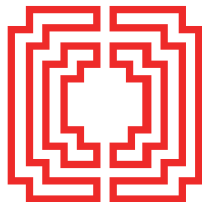


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# 溫州康寧醫院股份有限公司 Wenzhou Kangning Hospital Co., Ltd.

(A joint stock limited liability company incorporated in the People's Republic of China)

Stock code: 2120

2019年12月31日

## 1. 公告

- 1.1 The Board of Directors (the “**董事會**”) of Wenzhou Kangning Hospital Co., Ltd. (the “**公司**”) is pleased to announce the consolidated annual results of the Company and its Subsidiaries (collectively, the “**集團**”, “**本公司**” or “**本集團**”) for the financial year ended December 31, 2019 (the “**2019年度**”) with comparative figures for the preceding financial year ended December 31, 2018.
- 1.2 The financial statements (the “**財務報表**”) of the Group for the Reporting Period are prepared in accordance with China Accounting Standards for Business Enterprises.

## 2. Financial performance

### 2.1 Profit and loss

|                                                          | For the period ended 31, 2017<br>(RMB'000) | For the period ended 31, 2018<br>(RMB'000) |
|----------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| Revenue                                                  | 860,622                                    | 745,972                                    |
| Profit before income tax                                 | 55,523                                     | 106,910                                    |
| Income tax expense                                       | (17,255)                                   | (31,941)                                   |
| Net profit                                               | 38,228                                     | 74,969                                     |
| Net profit attributable to equity holders of the Company | 57,288                                     | 80,596                                     |
| Non-controlling interests                                | (1,061)                                    | (5,627)                                    |

|                                                      | As of 31, 2017<br>(RMB'000) | As of December 31, 2018<br>(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                            | 7,025                       | 84,278                               |

### 3 医药行业政策环境

#### 3.1 医保支付方式改革

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

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 3.2 3.2 3.2 3.2 3.2 3.2 3.2 3.2 3.2

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 3.3 3.3 3.3 3.3 3.3 3.3 3.3 3.3 3.3

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 主要业务及经营成果

### 4.1 营业收入

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 营业收入的构成

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:

|                                                | 2019<br>(人民币'000) | 2018<br>(RMB'000) |
|------------------------------------------------|-------------------|-------------------|
| Revenue from operating owned hospitals         | 734,000           | 706,651           |
| Revenue from other healthcare related business | 27,506            | 22,281            |
| Revenue of the property business               | 3,600             | 17,040            |
|                                                | <b>860,600</b>    | <b>745,972</b>    |

### *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:

|                 | 2019<br>(in RMB'000) | 2018<br>(RMB'000) |
|-----------------|----------------------|-------------------|
| Revenue         | 587,874              | 539,548           |
| Cost of revenue | 441,786              | 331,883           |
| Gross profit    | 146,088              | 207,665           |
| Revenue         | 205,616              | 167,103           |
| Cost of revenue | 174,308              | 140,330           |
| Gross profit    | 31,218               | 26,773            |
| Revenue         | 73,400               | 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:

|                                                                                           | 2017           | 2018           |
|-------------------------------------------------------------------------------------------|----------------|----------------|
| 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                                                              | 1,865,22       | 1,506,762      |
| Treatment and general healthcare services revenue attributable to inpatients (RMB'000)    | 557,4          | 516,794        |
| Average inpatient spending per bed-day on treatment and general healthcare services (RMB) | 2              | 343            |
| Pharmaceutical sales revenue attributable to inpatients (RMB'000)                         | 110,260        | 87,609         |
| Average inpatient spending per bed-day on pharmaceutical sales (RMB)                      | 5              | 58             |
| Total inpatient revenue (RMB'000)                                                         | <u>668,254</u> | <u>604,403</u> |
| Total inpatient revenue (RMB)                                                             | <u>358</u>     | <u>401</u>     |
| Number of outpatient visits                                                               | 226,720        | 188,488        |
| Treatment and general healthcare services revenue attributable to outpatients (RMB'000)   | 2,880          | 22,754         |
| Average outpatient spending per visit on treatment and general healthcare services (RMB)  | 132            | 121            |
| Pharmaceutical sales revenue attributable to outpatients (RMB'000)                        | 5,356          | 79,494         |
| Average outpatient spending per visit on pharmaceutical sales (RMB)                       | 420            | 422            |
| Total outpatient revenue (RMB'000)                                                        | <u>125,236</u> | <u>102,248</u> |
| Total outpatient revenue (RMB)                                                            | <u>552</u>     | <u>543</u>     |
| Total hospital revenue (RMB'000)                                                          | <u>587,874</u> | <u>539,548</u> |
| Total hospital revenue (RMB)                                                              | <u>205,616</u> | <u>167,103</u> |

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:

|                                      | 2019<br>(RMB'000) | 2018<br>(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  | 2,860             | —                 |
| Depreciation and amortization        | 62,804            | 45,222            |
| Canteen expenses                     | 35,40             | 25,331            |
| Testing fees                         | 17,325            | 14,093            |
| Others                               | 38,1              | 24,476            |
|                                      | <b>616,184</b>    | <b>472,213</b>    |



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 Margin of Different Businesses

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:

|                                           | 2019         | 2018         |
|-------------------------------------------|--------------|--------------|
| Treatment and general healthcare services | 24.1%        | 38.5%        |
| Pharmaceutical sales                      | 15.2%        | 16.0%        |
| Medical insurance                         | 22.3%        | 33.2%        |
| Property and other businesses             | 40.5%        | 45.3%        |
|                                           | <b>23.8%</b> | <b>33.8%</b> |

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 行政開支

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:

|                                | 2019<br>(人民幣'000) | 2018<br>(RMB'000) |
|--------------------------------|-------------------|-------------------|
| Employee benefits and expenses | 75,186            | 55,281            |
| Depreciation and amortization  | 12,118            | 8,723             |
| Consultancy expenses           | 11,121            | 10,218            |
| Travelling expenses            | 4,500             | 3,694             |
| Others                         | 20,325            | 20,085            |
|                                | <b>123,330</b>    | <b>98,001</b>     |

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 研究及開發開支

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 利息收入及支出

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:

|                                               | 2019<br>(in RMB'000) | 2018<br>(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                                        | (75)                 | (567)             |
|                                               | <u>(23,488)</u>      | <u>(7,171)</u>    |

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 “*新租赁准则*”) 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:

|                                                                      | 2019<br>(RMB'000) | 2018<br>(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               | —                 |
|                                                                      | <u>24,336</u>     | <u>(8,302)</u>    |

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. Assets 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 非经常性损益项目和金额

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:

|                                                                        | 2019<br>(RMB'000) | 2018<br>(RMB'000) |
|------------------------------------------------------------------------|-------------------|-------------------|
| Derecognition of contractual rights of managing Yanjiao Furen Hospital | 25,666            | —                 |
| Government subsidies                                                   | 2,755             | 6,714             |
| Other non-operating income                                             | 68                | 468               |
|                                                                        | <u>2,38</u>       | <u>7,182</u>      |
| Losses from scrapping of non-current assets                            | 13,240            | —                 |
| Donation expenses                                                      | 2,87              | 5,254             |
| Other non-operating expenses                                           | 3,486             | 788               |
|                                                                        | <u>1,713</u>      | <u>6,042</u>      |
|                                                                        | <u>10,33</u>      | <u>8,538</u>      |

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 所得税费用

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 主要资产及负债

### 4.2.1 存货

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 应收账款

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 其他应收款和预付款项

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 投资性房地产

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 其他非流动资产

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 使用权资产

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 应付账款

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

#### 4.2.8 合同负债

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

#### 4.2 其他应付款

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

### 4.3

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

|                                              | 2017<br>(RMB'000) | 2018<br>(RMB'000) |
|----------------------------------------------|-------------------|-------------------|
| Net cash generated from operating activities | 111,200           | 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    | <u>(22,115)</u>   | <u>(50,472)</u>   |

#### 4.3.1

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

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

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

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

## 4.4 金融工具

### 4.4.1 借款

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 或有负债

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 资产抵押

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 租赁

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 金融工具风险

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 外币金融资产及金融负债

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 资产减值准备的计提

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 薪酬政策及薪酬水平

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 “**2018年股权激励计划**”), 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 年股东大会**”). 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).

|                                                                             |     |         |         |
|-----------------------------------------------------------------------------|-----|---------|---------|
|                                                                             | ( ) | ( )     |         |
| Core technical personnel                                                    | 17  | 142,311 | 0.1885% |
| Other persons who, in the<br>opinion of the Board,<br>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 董事會報告

### 5.1 股息

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

## 6 購買、出售或贖回本公司上市證券

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

## 7 審核委員會報告

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).

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

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.

After the outbreak of Coronavirus Disease 2019 (“COVID-19”) 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.

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 (“PwC”), 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.

## 12.1

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 “*Accounting Standards for Business Enterprises*” or “*ASBEs*”).

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

The Ministry of Finance released the revised Accounting Standards for Enterprises No. 21 – Leases (hereinafter referred to as “*ASBEs No. 21*”) 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 “*ASBEs No. 7*”) and Accounting Standards for Business Enterprises No.12-Debt Restructuring (hereinafter referred to as “*ASBEs No. 12*”). 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<br>1 January, 2019<br>The Group<br>(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                         | 234,963,917                                                   |
|                                                                                                                                                                                                                                                                                                                                 | Lease liabilities                           | (198,596,521)                                                 |
|                                                                                                                                                                                                                                                                                                                                 | Non-current liabilities due within one year | (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 (“<br>-----”). Right-of-use assets are recognised as the same amount as lease liabilities, and are adjusted according to the prepaid rent. | Prepayment                                  | (9,871,004)                                                   |
|                                                                                                                                                                                                                                                                                                                                 | Other non-current assets                    | (4,097,899)                                                   |
|                                                                                                                                                                                                                                                                                                                                 | Other payable                               | 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<br>December 31, 2018                                  | 274,950,045               |
| Present value of the above said minimum operating lease payments<br>discounted at incremental borrowing rate  | <u>224,826,882</u>        |
| Lease liabilities recognised as at January 1, 2019<br>(including non-current liabilities due within one year) | <u><u>224,826,882</u></u> |

*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

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

(All amounts in RMB unless otherwise stated)

|                                          | 201           | 31,<br>2018   |
|------------------------------------------|---------------|---------------|
| 1. 营业收入                                  | 860,617,2     | 745,971,888   |
| Less: Cost of sales                      | (656,184,564) | (493,729,636) |
| Taxes and surcharges                     | (5,226,86 )   | (5,720,201)   |
| Selling and distribution expenses        | (7,77,677)    | (5,141,918)   |
| General and administrative expenses      | (123,338,42)  | (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                         | 10,325,548    | 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          | 1,17,462      | —             |
| Credit impairment losses                 | (2,256,324)   | (18,695,980)  |
| Asset impairment losses                  |               | (4,823,557)   |
| Losses on disposal of assets             |               | (1,420,551)   |
| 2. 营业利润                                  | 45,847,348    | 105,770,171   |
| Add: Non-operating income                | 2,388,527     | 7,182,072     |
| Less: Non-operating expenses             | (1,713,068)   | (6,041,975)   |
| 3. 利润总额                                  | 55,522,807    | 106,910,268   |
| Less: Income tax expenses                | (17,25,18 )   | (31,941,040)  |

|                                                        |                    |                   |
|--------------------------------------------------------|--------------------|-------------------|
|                                                        | 201                | 31,<br>2018       |
| 4.                                                     | <b>38,227,618</b>  | <b>74,969,228</b> |
| Classified by continuity of operations                 |                    |                   |
| Net profit from continuing operations                  | <b>38,227,618</b>  | 74,969,228        |
| Net profit from discontinued operations                |                    | —                 |
| Classified by ownership of the equity                  |                    |                   |
| Net profit attributable to shareholders of the company | <b>57,283,4</b>    | 80,595,677        |
| Non-controlling interests                              | <b>(1,061,776)</b> | (5,626,449)       |
| 5.                                                     | <b>38,227,618</b>  | <b>74,969,228</b> |
| Attributable to                                        |                    |                   |
| Shareholders of the Parent Company                     | <b>57,283,4</b>    | 80,595,677        |
| Non-controlling interests                              | <b>(1,061,776)</b> | (5,626,449)       |
| 6.                                                     |                    |                   |
| – Basic ( <i>RMB per share</i> )                       | <b>0.78</b>        | 1.10              |
| – Diluted ( <i>RMB per share</i> )                     | <b>0.77</b>        | 1.09              |

12.2.2

(All amounts in RMB Yuan unless otherwise stated)

|                                       | 31,<br>201           | December 31,<br>2018 |
|---------------------------------------|----------------------|----------------------|
| 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           |
|                                       | <b>621,4 1,488</b>   | <b>595,064,628</b>   |
| Other non-current financial assets    | 51,281,86            | 50,974,323           |
| Long-term equity investments          | 8 , 43,1 3           | 100,321,983          |
| Investment properties                 | 110,856,100          | 128,568,963          |
| Fixed assets                          | 552,4 0,802          | 444,322,834          |
| Construction in progress              | 72,180,620           | 131,187,406          |
| Right-of-use assets                   | 235,312,14           | —                    |
| Intangible assets                     | 130,2 8,128          | 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, 30           | 33,825,347           |
| Other non-current assets              | 1,7 1,62             | 7,517,900            |
|                                       | <b>1,4 5,860,367</b> | <b>1,245,659,407</b> |
|                                       | <b>2,117,351,855</b> | <b>1,840,724,035</b> |

|                                            | 31,<br>201           | December 31,<br>2018 |
|--------------------------------------------|----------------------|----------------------|
| Short-term borrowings                      | 250,000,000          | 145,000,000          |
| Accounts payable                           | 75,554, 60           | 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 | 7 ,741, 22           | 63,757,304           |
|                                            | <u>616,701,057</u>   | <u>483,844,801</u>   |
| 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                            | , 4 ,267             | 10,253,059           |
| Deferred tax liabilities                   | 21,124,118           | 14,707,619           |
|                                            | <u>23 ,141,536</u>   | <u>151,605,878</u>   |
|                                            | <u>855,842,5 3</u>   | <u>635,450,679</u>   |
| 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                            | 33,18 ,321           | 29,981,034           |
| Retained earnings                          | 252,800,715          | 210,044,608          |
|                                            | <u>1,164,484,337</u> | <u>1,120,995,528</u> |
|                                            | <u>7,024, 25</u>     | <u>84,277,828</u>    |
|                                            | <u>1,261,50 ,262</u> | <u>1,205,273,356</u> |
|                                            | <u>2,117,351,855</u> | <u>1,840,724,035</u> |

12.2.3

(All amounts in RMB Yuan unless otherwise stated)

|                                                                                                  | 201                  | 31,<br>2018          |
|--------------------------------------------------------------------------------------------------|----------------------|----------------------|
| 1.                                                                                               |                      |                      |
| Cash received from sales of goods or rendering of services                                       | 807,53 ,631          | 654,660,709          |
| Cash received relating to other operating activities                                             | 18,344,424           | 31,999,794           |
|                                                                                                  | <u>825,884,055</u>   | <u>686,660,503</u>   |
| 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, 52)         | (39,374,238)         |
| Cash paid relating to other operating activities                                                 | (110,4 8,137)        | (120,948,057)        |
|                                                                                                  | <u>(714,5 4,281)</u> | <u>(620,139,975)</u> |
|                                                                                                  | <u>111,28 ,774</u>   | <u>66,520,528</u>    |
| 2.                                                                                               |                      |                      |
| Cash received from disposal of investments                                                       | 447,0 4              | —                    |
| Cash received from investment gain                                                               | 1,526,505            | —                    |
| Net cash received from disposal of fixed assets,<br>intangible assets and other long-term assets | 32, 24,720           | —                    |
| Net cash received from disposal of Subsidiaries and<br>other business units                      | 1,860,358            | —                    |
| Cash received relating to other investing activities                                             | 3,610,001            | 363,629,965          |
|                                                                                                  | <u>40,368,678</u>    | <u>363,629,965</u>   |
| Cash paid to acquire fixed assets,<br>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<br>other business units                                | (552,505)            | (17,520,196)         |
| Cash paid relating to other investing activities                                                 | (4,347,100)          | (330,900,393)        |
|                                                                                                  | <u>(180,8 ,337)</u>  | <u>(519,110,573)</u> |
|                                                                                                  | <u>(140,530,65 )</u> | <u>(155,480,608)</u> |

|                                                                                                           | 201                  | 31,<br>2018   |
|-----------------------------------------------------------------------------------------------------------|----------------------|---------------|
| <b>3.</b>                                                                                                 |                      |               |
| Cash received from capital contributions                                                                  | <b>12,345,000</b>    | 34,820,000    |
| Including: Cash received from capital<br>contributions by non-controlling<br>Shareholders of Subsidiaries | <b>12,345,000</b>    | 12,910,000    |
| Cash received from borrowings                                                                             | <b>270,000,000</b>   | 190,440,000   |
| Cash received relating to other financing activities                                                      | <b>11, 60,000</b>    | —             |
|                                                                                                           | <b>2 4,305,000</b>   | 225,260,000   |
| Cash repayments of borrowings                                                                             | <b>(185,000,000)</b> | (169,285,600) |

12.2.4

(All amounts in RMB Yuan unless otherwise stated)

|                                                                     |            |             |              |            |              |              |               |
|---------------------------------------------------------------------|------------|-------------|--------------|------------|--------------|--------------|---------------|
| 1, 201                                                              | 75,500,000 | 827,37 ,886 | (21, 10,000) | 2 , 81,034 | 210,044,608  | 84,277,828   | 1,205,273,356 |
| 201                                                                 |            |             |              |            |              |              |               |
| Total comprehensive income                                          |            |             |              |            |              |              |               |
| Net profit                                                          |            |             |              |            | 57,28 ,3 4   | (1 ,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, 20,526   |              |            |              |              | 5, 20,526     |
| Transactions with non-controlling Shareholders                      |            | (3,6 0,38 ) |              |            |              | (4, 6 ,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)  |
| 31, 201                                                             | 75,500,000 | 824,715,445 | (21,721,144) | 33,18 ,321 | 252,800,715  | 7,024, 25    | 1,261,50 ,262 |



|                                                                           |                          |                           |                            |                          |                           |                          |                             |
|---------------------------------------------------------------------------|--------------------------|---------------------------|----------------------------|--------------------------|---------------------------|--------------------------|-----------------------------|
| 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<br>accounting policies                                     | —                        | —                         | —                          | —                        | (164,301)                 | —                        | (164,301)                   |
| December 31,<br>2018 (continued)                                          | <u>73,040,000</u>        | <u>808,244,186</u>        | <u>—</u>                   | <u>23,710,012</u>        | <u>146,675,953</u>        | <u>58,662,363</u>        | <u>1,110,332,514</u>        |
| January 1, 2018                                                           |                          |                           |                            |                          |                           |                          |                             |
| Total comprehensive income                                                |                          |                           |                            |                          |                           |                          |                             |
| Net profit                                                                | —                        | —                         | —                          | —                        | 80,595,677                | (5,626,449)              | 74,969,228                  |
| Capital contribution and<br>withdrawal by shareholders                    |                          |                           |                            |                          |                           |                          |                             |
| Capital contribution by<br>Shareholders                                   | 2,460,000                | 19,450,000                | (21,910,000)               | —                        | —                         | 12,910,000               | 12,910,000                  |
| Share-based payment included<br>in shareholders' equity                   | —                        | 2,372,415                 | —                          | —                        | —                         | —                        | 2,372,415                   |
| Transactions with<br>non-controlling Shareholders                         | —                        | (3,597,311)               | —                          | —                        | —                         | (4,157,192)              | (7,754,503)                 |
| Others                                                                    | —                        | 910,596                   | —                          | —                        | —                         | —                        | 910,596                     |
| Business combination involving<br>enterprises not under common<br>control | —                        | —                         | —                          | —                        | —                         | 22,489,106               | 22,489,106                  |
| Profit distribution                                                       |                          |                           |                            |                          |                           |                          |                             |
| Appropriation for<br>surplus reserve                                      | —                        | —                         | —                          | 6,271,022                | (6,271,022)               | —                        | —                           |
| Profit distribution to<br>shareholders                                    | <u>—</u>                 | <u>—</u>                  | <u>—</u>                   | <u>—</u>                 | <u>(10,956,000)</u>       | <u>—</u>                 | <u>(10,956,000)</u>         |
| December 31, 2018                                                         | <u><u>75,500,000</u></u> | <u><u>827,379,886</u></u> | <u><u>(21,910,000)</u></u> | <u><u>29,981,034</u></u> | <u><u>210,044,608</u></u> | <u><u>84,277,828</u></u> | <u><u>1,205,273,356</u></u> |

## 12.3

### 12.3.1

|                               | 31, December 31,<br>2018<br>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, 03,603)                    | (25,519,357)       |
|                               | <u>310,520,612</u>              | <u>299,750,063</u> |

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:

|               | 31, December 31,<br>2018<br>RMB |                    |
|---------------|---------------------------------|--------------------|
| Within 1 year | 266, 32, 53                     | 261,000,854        |
| 1 - 2 years   | 57, 88,407                      | 51,396,190         |
| 2 - 3 years   | 13,08 ,001                      | 12,862,881         |
| Over 3 years  | 413,854                         | 9,495              |
|               | <u>338,424,215</u>              | <u>325,269,420</u> |

### 12.3.2

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

|                 | 31, December 31,<br>2018<br>RMB |                   |
|-----------------|---------------------------------|-------------------|
| Within 3 months | 65,881,555                      | 43,099,493        |
| 3- 6 months     | 7,47 , 5                        | 3,971,590         |
| 6-12 months     | 1,381,101                       | 836,832           |
| 1 – 2 years     | 506,880                         | 25,470,222        |
| 2 – 3 years     | 4,816                           | 50,357            |
| Over 3 years    | 210,613                         | 216,223           |
|                 | <u>75,554, 60</u>               | <u>73,644,717</u> |

### 12.3.3 其他业务

|                  | 2019               | 2018               | Year ended<br>December 31, 2018 |                    |
|------------------|--------------------|--------------------|---------------------------------|--------------------|
|                  |                    |                    | Revenue                         | Cost               |
| Main businesses  | 73,486,663         | 616,183,633        | 706,651,478                     | 472,212,855        |
| Other businesses | 67,202,066         | 40,000,311         | 39,320,410                      | 21,516,781         |
|                  | <u>860,617,221</u> | <u>656,184,564</u> | <u>745,971,888</u>              | <u>493,729,636</u> |

|                                               | 2019              | 2018               | Year ended<br>December 31, 2018 |                    |
|-----------------------------------------------|-------------------|--------------------|---------------------------------|--------------------|
|                                               |                   |                    | Revenue                         | Cost               |
| Pharmaceutical sales                          | 205,615,871       | 174,377,815        | 167,103,194                     | 140,329,511        |
| Treatments and general<br>healthcare services | 587,873,722       | 441,785,818        | 539,548,284                     | 331,883,344        |
|                                               | <u>73,486,663</u> | <u>616,183,633</u> | <u>706,651,478</u>              | <u>472,212,855</u> |

|                                   | 2019              | 2018              | Year ended<br>December 31, 2018 |                   |
|-----------------------------------|-------------------|-------------------|---------------------------------|-------------------|
|                                   |                   |                   | Revenue                         | Cost              |
| Real estate sales                 | 32,554,016        | 28,684,803        | 9,471,045                       | 7,260,685         |
| Management service <sup>(i)</sup> | 21,713,500        | 3,280,000         | 19,747,723                      | 12,816,061        |
| Rental income                     | 7,141,588         |                   | 7,568,944                       | —                 |
| Others                            | 5,722,502         | 1,385,005         | 2,532,698                       | 1,440,035         |
|                                   | <u>67,202,066</u> | <u>40,000,311</u> | <u>39,320,410</u>               | <u>21,516,781</u> |

- (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. General and administrative expenses

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:

|                                                | 2019               | 2018               |
|------------------------------------------------|--------------------|--------------------|
| Employee and welfare benefits                  | 288,688,273        | 221,649,507        |
| Pharmaceutical and medical consumables used    | 225,012,566        | 179,200,817        |
| Costs of real estate sold                      | 28,684,810         | 7,260,685          |
| Depreciation of fixed assets                   | 34,807,048         | 28,914,368         |
| Depreciation of right-of-use assets            | 2,855,521          | —                  |
| Amortisation of intangible assets              | 10,874,756         | 9,933,744          |
| Amortisation of long-term prepaid expenses     | 34,286,665         | 24,113,944         |
| Housing lease and property management expenses | 2,235,000          | 32,065,307         |
| Canteen expenditure                            | 35,404,416         | 25,331,355         |
| Utilities                                      | 18,580,005         | 14,021,346         |
| Outsourcing expenses                           | 16,108,041         | 4,049,315          |
| Testing fee                                    | 17,325,400         | 14,092,852         |
| Consulting expense                             | 4,442,630          | 7,497,157          |
| Auditors' remuneration                         |                    |                    |
| – Audit services                               | 2,600,000          | 3,000,000          |
| – Non-audit services                           | 26,500             | 70,096             |
| Promotion expenses                             | 3,335,565          | 2,637,078          |
| Travelling expenses                            | 6,242,376          | 5,930,695          |
| Office expenses                                | 5,821,043          | 6,047,780          |
| Share-based payment                            | 5,205,526          | 2,372,415          |
| Others                                         | 16,688,100         | 14,417,462         |
|                                                | <b>735,120,000</b> | <b>602,605,923</b> |

### 12.3.5

|                                                  | 2019             | 31, 2018          |
|--------------------------------------------------|------------------|-------------------|
| Credit impairment losses for accounts receivable | 20,356,414       | 18,541,921        |
| Credit impairment losses for other receivable    | 8,810            | 154,059           |
|                                                  | <u>2,256,324</u> | <u>18,695,980</u> |

### 12.3.6

|                                                                                              | 2019              | 31, 2018          |
|----------------------------------------------------------------------------------------------|-------------------|-------------------|
| The net profit attributed to the ordinary Shareholders of the Company (RMB) <sup>(i)</sup>   | 57,283,414        | 80,226,677        |
| Weighted average number of outstanding ordinary Shares of the Company (Share) <sup>(i)</sup> | <u>73,040,000</u> | <u>73,040,000</u> |
| Basic earning per Share (RMB)                                                                | <u>0.78</u>       | <u>1.10</u>       |

- (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 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

|                     | 201              | 31,<br>2018       |
|---------------------|------------------|-------------------|
| Current income tax  | 23,40 ,066       | 39,910,885        |
| Deferred income tax | (6,113,877)      | (7,969,845)       |
|                     | <u>17,2 5,18</u> | <u>31,941,040</u> |

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:

|                                                                                              | 201                | 31,<br>2018        |
|----------------------------------------------------------------------------------------------|--------------------|--------------------|
| Profit before tax                                                                            | <u>55,522,807</u>  | <u>106,910,268</u> |
| 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                                    | (1,03 ,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 | <u>(6,624, 80)</u> | <u>—</u>           |
| Income tax expenses                                                                          | <u>17,2 5,18</u>   | <u>31,941,040</u>  |

### 12.3.8

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.

|                                          |                                                                                                                                                                                                                                                                                                                                          |
|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “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. (荷澤怡寧精神病醫院有限公司, previously known as Heze Yining Hospital Co., Ltd. (荷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’s 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”                |                                                                                                                                                                                                                    |

|                             |                                                                                                                                                                                                         |
|-----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “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

  
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.*