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

Interim Results Announcement For the Six Months Ended June 30, 2019

1 INTRODUCTION

1.1 The Board is pleased to announce the interim results of the Group for the Reporting Period with comparative figures for the six months ended June 30, 2018.

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

2 FINANCIAL SUNMMARY

2.1 PRINCIPAL FINANCIAL DATA AND INDICATORS

	For the six months ended June 30,	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Revenue	**378,910**	356,778
Profit before income tax	**52,661**	59,108
Income tax expenses	**(7,120)**	(18,256)
Net profit	**45,541**	40,852
Net profit attributable to shareholders of the Company	**52,064**	41,987
Non-controlling interests	**(6,523)**	(1,135)

	As at June 30, 2019	As at December 31, 2018
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Audited)*
Total assets	**2,010,230**	1,840,724
Total liabilities	**751,355**	635,451
Total equity	**1,258,875**	1,205,273
Equity attributable to shareholders of the Company	**1,158,252**	1,120,995
Non-controlling interests	**100,623**	84,278

3 BUSINESS REVIEW AND OUTLOOK

In the first half of 2019, the National Healthcare Security Administration (the "**NHSA**") has 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 expenditure containment and supervision. 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 the first half of 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. The business of Qingtian Kangning Hospital, Yongjia Kangning Hospital and Cangnan Kangning Hospital has been constrained by space concerns, however, these three hospitals have sought new sites to implement relocation projects and are expected to add 800 beds. With the increasing demand for high-end psychological services and growing influence of the Group's brand, the number of outpatients and inpatients in Beijing Yining Hospital has increased significantly. As of June 30, 2019, the number of the Group's owned hospitals increased to 20 (December 31, 2018: 18) and the number of beds under operation increased to 5,593 (December 31, 2018: 5,140).

In the first half of 2019, in order to concentrate strength and energy on the development of owned hospitals, the Group slightly reduced business of healthcare facilities management. During the Reporting Period, Wenzhou Cining Hospital, Yiwu Psychiatric Health Center, Pingyang Changgeng Ward, Pujiang Hospital and Chun'an Hospital had stable business, while the management service of Yanjiao Furen Hospital was substantively suspended due to agreement dispute (for details, please refer to the announcement of the Company dated June 25, 2019). As of June 30, 2019, the number of healthcare facilities under management by the Group decreased to 5 (December 31, 2018: 6) and the number of beds under management decreased to 990 (December 31, 2018: 1,160).

In the first half of 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).

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, and strive to achieve stable and sustainable development of healthcare business.

4 MANAGEMENT DISCUSSION AND ANALYSIS

4.1 Financial Review

The Group recorded revenue of RMB378.9 million for the Reporting Period. After excluding the revenue of RMB5.9 million for property and other business, the revenue of healthcare business amounted to RMB373.0 million, representing an increase of 8.6% as compared with that of the same period of 2018, mainly because the revenue from operating the Group's owned hospitals increased by 8.8% as compared with that of the same period of 2018. During the Reporting Period, due to the NHSA has implemented a series of reform measures to control expenditure, 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% (for the six months ended June 30, 2018: 35.2%). As such, the overall gross profit margin of healthcare business of the Group for the Reporting Period decreased to 23.3% (for the six months ended June 30, 2018: 35.7%) and the gross profit of healthcare business decreased to RMB87.0 million, representing a decrease of 29.0% as compared with that of the same period of 2018. During the Reporting Period, the net profit attributable to Shareholders of the Company amounted to RMB52.1 million, representing an increase of 24.0% as compared with that of the same period of 2018, primarily due to the investment gain of RMB23.5 million and the net non-operating income of RMB12.0 million during the Reporting Period.

4.1.1 Revenue and Cost of Revenue

The Group generates revenue mainly through the following five ways: (i) revenue from operating its owned hospitals; (ii) management service fee from managing healthcare facilities; (iii) revenue of other healthcare related business; (iv) revenue of the property business; and (v) revenue of information technology business.

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

	For the six months ended June 30,	
	2019	2018
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Revenue from operating owned hospitals	**360,210**	331,211
Management service fee income	**12,800**	12,107
Total revenue of healthcare business	**373,010**	343,318
Revenue from other healthcare related business	**2,064**	1,123
Revenue of the property business	**3,419**	12,337
Revenue of information technology business	**417**	–
Total revenue	**378,910**	356,778

During the Reporting Period, total revenue of the Group amounted to RMB378.9 million, representing an increase of 6.2% as compared with that of the same period of 2018, of which healthcare business revenue was RMB373.0 million, representing an increase of 8.6% as compared with that of the same period of 2018, mainly due to revenue from operating the Group's owned hospitals increased by 8.8% and management service fee income increased by 5.7%. The proportion of revenue from operating the Group's owned hospitals to healthcare business revenue increased to 96.6% (for the six months ended June 30, 2018: 96.5%), while the proportion of management service fee income to healthcare business revenue decreased to 3.4% (for the six months ended June 30, 2018: 3.5%).

Revenue and cost of revenue from operating the Group's 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 six months ended June 30,	
	2019	2018
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Treatment and general healthcare services		
Revenue	**263,580**	252,958
Cost of revenue	**197,304**	149,417
Gross profit	**66,276**	103,541
Pharmaceutical sales		
Revenue	**96,630**	78,253
Cost of revenue	**82,629**	65,087
Gross profit	**14,001**	13,166
Owned hospitals		
Revenue	**360,210**	331,211
Cost of revenue	**279,933**	214,504
Gross profit	**80,277**	116,707

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB360.2 million, representing an increase of RMB29.0 million as compared with that of the same period of 2018. During the Reporting Period, the gross profit of the Group's owned hospitals decreased by 31.2% as compared with that of the same period 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) drug prices declined as a result of the drug expenditure cutting.

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

	For the six months ended June 30,	
	2019	2018
	(Unaudited)	*(Unaudited)*
Inpatients		
Inpatient bed as at period end	**5,593**	4,180
Effective inpatient service bed-day capacity	**1,012,333**	756,580
Utilization rate (%)	**84.9**	89.5
Number of inpatient bed-days	**859,061**	676,929
Treatment and general healthcare services revenue attributable to inpatients *(RMB'000)*	**251,945**	243,876
Average inpatient spending per bed-day on treatment and general healthcare services *(RMB)*	**293**	360
Pharmaceutical sales revenue attributable to inpatients *(RMB'000)*	**50,926**	40,556
Average inpatient spending per bed-day on pharmaceutical sales *(RMB)*	**59**	60
Total inpatient revenue *(RMB'000)*	**302,871**	284,432
Total average inpatient spending per bed-day *(RMB)*	**353**	420
Outpatients		
Number of outpatient visits	**105,986**	91,613
Treatment and general healthcare services revenue attributable to outpatients *(RMB'000)*	**11,635**	9,082
Average outpatient spending per visit on treatment and general healthcare services *(RMB)*	**110**	99
Pharmaceutical sales revenue attributable to outpatients *(RMB'000)*	**45,704**	37,697
Average outpatient spending per visit on pharmaceutical sales *(RMB)*	**431**	412
Total outpatient revenue *(RMB'000)*	**57,339**	46,779
Total average outpatient spending per visit *(RMB)*	**541**	511
Total treatment and general healthcare services revenue *(RMB'000)*	**263,580**	252,958
Total pharmaceutical sales revenue *(RMB'000)*	**96,630**	78,253

During the Reporting Period, inpatient revenue amounted to RMB302.9 million, representing an increase of 6.5% as compared with that of the same period of 2018, primarily due to: (i) the number of the Group's inpatient bed-days increased by 26.9% arising from the increase of inpatient beds in Geriatric Hospital, Taizhou Kangning Hospital and Hangzhou Yining Hospital; and (ii) the average inpatient spending per bed-day of the Group's owned hospitals decreased by 16.2% caused by reform of medical insurance payment methods. The proportion of inpatient revenue to our revenue from operating owned hospitals decreased to 84.1% (for the six months ended June 30, 2018: 85.9%).

During the Reporting Period, outpatient revenue amounted to RMB57.3 million, representing an increase of 22.6% as compared with that of the same period of 2018, primarily due to: (i) the increase of outpatient visits by 15.7%; and (ii) the increase of the average outpatient spending per visit by 5.9% due to the increased number of high-end patients. The proportion of outpatient revenue to our revenue from operating owned hospitals increased to 15.9% (for the six months ended June 30, 2018: 14.1%), mainly due to the proportion of inpatient revenue to revenue from operating owned hospitals decreased more significantly.

During the Reporting Period, due to the increase of both inpatient and outpatient business of owned hospitals, revenue from treatment and general healthcare services increased by 4.2% as compared with that of the same period of 2018, and decreased to 73.2% of revenue from operating our owned hospitals (for the six months ended June 30, 2018: 76.4%); revenue from pharmaceutical sales increased by 23.5% as compared with that of the same period of 2018, accounting for 26.8% of revenue from operating our owned hospitals (for the six months ended June 30, 2018: 23.6%), of which: the ratio of inpatient pharmaceutical sales to total inpatient revenue increased to 16.8% (for the six months ended June 30, 2018: 14.3%), the ratio of outpatient pharmaceutical sales to total outpatient revenue slightly decreased to 79.7% (for the six months ended June 30, 2018: 80.6%).

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 for operating the Group's owned hospitals for the periods indicated:

	For the six months ended June 30,	
	2019	2018
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Pharmaceuticals and consumables used	**101,813**	80,594
Employee benefits and expenses	**91,091**	66,324
Leasing expenses	**–**	12,287
Depreciation of right-of-use assets	**14,119**	–
Depreciation and amortization	**30,236**	21,962
Canteen expenses	**16,577**	12,640
Testing fees	**7,807**	7,002
Others	**18,290**	13,695
Cost of revenue for owned hospitals	**279,933**	214,504

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB279.9 million, representing an increase of 30.5% as compared with that of the same period of 2018, which was higher than the increase in revenue from owned hospitals. It was mainly due to: (i) pharmaceutical expenses relating to increase from pharmaceutical sales increased by 26.3%; (ii) employee benefits and expenses increased by 37.3% arising from the increase in beds in operation of our owned hospitals; (iii) leasing expenses and depreciation of right-of-use assets increased by 14.9% as compared with that of the same period of 2018; and (iv) the depreciation and amortization increased by 37.7% as compared with that of the same period of 2018, mainly caused by the expansion of the healthcare facilities's network.

From the cost structure perspective, the proportion of pharmaceutical and consumables used in the cost of revenue of owned hospitals decreased to 36.4% (for the six months ended June 30, 2018: 37.6%), mainly due to the higher growth of employee benefits and expenses to cost of revenue of the owned hospitals; the proportion of employee benefits and expenses in the cost of revenue of the owned hospitals increased to 32.5% (for the six months ended June 30, 2018: 30.9%); the proportion of leasing expenses, depreciation of right-of-use assets, together with depreciation and amortization to cost of revenue of owned hospitals decreased slightly to 15.8% (for the six months ended June 30, 2018: 16.0%).

Management service fee income

The Group's management service fee income is primarily derived from rendering management services to other healthcare facilities. The table below sets forth the breakdown of our management service fee income, cost of revenue and gross profit for the periods indicated:

	For the six months ended June 30,	
	2019	2018
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Revenue	**12,800**	12,107
Cost of revenue	**6,073**	6,361
Gross profit	**6,727**	5,746

During the Reporting Period, management service fee income of the Group amounted to RMB12.8 million, representing an increase of 5.7% as compared with that of the same period of 2018, which accounted for 3.4% of the Group's revenue of healthcare business (for the six months ended June 30, 2018: 3.5%). The slow growth of management service fee income was mainly due to the Group's adjustment of the business development strategy, reducing the scale of management business and devoting more energy to owned hospital business.

Cost of the Group for rendering management services primarily includes benefits and expenses for management staff assigned and amortization of operation rights acquired for obtaining operation rights. During the Reporting Period, cost of revenue of management service fee of the Group decreased to RMB6.1 million. Accordingly, gross profit margin of the management service business increased to 52.6% (for the six months ended June 30, 2018: 47.5%).

Revenue of the property business

The Group's revenue of the property business includes leasing income and property sales income and others. During the Reporting Period, revenue of the property business decreased to RMB3.4 million (for the six months ended June 30, 2018: RMB12.3 million), mainly due to property leasing income of only RMB3.3 million were recorded by Wenzhou Guoda during the Reporting Period. The loss before tax in property business of Wenzhou Guoda during the Reporting Period amounted to RMB0.4 million.

Revenue from information technology business

During the Reporting Period, revenue from information technology business of the Group amounted to RMB0.4 million, mainly due to the revenue from the sales of information software developed by Yelimi Company, which was established in December 2018.

4.1.2 Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB92.0 million, representing a decrease of 28.9% as compared with that of the same period of 2018. The gross profit of healthcare business after excluding the property and other businesses amounted to RMB87.0 million, representing a decrease of 28.9% as compared with that of the same period of 2018. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

	For the six months ended June 30,	
	2019	2018
	(Unaudited)	*(Unaudited)*
Treatment and general healthcare services	**25.1%**	40.9%
Pharmaceutical sales	**14.5%**	16.8%
Management services	**52.6%**	47.5%
Healthcare business	**23.3%**	35.7%
Property and other businesses	**85.2%**	51.6%
Consolidated gross profit margin	**24.3%**	36.3%

During the Reporting Period, consolidated gross profit margin of the Group decreased to 24.3% of which the gross profit margin of treatment and general healthcare services decreased by 15.8 percentage points as compared with that of the same period of 2018, mainly due to average inpatient spending per bed-day have decreased, which was caused by medical insurance expenditure containment; the gross profit margin of pharmaceutical sales decreased by 2.3 percentage points as compared with that of the same period of 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 RMB0.8 million (for the six months ended June 30, 2018: RMB3.4 million), mainly due to the new building of Wenzhou Kangning Hospital is expected to be exempt from property tax for three years from 2019.

4.1.4 Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB4.5 million (for the six months ended June 30, 2018: RMB2.6 million), which increased a lot as compared with that of the same period of 2018, mainly because the Group has set up the brand department to enhance the Group's brand influence. The selling expenses accounted for 1.2% of the Group's revenue of healthcare business (for six months ended June 30, 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 six months ended June 30,	
	2019	2018
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Employee benefits and expenses	**33,962**	26,332
Leasing expenses of the healthcare facilities under development	**137**	6,584
Depreciation and amortization	**5,709**	3,932
Consultancy expenses	**3,976**	4,398
Travelling expenses	**2,188**	1,623
Others	**6,918**	8,081
Total administrative expenses	**52,890**	50,950

During the Reporting Period, the administrative expenses of the Group amounted to RMB52.9 million, representing an increase of 3.8% as compared with that of the same period of 2018, mainly due to the increase of 29.0% of our employee benefits and expenses arising from the increase of our management staff. During the Reporting Period, the leasing expenses of the healthcare facilities under development decreased by RMB6.4 million as compared with that of the same period of 2018, mainy due to the termination of Sihui Kangning Hospital project and Langfang Yining Hospital project, since the leased properties cannot meet the standard of hospital. During the Reporting Period, the proportion of the administrative expenses to the healthcare business revenue of the Group decreased to 14.2% (for the six months ended June 30, 2018: 14.8%).

4.1.6 Research and Development Expenses

During the Reporting Period, the Group's research and development expenses amounted to RMB2.3 million (for the six months ended June 30, 2018: RMB3.0 million), representing a decrease of 23.3% as compared with that of the same period of 2018. The proportion of research and development expenses to the Group's healthcare business revenue decreased to 0.6% (for the six months ended June 30, 2018: 0.9%), mainly due to RMB0.6 million of it was recorded as intangible assets.

4.1.7 Finance Expenses – Net

Our finance income includes interest income from bank deposits, and the finance expenses include the losses on foreign exchange, the borrowing interest expenses, the interest expense 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 financial income and expense for the periods indicated:

	For the six months ended June 30,	
	2019	2018
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Interest income	**1,925**	1,963
Exchange losses	**(759)**	(355)
Borrowing interest expense	**(3,520)**	(4,135)
Interest expense on lease liabilities	**(5,706)**	–
The amortization of unrecognized financial charge	**(1,841)**	(2,750)
Others	**(298)**	(253)
Finance expenses – Net	**(10,199)**	(5,530)

During the Reporting Period, the net finance expenses of the Group amounted to RMB10.2 million, representing an increase of RMB4.7 million as compared with that of the same period of 2018, primarily due to: (i) the interest expense on lease liabilities increased by RMB5.7 million caused by adoption of the revised Accounting Stnadards for Enterprises No. 21- Leases (the "**new lease standard**"); and (ii) the amortization of unrecognized financial charge decreased by RMB0.9 million as compared with that of the same period of 2018 due to the suspension of management business of Yanjiao Furen Hospital.

4.1.8 Investment Income/(Losses)

Our investment income/(losses) consist of share of investment income/(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 income/(losses) for the periods indicated:

	For the six months ended June 30,	
	2019	2018
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Share of losses of investment accounted for using the equity method	**(2,525)**	(4,318)
Gains arising from disposal of long-term equity investment	**26,074**	–
	23,549	(4,318)

During the Reporting Period, our investment income amounted to RMB23.5 million, representing an increase of approximately RMB27.9 million as compared with that of the same period of 2018, mainly due to RMB22.3 million of investment income arising from disposing the equity in Beijing Yining Hospital and tranferring from other equity, and RMB3.9 million of investment income from disposing the equity in Huainan Kangning Hospital.

4.1.9 Assets Impairment Losses and Credit Impairment Losses

During the Reporting Period, assets impairment losses and credit impairment losses increased to RMB10.7 million in total (for the six months ended June 30, 2018: RMB6.9 million), and increased to 2.9% of revenue of healthcare business of the Group (for the six months ended June 30, 2018: 1.7%). As of June 30, 2019 and December 31, 2018, the provisions for bad debts of account receivable of the Group's healthcare business amounted to RMB29.7 million and RMB25.2 million respectively and accounted for 8.0% and 7.8% of total accounts receivables of the healthcare business at the corresponding time.

4.1.10 Non-Operating Income (Expenses) and Other Gains

Our non-operating income mainly consists of government grants and non-operating expenses mainly consist of donation and losses on scarpping 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 six months ended June 30,	
	2019	2018
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Derecognition of contractual rights of managing Yanjiao Furen Hospital	**25,666**	–
Government grants	**50**	962
Other non-operating income	**723**	235
Non-operating income	**26,439**	1,197
Losses on scarpping of non-current assets	**(13,240)**	–
Donation	**(990)**	(1,370)
Other non-operating expenses	**(241)**	(721)
Non-operating expenses	**(14,471)**	(2,091)
Other gains	**6,567**	4,254

During the Reporting Period, the non-operating income of the Group increased to RMB26.4 million, primarily due to the suspension of management business in Yanjiao Furen Hospital, the net value of long-term payables offsetting the intangible assets was transferred to the non-operating income; the non-operating expenses of the Group increased to RMB14.5 million, primarily due to the losses of RMB13.2 million from scarpping 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 RMB6.6 million, primarily due to the increase of the government grants in relation to human resources by RMB3.9 million.

4.1.11 Income Tax Expense

During the Reporting Period, income tax expense decreased to RMB7.1 million (for the six months ended June 30, 2018: RMB18.3 million), representing a decrease of 61.0% as compared with that of the same period of 2018, mainly due to the decrease of 10.9% of the Group's profits before income tax during the Reporting Period as compared with that of the same period of 2018. For the Reporting Period and the six months ended June 30, 2018, our actual tax rates were 13.5% and 30.9%, respectively. The decrease in actual tax rates during the Reporting Period was mainly due to the unrecognized deferred income tax liability, as the investment income generated from the investment of Beijing Yining Hospital and Huainan Kangning Hospital was a taxable temporary difference related to the investment of the subsidiaries and most likely cannot be taxed.

4.1.12 Total Comprehensive Income

The table below sets forth the major non-recurring items affecting the total comprehensive income attributable to shareholders of the Company for the periods indicated:

	For the six months ended June 30,	
	2019	2018
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Donation	**(990)**	(1,370)
Government grants	**50**	962
Exchange losses	**(759)**	(355)
Derecognition of contractual rights of managing Yanjiao Furen Hospital	**13,338**	–
Written-off construction in progress	**(4,822)**	–
Property business	**(336)**	2,709
Income from disposal of invested equity resulting from additional investment	**26,203**	–
Total impact of non-recurring items (before income tax)	**32,684**	1,946
Total impact of non-recurring items (after income tax)	**30,980**	(415)

Excluding the impact of the above non-recurring items, the total comprehensive income attributable to the Shareholders of the Company during the Reporting Period was approximately RMB21.1 million, representing a significant decrease of 50.3% as compared with that of the same period of 2018 (after excluding the above non-recurring items), mainly due to the gross profit margin of the Group's owned hospitals dropped significantly as a result of controlling medical insurance expenditure.

4.2 Financial Position

4.2.1 Inventory

As of June 30, 2019, inventory balances amounted to RMB23.5 million (as of December 31, 2018: RMB20.8 million), mainly include: (i) the medical inventory and turnover materials amounted to RMB20.9 million (as of December 31, 2018: RMB18.2 million); and (ii) completed properties amounted to 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. The table below sets forth the details of completed properties held by us during the Reporting Period:

Completed properties	Phase II Works of Business Center of Wenzhou Higher Education Mega Center
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Lot number	Guo Yong (2012) No. 3-289403
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	30,557.34
Usage	Commercial, office and hotel
Stage	Completed and accepted
Completion date	June 30, 2017

4.2.2 Accounts Receivables

As of June 30, 2019, the balance of accounts receivables amounted to RMB343.1 million (as of December 31, 2018: RMB299.8 million), among which the balance of accounts receivables for healthcare business amounted to RMB343.0 million, representing an increase of 15.3% as compared with that of December 31, 2018, mainly due to the increase of our revenue of healthcare business during the Reporting Period as compared with that of the same period 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 healthcare business were 168 days (for the six months ended June 30, 2018: 129 days).

4.2.3 Other Receivables and Prepayments

As of June 30, 2019, other receivables and prepayments decreased to RMB70.4 million (as of December 31, 2018: RMB74.7 million).

4.2.4 *Investment Properties*

As of June 30, 2019, the balance of investment properties amounted to RMB138.2 million (as of December 31, 2018: RMB128.6 million), representing Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F) and Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2F to 11F) held by Wenzhou Guoda. During the Reporting Period, there was no significant change in the fair value of investment properties. The following table sets out the details of our investment properties during the Reporting Period:

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-290602, Wen Guoyong (2012) No. 3-290604, Wen Guoyong (2012) No. 3-290616, Wen Guoyong (2012) No. 3-290617, Zhe (2017) Wenzhou property rights No. 0136790, Zhe (2017) Wenzhou property rights No. 0136791, Zhe (2017) Wenzhou property rights No. 0136792, Zhe (2017) Wenzhou property rights No. 0136793
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	3,722.29
Total floor area (Approx.) (Sq. m.)	11,137.06
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 properties are freehold properties
Investment property	Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2F to 11F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-289403
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 properties are freehold properties

4.2.5 Other Non-current Financial Assets

As of June 30, 2019, the other non-current financial assets amounted to RMB51.0 million (as of December 31, 2018: RMB51.0 million). During the Reporting Period, the fair value of the other non-current financial assets remained unchanged.

4.2.6 Right-of-use Assets

As of June 30, 2019, right-of-use assets were RMB262.9 million (as of December 31, 2018: Nil), mainly due to the adoption of the new lease standard.

4.2.7 Accounts Payables

As of June 30, 2019, accounts payables decreased to RMB53.3 million (as of December 31, 2018: RMB73.6 million), mainly due to the decrease in accounts payables for the property project accrued by Wenzhou Guoda.

4.2.8 Contract Liability

As of June 30, 2019, contract liability increased to RMB9.1 million (as of December 31, 2018: RMB2.2 million).

4.2.9 Other Payables

As of June 30, 2019, other payables decreased to RMB119.0 million (as of December 31, 2018: RMB129.8 million), representing the obligations of the Company to repurchase all or part of the ungranted or unlocked Shares at the pre-agreed price in the Share incentive arrangement of restricted Shares implemented by the Group.

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 six months ended June 30,	
	2019	2018
	(RMB'000)	*(RMB'000)*
	(Unaudited)	*(Unaudited)*
Net cash generated from operating activities	**4,157**	25,390
Net cash used in investing activities	**(75,880)**	(132,285)
Net cash generated from/(used in) financing activities	**(25,941)**	25,735
Net decrease in cash and cash equivalents	**(98,423)**	(81,439)

4.3.1 Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB4.2 million, primarily consisting of net profit of RMB45.5 million and adjustments of RMB39.2 million for depreciation of property, plant and equipment as well as adjustments for amortisation of intangible assets and long-term prepaid expense. Changes in working capital resulted in cash outflow of RMB72.2 million. We had cash outflow of RMB20.8 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 RMB75.9 million, primarily due to the amount of RMB63.0 million for purchasing property, plant and equipment, including the amounts paid for the relocation of Qingtian Kangning Hospital and Yongjia Kangning Hospital and the renovation of Phase II of Geriatric Hospital; and the amount of RMB13.0 million paid for investment as a minority shareholder.

4.3.3 Net Cash Used in Financing Activities

During the Reporting Period, net cash used in financing activities amounted to RMB25.9 million, primarily due to the payment of lease liabilities of RMB47.4 million, while offsetting the net cash inflow of bank borrowings of RMB24.0 million.

4.3.4 Significant Investment, Acquisition and Disposal

The Group had no significant investment, acquisition or disposal as for the six months ended June 30, 2019.

4.4 Indebtedness

4.4.1 Bank Borrowings

As of June 30, 2019, the balance of bank borrowings of the Group amounted to RMB249.0 million (as of December 31, 2018: RMB225.0 million), primarily attributable to repayment of borrowings of RMB146.0 million and the new borrowings of RMB170.0 million during the Reporting Period.

4.4.2 Contingent Liabilities

As of June 30, 2019, the Group had no contingent liabilities 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 of June 30, 2019, the mortgage loan procedures were still in progress.

4.4.4 Lease Liabilities

The lease liabilities of the Group primarily consist of operating lease arrangements. As of June 30, 2019, the present values of unsettled lease payments under non-cancellable lease agreements were RMB191.3 million.

4.4.5 Financial Instruments

Financial instruments of the Group consist of accounts receivables, 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 on 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 for the six months ended June 30, 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 June 30, 2019, the Group's gearing ratio (total liabilities divided by total assets) was 37.4% (as of December 31, 2018: 34.5%).

4.4.8 Employees and Remuneration Policy

As of June 30, 2019, the Group had a total of 2,746 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 RMB128.1 million (for the six months ended June 30, 2018: RMB96.5 million). The average employees' remuneration is RMB96.2 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.

During the Reporting Period, the Group did not have any share option schemes.

5 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.

6 SUBSEQUENT EVENTS

From June 30, 2019 to the date of this announcement, the Group has no material subsequent events.

7 REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed this interim results announcement and the Group's financial information for the six months ended June 30, 2019, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made.

The Audit Committee consists of two independent non-executive Directors, Mr. HUANG Zhi (the chairman of the Audit Committee), Mr. GOT Chong Key Clevin, and one non-executive Director, Mr. LIN Lijun.

8 INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2019 (for the six months ended June 30, 2018: nil).

9 COMPLIANCE WITH CG CODE

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

10 ACCOUNTING STANDARDS

The Company has been applying the China Accounting Standards for Business Enterprises since the financial year of 2017, and has complied with the disclosure requirements required in the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance").

11 FINANCIAL REPORT

11.1 Accounting Policies

11.1.1 Accounting Policies

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises - Basic Standard and specific accounting standards and relevant rules issued by the Ministry of Finance of the PRC on February 15, 2006.

The financial statements are prepared and has disclosed relevant financial information in accordance with the requirements of the Accounting Standard for Business Enterprises No. 32 - Interim Financial Report issued by the Ministry of Finance.

The financial statements are prepared on a going concern basis.

The Companies Ordinance has commenced operation in 2016. Some notes in financial statements have been reflected the new requirements of the Companies Ordinance.

11.1.2 *Adoption of New Accounting Policies*

In 2018, the Ministry of Finance issued the new lease standard, and issued "Circular on Revising and Issuing the 2019 Versions of General Corporate Financial Statement Templates" (Cai Kuai [2019] No.6). The Group's financial statements for the six months ended June 30, 2019 are prepared in accordance with the above standard and circular.

The Group adopted the new lease standard at January 1, 2019. According to the relevant provisions of the new lease standard, the Group has not adjusted the comparative financial statements for 2018.

Contents and reasons of the modification of accounting policies	**The line items affected**	**The amounts affected January 1, 2019 The Group**
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	234,963,917
	Lease liabilities	(198,596,521)
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 ("dated of initial implementation"). Right-of-use assets are recognised as the same amount as lease liabilities, and are adjusted according to the prepaid rent.	Current portion of non-current liabilities	(26,230,361)
	Prepayments	(13,968,903)
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.	Other payable	3,831,868
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.		

Apart from the above, other impacts of implementation of new accounting standards are reclassification among line items of the financial statements.

11.2 Consolidated Interim Financial Information

The Consolidated Interim Financial Information of the Group prepared in accordance with the China Accounting Standard for Business Enterprises is set out as follows:

11.2.1 Interim Consolidated Statement of Comprehensive Income

	For the six months ended June 30,	
	2019	2018
	RMB	*RMB*
	(Unaudited)	*(Unaudited)*
1. Revenue	**378,910,291**	356,778,081
Less: Cost of revenue	**(286,882,183)**	(227,375,436)
Taxes and surcharges	**(831,972)**	(3,375,006)
Selling and distribution expenses	**(4,476,806)**	(2,570,269)
General and administrative expenses	**(52,890,346)**	(50,950,061)
Research and development expenses	**(2,304,024)**	–
Financial expenses – net	**(10,198,874)**	(5,530,111)
Add: Other gains	**6,567,461**	4,253,548
Investment gain/(loss)	**23,549,073**	(4,318,848)
Including: Investment losses from associate	**(2,525,317)**	(4,318,848)
Less: Credit impairment losses	**(10,730,916)**	(5,742,669)
Asset impairment losses	**–**	(1,160,929)
Losses on disposal of assets	**(18,587)**	(6,378)
2. Operating profit	**40,693,117**	60,001,922
Add: Non-operating income	**26,438,682**	1,197,342
Less: Non-operating expenses	**(14,470,650)**	(2,091,319)
3. Total profit	**52,661,149**	59,107,945
Less: Income tax expenses	**(7,119,918)**	(18,256,405)

	For the six months ended June 30,	
	2019	2018
	RMB	*RMB*
	(Unaudited)	*(Unaudited)*
4. Net profit	**45,541,231**	40,851,540
Net profit generated from		
Continuing operation	**45,541,231**	40,851,540
Discontinued operation	**–**	–
Net profit attributable to		
Shareholder of the parent company	**52,064,124**	41,986,854
Non-controlling interests	**(6,522,893)**	(1,135,314)
5. Total comprehensive income	**45,541,231**	40,851,540
Attributable to shareholders of the parent company	**52,064,124**	41,986,854
Attributable to non-controlling shareholders	**(6,522,893)**	(1,135,314)
6. Earnings per share		
(expressed in RMB per share)		
– Basic	**0.71**	0.57
– Diluted	**0.70**	0.57

11.2.2 Interim Consolidated Statement of Financial Position

ASSETS	**June 30, 2019** **RMB** ***(Unaudited)***	December 31, 2018 *RMB* *(Audited)*
Current assets		
Cash at bank and on hand	**88,643,935**	187,076,694
Accounts receivable	**343,085,203**	299,750,063
Other receivables	**63,601,330**	58,051,581
Advances to suppliers	**6,773,294**	16,683,839
Inventories	**23,496,443**	20,813,747
Non-current assets due within one year	**12,688,704**	12,688,704
Total current assets	**538,288,909**	595,064,628
Non-current assets		
Other non-current financial assets	**50,974,323**	50,974,323
Long-term equity investments	**84,166,020**	100,321,983
Investment properties	**138,214,682**	128,568,963
Fixed assets	**429,798,060**	444,322,834
Construction in progress	**128,365,125**	131,187,406
Right-of-use asset	**262,857,848**	—
Intangible assets	**119,723,596**	185,257,977
Goodwill	**47,503,344**	19,296,005
Long-term prepaid expenses	**159,645,805**	144,386,669
Deferred tax assets	**47,483,569**	33,825,347
Other non-current assets	**3,209,169**	7,517,900
Total non-current assets	**1,471,941,541**	1,245,659,407
TOTAL ASSETS	**2,010,230,450**	1,840,724,035

LIABILITIES AND OWNERS' EQUITY	**June 30, 2019** *RMB* ***(Unaudited)***	December 31, 2018 *RMB* *(Audited)*
Current liabilities		
Short-term borrowings	**170,000,000**	145,000,000
Accounts payable	**53,319,851**	73,644,717
Contract liability	**9,139,823**	2,244,706
Employee benefits payable	**19,877,674**	28,270,410
Taxes payable	**36,365,584**	41,119,676
Other payables	**118,956,827**	129,807,988
Non-current liabilities due in one year	**84,786,940**	63,757,304
Total current liabilities	**492,446,699**	483,844,801
Non-current liabilities		
Long-term borrowings	**40,000,000**	40,000,000
Lease liabilities	**191,292,498**	—
Long-term payables	**–**	86,645,200
Deferred revenue	**10,101,163**	10,253,059
Deferred tax liabilities	**17,514,645**	14,707,619
Total non-current liabilities	**258,908,306**	151,605,878
Total liabilities	**751,355,005**	635,450,679
Owners' equity		
Share capital	**75,500,000**	75,500,000
Capital surplus	**825,220,846**	827,379,886
Less: treasury stock	**(21,780,000)**	(21,910,000)
Surplus reserve	**29,981,034**	29,981,034
Retained earnings	**249,330,816**	210,044,608
Total equity attributable to owners of the parent company	**1,158,252,696**	1,120,995,528
Non-controlling interests	**100,622,749**	84,277,828
Total owners' equity	**1,258,875,445**	1,205,273,356
TOTAL LIABILITIES AND OWNERS' EQUITY	**2,010,230,450**	1,840,724,035

11.2.3 Interim Consolidated Statements of Cash Flow

	For the six months ended June 30,	
	2019	2018
	RMB	*RMB*
	(Unaudited)	*(Unaudited)*
1. Cash flows from operating activities		
Cash received from sales of goods or rendering of services	**337,771,543**	305,515,384
Cash received relating to other operating activities	**7,188,089**	31,297,616
Sub-total of cash inflows	**344,959,632**	336,813,000
Cash paid for goods and services	**(153,687,796)**	(116,359,237)
Cash paid to and on behalf of employees	**(137,201,128)**	(103,723,092)
Payments of taxes and surcharges	**(20,832,826)**	(24,181,735)
Cash paid relating to other operating activities	**(29,080,692)**	(67,158,842)
Sub-total of cash outflows	**(340,802,442)**	(311,422,906)
Net cash flows generated from operating activities	**4,157,190**	25,390,094
2. Cash flows generated from investing activities		
Cash received from disposal of investments	**447,095**	–
Cash received from disposal of subsidiaries and other undertakings	**1,833,758**	–
Cash received relating to other investing activities	**2,555,426**	230,042,378
Sub-total of cash inflows	**4,836,279**	230,042,378
Cash paid to acquire fixed assets, intangible assets and other long-term assets	**(63,099,075)**	(83,978,177)
Cash paid to acquire investments	**(13,020,000)**	(16,790,000)
Net cash paid to acquisition of subsidiaries and other undertakings	**(1,246,349)**	–
Cash paid relating to other investing activities	**(3,351,048)**	(261,559,650)
Sub-total of cash outflows	**(80,716,472)**	(362,327,827)
Net cash flows generated from investing activities	**(75,880,193)**	(132,285,449)

	For the six months ended June 30, 2019 RMB (Unaudited)	2018 RMB (Unaudited)
3. Cash flows from financing activities		
Cash received from capital contributions	**4,245,000**	4,430,000
Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries	**4,245,000**	4,430,000
Cash received from borrowings	**170,000,000**	170,000,000
Sub-total of cash inflows	**174,245,000**	174,430,000
Cash repayments of borrowings	**(146,000,000)**	(139,791,600)
Cash payments for interest expenses and distribution of dividends or profits	**(6,647,896)**	(5,934,843)
Cash payments relating to other financing activities	**(47,538,263)**	(2,968,171)
Sub-total of cash outflows	**(200,186,159)**	(148,694,614)
Net cash flows generated from financing activities	**(25,941,159)**	25,735,386
4. Effect of changes in foreign exchange rate	**(758,597)**	(279,073)
5. Net decrease in cash and cash equivalents	**(98,422,759)**	(81,439,042)
Add: Cash and cash equivalents at beginning of the period	**187,066,694**	237,538,659
6. Cash and cash equivalents at end of the period	**88,643,935**	156,099,617

11.2.4 Interim Consolidated Statement of Changes In Equity

	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**
Net profit	–	–	–	–	52,064,124	(6,522,893)	45,541,231
Capital contribution by owners	–	–	–	–	–	4,245,000	4,245,000
Share-based payment	–	2,688,937	–	–	–	–	2,688,937
Transactions with non-controlling shareholders	–	(12,255)	–	–	(1,452,916)	245,168	(1,220,003)
Shareholders reduce capital	–	(130,000)	130,000	–	–	(2,040,163)	(2,040,163)
Others	–	(4,705,722)	–	–	–	–	(4,705,722)
Business combination involving enterprises not under common control	–	–	–	–	–	20,417,809	20,417,809
Profit distribution to equity owners	–	–	–	–	(11,325,000)	–	(11,325,000)
Balance at June 30, 2019	**75,500,000**	**825,220,846**	**(21,780,000)**	**29,981,034**	**249,330,816**	**100,622,749**	**1,258,875,445**

	Equity attributable to owners of the parent company					
	Share capital	Capital surplus	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	73,040,000	808,244,186	23,710,012	146,675,953	58,662,363	1,110,332,514
Net profit	–	–	–	41,986,854	(1,135,314)	40,851,540
Capital contribution by owners	–	–	–	–	4,730,000	4,730,000
Share-based payment	–	206,400	–	–	–	206,400
Dilution gain on equity shares	–	910,596	–	–	–	910,596
Profit distribution to equity owners	–	–	–	(10,956,000)	–	(10,956,000)
Balance at June 30, 2018	73,040,000	809,361,182	23,710,012	177,706,807	62,257,049	1,146,075,050

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

11.3.1 Accounts receivable

	June 30, 2019 RMB (Unaudited)	December 31, 2018 RMB (Audited)
Accounts receivable from related parties	**6,750,000**	6,749,917
Accounts receivable from non-related parties	**366,111,251**	318,519,503
Subtotal	**372,861,251**	325,269,420
Less: Provision for bad debts	**(29,776,048)**	(25,519,357)
	343,085,203	299,750,063

The ageing of accounts receivable based on their recording dates as of June 30, 2019 and December 31, 2018 is analysed as follows:

	June 30, 2019 RMB (Unaudited)	December 31, 2018 RMB (Audited)
Within 1 year	**286,466,031**	261,000,854
1 - 2 years	**73,454,874**	51,396,190
2 - 3 years	**10,456,002**	12,862,881
Over 3 years	**2,484,344**	9,495
	372,861,251	325,269,420

According to the credit policy of the Group, the customer should pay when the bill is delivered.

11.3.2 Accounts payable

The ageing of accounts payable as of June 30, 2019 and December 31, 2018 is analysed as follows:

	June 30, 2019 *RMB* ***(Unaudited)***	December 31, 2018 *RMB* *(Audited)*
Within 3 months	**47,578,421**	43,099,493
3 - 6 months	**4,026,068**	3,971,590
6 months - 1 year	**1,370,483**	836,832
1 - 2 years	**102,513**	25,470,222
2 - 3 years	**50,497**	50,357
Over 3 years	**191,869**	216,223
	53,319,851	73,644,717

11.3.3 Revenue and cost of revenue

	For the six months ended June 30, 2019 *RMB* ***(Unaudited)***	2018 *RMB* *(Unaudited)*
Revenue from main operations	**373,009,541**	343,318,252
Revenue from other operations	**5,900,750**	13,459,829
	378,910,291	356,778,081
Cost of revenue from main operations	**286,006,377**	220,865,063
Cost of revenue from other operations	**875,806**	6,510,373
	286,882,183	227,375,436

Revenue and cost of sales from main operations

	For the six months ended June 30, 2019	
	RMB	*RMB*
	(Unaudited)	*(Unaudited)*
	Revenue from main operations	**Cost of revenue from main operations**
Pharmaceutical sales	**96,629,883**	**82,628,810**
Treatments and general healthcare services	**263,579,519**	**197,304,478**
Management service fee	**12,800,139**	**6,073,089**
	373,009,541	**286,006,377**

	For the six months ended June 30, 2018	
	RMB	*RMB*
	(Unaudited)	*(Unaudited)*
	Revenue from main operations	Cost of revenue from main operations
Pharmaceutical sales	78,253,106	65,087,164
Treatments and general healthcare services	252,958,034	149,416,996
Management service fee	12,107,112	6,360,903
	343,318,252	220,865,063

11.3.4 Earnings per share

(a) Basic earning per share

	For the six months ended June 30, 2019	2018
	RMB	*RMB*
	(Unaudited)	*(Unaudited)*
The consolidated net profit attributed to the ordinary shareholders of the parent company	**52,064,124**	41,986,854
Weighted average number of ordinary outstanding shares	**73,040,000**	73,040,000
Basic earning per share	**0.71**	0.57

(b) Diluted earning per share

Diluted earning per share is calculated by the consolidated net profit attributed to the ordinary shareholders of the parent company adjusted by the potential shares divided by the adjusted weighted average number of ordinary shares. For the six months ended June 30, 2019, the consolidated net profit attributed to the ordinary shareholders of the parent company of the Company was RMB52,064,124, the adjusted weighted average number of ordinary shares was RMB73,915,743 and the diluted earning per share was RMB0.70. For the six months ended June 30, 2018, the Company did not have any potential diluted shares. Accordingly, diluted earning per share was the same as the basic earnings per share.

11.3.5 Income tax expenses

	For the six months ended June 30, 2019	2018
	RMB	*RMB*
	(Unaudited)	*(Unaudited)*
Current income tax	**14,824,769**	20,483,722
Deferred income tax	**(7,704,851)**	(2,227,317)
	7,119,918	18,256,405

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:

	For the six months ended June 30,	
	2019	2018
	RMB	*RMB*
	(Unaudited)	*(Unaudited)*
Total profit	**52,661,149**	59,107,945
Income tax expenses calculated at the standard tax rate of 25%	**13,165,287**	14,776,986
Expenses not deductible for tax purposes	**1,158,271**	1,802,675
Adjustment of income tax	**119,184**	1,639,542
Additional deduction of the research and development expenses	**(431,227)**	–
Income not subject to tax	**(318,561)**	(393,562)
Tax effect of unrecognized tax losses	**51,944**	345,368
Tax effect of unrecognized temporary differences	**–**	85,396
Temporary differences related to investments in subsidiary for which no deferred tax liabilities are recognized	**(6,624,980)**	–
Income tax expenses	**7,119,918**	18,256,405

11.3.6 Dividends

On March 25, 2019, the Board declared a final dividend of RMB11,325,000 for the year ended December 31, 2018 which is calculated based on 75,500,000 issued shares of the Company as at December 31, 2018. The proposed dividend was approved at the AGM. The proposed dividend is reflected as other payables in the consolidated interim financial information for the six months ended June 30, 2019.

On March 23, 2018, the Board declared a final dividend of RMB10,956,000 for the year ended December 31, 2017. The proposed dividend was approved by the shareholder at the annual general meeting for the year 2017 of the Company on June 13, 2018 and the Company paid out the dividend on July 13, 2018.

12 DEFINITIONS

"AGM"	the annual general meeting of the Company for the year 2018 convened and held on June 18, 2019
"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 of the Company
"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
"Chun'an Hospital"	Chun'an Huangfeng Kang'en Hospital (淳安黃鋒康恩醫院)
"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 Hong Kong Stock Exchange (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
"Domestic Share(s)"	ordinary Share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted Shares which are currently not listed or traded on any stock exchange
"Geriatric Hospital"	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), one of the wholly owned subsidiaries indirectly held by the Company, is principally engaged in providing 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 Hong Kong Stock Exchange
"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
"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"	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
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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
"Langfang Yining Hospital"	Langfang Yining Hospital Co., Ltd. (廊坊怡寧醫院有限公司, previously known as Langfang Yining Hospital Management Co., Ltd. (廊坊市怡寧醫院管理有限公司)), a company established in the PRC with limited liability on December 2, 2015, one of the Company's 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
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"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 Changgeng Ward"	the psychiatric healthcare department of Pingyang Changgeng Hospital Co., Ltd. (平陽縣長庚醫院有限責任公司)
"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 interim results announcement, excludes Hong Kong, Macau and Taiwan
"Pujiang Hospital"	Pujiang Huangfeng Psychiatric Specialty Hospital (浦江黃鋒精神專科醫院)
"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's wholly owned subsidiaries
"the Reporting Period" or "Reporting Period"	the six months ended June 30, 2019
"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)

"Sihui Kangning Hospital"	Sihui Kangning Hospital Co., Ltd. (四會康寧醫院有限公司), a company established in the PRC with limited liability on August 19, 2016, which used to be one of the Company's indirect non-wholly owned subsidiaries. The Company transferred all the indirect equity of Sihui Kangning Hospital to Guangdong Zhaokang Medical Investment Co., Ltd. (廣東肇康醫療投資有限公司) on May 10, 2019
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"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
"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 Cining Hospital"	Wenzhou Cining Hospital Co., Ltd. (溫州慈寧醫院有限公司), an independent third party established in the PRC with limited liability on January 25, 2006
"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"	a hospital under the Company's operation and management in accordance with an entrustment management agreement dated March 26, 2015 entered into between 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) and the Company
"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
August 26, 2019

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.