid expenses	**34,298,665**	24,113,944
Housing lease and property management expenses	**2,293,590**	32,065,307
Canteen expenditure	**35,940,416**	25,331,355
Utilities	**18,589,005**	14,021,346
Outsourcing expenses	**16,108,041**	4,049,315
Testing fee	**17,325,409**	14,092,852
Consulting expense	**9,442,693**	7,497,157
Auditors' remuneration		
– Audit services	**2,600,000**	3,000,000
– Non-audit services	**26,500**	70,096
Promotion expenses	**3,933,565**	2,637,078
Travelling expenses	**6,242,376**	5,930,695
Office expenses	**5,821,043**	6,047,780
Share-based payment	**5,920,526**	2,372,415
Others	**16,688,109**	14,417,462
	793,519,290	602,605,923

12.3.5 *Credit impairment losses*

	Year ended December 31,	
	2019	2018
Credit impairment losses for accounts receivable	**20,356,414**	18,541,921
Credit impairment losses for other receivable	**8,899,910**	154,059
	29,256,324	18,695,980

12.3.6 *Earning per Share*

Basic earning per Share

	Year ended December 31,	
	2019	2018
The net profit attributed to the ordinary Shareholders of the Company *(RMB)* (i)	**57,289,394**	80,226,677
Weighted average number of outstanding ordinary Shares of the Company (Share) (i)	**73,040,000**	73,040,000
Basic earning per Share *(RMB)*	**0.78**	1.10

(i) Following the approval by the Shareholders at the general meeting on June 13, 2018, the Company issued 2,460,000 ordinary Shares to adopt an Equity Incentive Scheme. As these stocks are regarded as treasury stock, according to Interpretation of Accounting Standard for Business Enterprises No. 7, Cash dividend of RMB nil, which has been distributed to the Shareholders with restricted Shares expected to be unlocked in the future, has been deducted from the profit attributed to the ordinary Shareholders of the Company when calculating the basic earnings per Share in 2019. In the meanwhile, 2,460,000 restricted Shares are deducted from the outstanding ordinary Shares of the Company.

Diluted earning per Share

Diluted earning per Share is calculated by the profit attributed to the ordinary Shareholders of the Company adjusted by the dilutive potential ordinary Shares divided by the adjusted weighted average number of outstanding ordinary Shares. Throughout the year ended December 31, 2019, net profit attributed to the ordinary Shareholders of parent company is RMB57,289,394 adjusted by the dilutive potential ordinary Shares, the adjusted weighted average number of outstanding ordinary Shares is 73,927,066. The diluted earnings per Share of the Company is RMB0.77. Throughout the year ended December 31, 2018, the net profit attributed to the ordinary Shareholders of the Company is RMB80,595,677 adjusted by the dilutive potential ordinary Shares, the adjusted weighted average number of outstanding ordinary Shares is 73,849,076. The diluted earnings per Share of the Company is RMB1.09.

12.3.7 Income tax expenses

	Year ended December 31, 2019	2018
Current income tax	**23,409,066**	39,910,885
Deferred income tax	**(6,113,877)**	(7,969,845)
	17,295,189	31,941,040

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the statement of comprehensive income to the income tax expenses is listed below:

	Year ended December 31, 2019	2018
Profit before tax	**55,522,807**	106,910,268
Income tax expenses calculated at the effect tax rate of 25%	**13,880,702**	26,727,567
Expenses not deductible for income tax purposes	**2,741,475**	3,898,294
Filing difference for the previous period	**–**	2,553,569
Additional deduction of research and development expenses	**(1,039,408)**	(850,617)
Tax effect of unrecognised tax losses	**8,337,400**	26,321
Utilization of previous unrecognized tax losses	**–**	(414,094)
Temporary difference related to subsidiary investments for which no deferred tax liabilities	**(6,624,980)**	–
Income tax expenses	**17,295,189**	31,941,040

12.3.8 Dividend

On March 30, 2020, the Board did not recommend the payment of a final dividend for the year ended December 31, 2019. The proposal not to declare dividend is subject to approval by the Shareholders at AGM.

On March 25, 2019, the Board proposed a final dividend of RMB11,325,000 for the year ended December 31, 2018. The proposed dividend was approved by the Shareholder at the annual general meeting for the year 2018 of the Company on June 18, 2019 and the Company paid out the dividend on July 18, 2019.

13 DEFINITIONS

"AGM"	the annual general meeting of the Company for the year 2019 expected to be convened and held on June 18, 2020
"Audit Committee"	the audit committee of the Board
"Beijing Yining Hospital"	Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司), a company established in the PRC with limited liability on August 17, 2015, one of the Company's indirect non-wholly owned Subsidiaries
"Board of Directors" or "Board"	the board of Directors
"Cangnan Kangning Hospital"	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company's wholly owned Subsidiaries
"Company" or "Wenzhou Kangning Hospital"	Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 2120)
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
"Director(s)"	the director(s) of the Company
"Geriatric Hospital"	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the Company's indirect wholly owned Subsidiaries, whose principal business is to provide medical services for the geriatric, including geriatric psychiatric and psychological treatment
"Group" or "we" or "our"	the Company and its Subsidiaries
"Guanxian Yining Hospital"	Guanxian Yining Hospital Co., Ltd. (冠縣怡寧醫院有限公司), a company established in the PRC with limited liability on March 1, 2017, one of the Company's indirect non-wholly owned Subsidiaries

"H Share(s)"	overseas listed foreign invested ordinary Share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of The Stock Exchange of Hong Kong Limited
"Hangzhou Yining Hospital"	Hangzhou Yining Hospital Co., Ltd. (杭州怡寧醫院有限公司), a company established in the PRC with limited liability on August 25, 2016, one of the Company's indirect non-wholly owned Subsidiaries
"Heze Yining Hospital"	Heze Yining Psychiatric Hospital Co., Ltd. (菏澤怡寧精神病醫院有限公司, previously known as Heze Yining Hospital Co., Ltd. (菏澤怡寧醫院有限公司)), a company established in the PRC with limited liability on April 6, 2017, one of the Company's indirect non-wholly owned Subsidiaries
"HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Huainan Kangning Hospital"	Huainan Kangning Hospital Co., Ltd. (淮南康寧醫院有限公司), a company established in the PRC with limited liability on September 22, 2017, one of the Company's indirect non-wholly owned Subsidiaries
"Luqiao Cining Hospital"	Taizhou Luqiao Cining Hospital Co., Ltd. (台州市路橋慈寧醫院有限公司, previously known as Taizhou Luqiao Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司)), a company established in the PRC with limited liability on December 12, 2016, one of the Company's indirect non-wholly owned Subsidiaries
"Nanjing Yining Hospital"	Nanjing Yining Hospital Co., Ltd. (南京怡寧醫院有限公司), a company established in the PRC with limited liability on June 22, 2018, one of the Company's indirect non-wholly owned Subsidiaries
"Pingyang Kangning Hospital"	Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the Company's indirect wholly owned Subsidiaries

"PRC" or "China"	the People's Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Qingtian Kangning Hospital"	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011, one of the Company' wholly-owned Subsidiaries
"RMB"	the lawful currency of the PRC
"Share(s)"	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the domestic share(s) and the H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"Subsidiary" or "Subsidiaries"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
"Supervisor(s)"	the members of the supervisory committee
"Taizhou Kangning Hospital"	Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company's indirect non-wholly owned Subsidiaries
"the Reporting Period"	For the year ended December 31, 2019
"Wenling Nanfang Hospital"	Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd. (溫嶺南方精神疾病專科醫院有限公司), a company established in the PRC with limited liability on June 20, 2018, one of the Company's indirect non-wholly owned Subsidiaries
"Wenzhou Guoda"	Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司), a company established in the PRC with limited liability on February 9, 2002, one of the Company's indirect non-wholly owned Subsidiaries
"Yanjiao Furen Hospital"	Langfang Sanhe Yanjiao Furen Hospital (廊坊三河燕郊輔仁醫院, previously known as Yanjiao Furen Hospital of Traditional Chinese and Western Medicine 燕郊輔仁中西醫結合醫院) under the Company's operation and management in accordance with an entrustment management agreement dated March 26, 2015 entered into between Yanjiao Furen Hospital of Traditional Chinese and Western Medicine and the Company, the management and consultancy business under which has been suspended as of the end of the Reporting Period

"Yelimi Company"	Hangzhou Yelimi Information Technology Co., Ltd. (杭州耶利米信息科技有限公司), a company established in the PRC with limited liability on December 27, 2018, one of the Company's indirect wholly-owned Subsidiaries
"Yongjia Kangning Hospital"	Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2012, one of the Company's wholly owned Subsidiaries
"%"	percentage ratio

By order of the Board
Wenzhou Kangning Hospital Co., Ltd.
GUAN Weili
Chairman

Zhejiang, the PRC
March 30, 2020

As of the date of this announcement, the Company's executive Directors are Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue; the non-executive Directors are Mr. YANG Yang and Mr. LIN Lijun; and the independent non-executive Directors are Mr. CHONG Yat Keung, Mr. HUANG Zhi and Mr. GOT Chong Key Clevin.