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 Chi

INTERIM REPORT

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GES IN SHAREHOLDERS

Corporate Information

Board of Directors

Executive Directors

Mr. GUAN Weili *(Chairman)*
Ms. WANG Lianyue
Ms. WANG Hongyue

Non-executive Directors

Mr. YANG Yang
Mr. LIN Lijun

Independent Non-executive Directors

Mr. CHONG Yat Keung
Mr. HUANG Zhi
Mr. GOT Chong Key Clevin

Audit Committee

Mr. HUANG Zhi *(Chairman)*
Mr. GOT Chong Key Clevin
Mr. LIN Lijun

Nomination Committee

Mr. GOT Chong Key Clevin *(Chairman)*
Mr. CHONG Yat Keung
Mr. GUAN Weili

Remuneration Committee

Mr. CHONG Yat Keung *(Chairman)*
Mr. HUANG Zhi
Mr. YANG Yang

Strategy and Risk Management Committee

Mr. GUAN Weili *(Chairman)*
Mr. HUANG Zhi
Mr. YANG Yang

Supervisory Committee

Mr. SUN Fangjun *(Chairman)*
Ms. HUANG Jing'ou
Mr. XIE Tiefan
Mr. QIAN Chengliang
Mr. MA Jinlong (resigned on June 18, 2019)
Mr. CHEN Jian (appointed on June 18, 2019)

Joint Company Secretaries

Mr. WANG Jian
Ms. NG Wing Shan

Authorized Representatives

Ms. WANG Hongyue
Ms. NG Wing Shan

Auditor

PricewaterhouseCoopers Zhong Tian LLP

Legal Advisors as to Hong Kong Laws

Clifford Chance

Registered Office and Head Office in the PRC

Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
PRC

Corporate Information

Principal Place of Business in Hong Kong

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248 Queen's Road East
Wanchai
Hong Kong

H Share Registrar

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183 Queen's Road East
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Stock Code

2120

Company's Website

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Investor Relations

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Financial Highlights

Principal Financial Data and Indicators

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

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

Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

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

In the first half of 2019, the Group's owned hospital business developed steadily. Hangzhou Yining Hospital, Taizhou Kangning Hospital and Luqiao Cining Hospital, which were opened in 2018 as well as Wenling Nanfang Hospital, Nanjing Yining Hospital, Guanxian Yining Hospital and Heze Yining Hospital, which were consolidated by mergers and acquisitions, all have been on the right track in their business development. The businesses of the Group's mature hospitals have developed stably, the service volume of Pingyang Kangning Hospital and Geriatric Hospital has increased fast as compared with that of the same period of last year. The business of Qingtian Kangning Hospital, Yongjia Kangning Hospital and Cangnan Kangning Hospital has been constrained by space concerns, however, these three hospitals have sought new sites to implement relocation projects and are expected to add 800 beds. With the increasing demand for high-end psychological services and growing influence of the Group's brand, the number of outpatients and inpatients in Beijing Yining Hospital has increased significantly. As of June 30, 2019, the number of the Group's owned hospitals increased to 20 (December 31, 2018: 18) and the number of beds under operation increased to 5,593 (December 31, 2018: 5,140).

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

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

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

Management Discussion and Analysis

Financial Review

The Group recorded revenue of RMB378.9 million for the Reporting Period. After excluding the revenue of RMB5.9 million for property and other business, the revenue of healthcare business amounted to RMB373.0 million, representing an increase of 8.6% as compared with that of the same period of 2018, mainly because the revenue from operating the Group's owned hospitals increased by 8.8% as compared with that of the same period of 2018. During the Reporting Period, due to the NHSA has implemented a series of reform measures to control expenditure, the average inpatient spending per bed-day of the Group's owned hospitals has decreased, thus the gross profit margin of our owned hospitals decreased to 22.3% (for the six months ended June 30, 2018: 35.2%). As such, the overall gross profit margin of healthcare business of the Group for the Reporting Period decreased to 23.3% (for the six months ended June 30, 2018: 35.7%) and the gross profit of healthcare business decreased to RMB87.0 million, representing a decrease of 29.0% as compared with that of the same period of 2018. During the Reporting Period, the net profit attributable to Shareholders of the Company amounted to RMB52.1 million, representing an increase of 24.0% as compared with that of the same period of 2018, primarily due to the investment gain of RMB23.5 million and the net non-operating income of RMB12.0 million during the Reporting Period.

Revenue and Cost of Revenue

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

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

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

Management Discussion and Analysis

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

Revenue and cost of revenue from operating the Group's owned hospitals

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

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

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB360.2 million, representing an increase of RMB29.0 million as compared with that of the same period of 2018. During the Reporting Period, the gross profit of the Group's owned hospitals decreased by 31.2% as compared with that of the same period of 2018, mainly due to (i) the bed utilization rate was relatively low in newly opened owned hospitals in 2018; (ii) the Group adjusted its internal medical service constructure to adapt to the reform of the medical insurance payment methods; (iii) the substantial increase in employee benefits and expenses brought by the expanding network of medical facilities in the Group; and (iv) drug prices declined as a result of the drug expenditure cutting.

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

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

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

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

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

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

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

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

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

Management service fee income

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

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

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

Cost of the Group for rendering management services primarily includes benefits and expenses for management staff assigned and amortization of operation rights acquired for obtaining operation rights. During the Reporting Period, cost

Gross Profit and Gross Profit Margin

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

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

During the Reporting Period, consolidated gross profit margin of the Group decreased to 24.3% of which the gross profit margin of treatment and general healthcare services decreased by 15.8 percentage points as compared with that of the same period of 2018, mainly due to average inpatient spending per bed-day have decreased, which was caused by medical insurance expenditure containment; the gross profit margin of pharmaceutical sales decreased by 2.3 percentage points as compared with that of the same period of 2018, mainly due to the payment standard for certain drugs have been further cut down, which was caused by implementation of the nationwide lowest drug price linkage in Zhejiang Province from May 1, 2019.

Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB0.8 million (for the six months ended June 30, 2018: RMB3.4 million), mainly due to the new building of Wenzhou Kangning Hospital is expected to be exempt from property tax for three years from 2019.

Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB4.5 million (for the six months ended June 30, 2018: RMB2.6 million), which increased a lot as compared with that of the same period of 2018, mainly because the Group has set up the brand department to enhance the Group's brand influence. The selling expenses accounted for 1.2% of the Group's revenue of healthcare business (for six months ended June 30, 2018: 0.7%).

Administrative Expenses

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

	For the six months ended June 30,	
	2019	2018
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Employee benefits and expenses	**33,962**	26,332
Leasing expenses of the healthcare facilities under development	**137**	6,584
Depreciation and amortization	**5,709**	3,932
Consultancy expenses	**3,976**	4,398
Travelling expenses	**2,188**	1,623
Others	**6,918**	8,081
Total administrative expenses	**52,890**	50,950

During the Reporting Period, the administrative expenses of the Group amounted to RMB52.9 million, representing an increase of 3.8% as compared with that of the same period of 2018, mainly due to the increase of 29.0% of our employee benefits and expenses arising from the increase of our management staff. During the Reporting Period, the leasing expenses of the healthcare facilities under development decreased by RMB6.4 million as compared with that of the same period of

Research and Development Expenses

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

Finance Expenses – Net

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

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

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

Investment Income/(Losses)

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

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

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

Assets Impairment Losses and Credit Impairment Losses

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

Non-Operating Income (Expenses) and Other Gains

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

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

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

Income Tax Expense

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

Total Comprehensive Income

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

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

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

Management Discussion and Analysis

Financial Position

Inventory

As of June 30, 2019, inventory balances amounted to RMB23.5 million (as of December 31, 2018: RMB20.8 million), mainly include: (i) the medical inventory and turnover materials amounted to RMB20.9 million (as of December 31, 2018: RMB18.2 million); and (ii) completed properties amounted to RMB2.6 million (as of December 31, 2018: RMB2.6 million), representing Phase II Works of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda. The table below sets forth the details of completed properties held by us during the Reporting Period:

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

Accounts Receivables

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

During the Reporting Period, the accounts receivables turnover days of the Group's healthcare business were 168 days (for the six months ended June 30, 2018: 129 days).

Other Receivables and Prepayments

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

Investment Properties

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

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-290602, Wen Guoyong (2012) No. 3-290604, Wen Guoyong (2012) No. 3-290616, Wen Guoyong (2012) No. 3-290617, Zhe (2017) Wenzhou property rights No. 0136790, Zhe (2017) Wenzhou property rights No. 0136791, Zhe (2017) Wenzhou property rights No. 0136792, Zhe (2017) Wenzhou property rights No. 0136793
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	3,722.29
Total floor area (Approx.) (Sq. m.)	11,137.06
Usage	Non-residential
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the properties are freehold properties
Investment property	Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2F to 11F)

Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-289403
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	11,850.34
Usage	Commercial, office and hotel
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the properties are freehold properties

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Liquidity and Capital Resources

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

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

Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB4.2 million, primarily consisting of net profit of RMB45.5 million and adjustments of RMB39.2 million for depreciation of property, plant and equipment as well as adjustments for amortisation of intangible assets and long-term prepaid expense. Changes in working capital resulted in cash outflow of RMB72.2 million. We had cash outflow of RMB20.8 million attributable to our various taxes paid.

Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities amounted to RMB75.9 million, primarily due to the amount of RMB63.0 million for purchasing property, plant and equipment, including the amounts paid for the relocation of Qingtian Kangning Hospital and Yongjia Kangning Hospital and the renovation of Phase II of Geriatric Hospital; and the amount of RMB13.0 million paid for investment as a minority shareholder.

Net Cash Used in Financing Activities

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

Significant Investment, Acquisition and Disposal

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

Indebtedness

Bank Borrowings

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

Contingent Liabilities

As of June 30, 2019, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

Asset Pledge

Wenzhou Guoda, a subsidiary of the Group, had pledged its completed properties, Phase II of Business Center of Wenzhou Higher Education Mega Center, to the China Zheshang Bank. As of June 30, 2019, the mortgage loan procedures were still in progress.

Lease Liabilities

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

Financial Instruments

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

Exposure to Fluctuation in Exchange Rates

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

As for the six months ended June 30, 2019, the Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

Gearing Ratio

As of June 30, 2019, the Group's gearing ratio (total liabilities divided by total assets) was 37.4% (as of December 31, 2018: 34.5%).

Employees and Remuneration Policy

As of June 30, 2019, the Group had a total of 2,746 full-time employees (as of December 31, 2018: 2,581 full-time employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB128.1 million (for the six months ended June 30, 2018: RMB96.5 million). The average employees' remuneration is RMB96.2 thousand per year (including social medical insurance scheme and housing grant scheme bore by the Group).The remuneration is determined with reference to the salary level in the same industry and the qualifications, experience and performance of an employee.

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

After the consideration and approval at the 2017 AGM, and confirmed by the 8th meeting of the second session of the Board of the Company convened at August 20, 2018, the actual first grant comprised of 165 persons, and 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 Board of the Company convened at August 26, 2019, incentive Shares were granted to the second phase participants. Scope of the second phase participants includes 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 12 persons voluntarily abstained to subscribe, the actual grant comprised of 25 persons, and the actual aggregate number of Shares granted was 191,022 Shares, representing 0.2530% of total issued share capital of the Company as of date of this interim report. The details are shown as the following table. The Participants shall pay the subscription amounts calculated by the amount of grants multiplied by the grant price (RMB10.47 per Share).

Category of personnel	Number of persons granted (person)	Number of Shares granted (Share)	Number of grant representing total issued share capital of the Company
Core technical personnel	19	152,818	0.2024%
Other persons who, in the opinion of the Board, shall be incentivized	6	38,204	0.0506%
Total	**25**	**191,022**	**0.2530%**

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

The incentive Shares under the incentive scheme comprise the reserved part of the 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)) by the first grant shall. 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 of 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 participants are granted the incentive Shares.

Corporate Governance and Other Information

CORPORATE GOVERNANCE

The Board is of the opinion that the Company has complied with all code provisions in the CG Code during the Reporting Period.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as a code of conduct of the Company for its Directors' and Supervisors' securities transactions. Based on specific enquiries to all Directors and Supervisors, the Directors and the Supervisors have complied with the required standard set out in the Model Code during the period from January 1, 2019 to June 30, 2019. The Company minimizes the scope of insiders before publication of such inside information. Employees who are, or likely to be, in possession of unpublished inside information in relation to the Company or the Shares are prohibited from dealing in the Shares during the black-out period. The Company will file relevant information of such employees, including but not limited to the inside information, personal identity, securities account, the department such employees serve and their responsibilities, for Company's internal check and relevant regulatory authorities' inquiries. If such employees violate relevant laws and regulations, the Company will make the punishment decisions or transfer them to the judicial organs for handling in accordance with the law, in accordance with the seriousness of the case.

ACCOUNTING STANDARDS

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

ACCOUNTING POLICIES

Accounting Policies

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

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

The financial statements are prepared on a going concern basis.

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

Adoption of New Accounting Policies

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

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

Contents and reasons of the modification of accounting policies	The line items affected	The amounts (RMB) affected January 1, 2019 The Group
For operating lease contracts that existed prior to the initial implementation of the new lease standard, the Group adopts different methods according to the remaining lease period:	Right-of-use assets	234,963,917
	Lease liabilities	(198,596,521)
If the remaining lease period is longer than one year, the Group recognises lease liabilities based on the remaining lease payment and incremental borrowing rate on January 1, 2019 ("**dated of initial implementation**"). Right-of-use assets are recognised as the same amount as lease liabilities, and are adjusted according to the prepaid rent.	Current portion of non-current liabilities	(26,230,361)
	Prepayments	(13,968,903)
	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.		

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

Corporate Governance and Other Information

AUDIT COMMITTEE AND REVIEW OF THE INTERIM REPORT AND THE INTERIM RESULTS

The Company established the Audit Committee in compliance with Rule 3.21 and Rule 3.22 of the Hong Kong Listing Rules and with written terms of reference in compliance with the CG Code and the roles and the responsibilities delegated to the Audit Committee by the Board. The Audit Committee consists of two independent non-executive Directors, Mr. HUANG Zhi (the chairman of the Audit Committee), Mr. GOT Chong Key Clevin, and one non-executive Director, Mr. LIN Lijun. The Audit Committee has reviewed this interim report and the Group's financial information for the six months ended June 30, 2019, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made.

INTERIM DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CHANGE IN SUPERVISORS

On June 18, 2019, Mr. CHEN Jian was appointed as an independent Supervisor of the second session of Supervisory Committee of the Company effective from June 18, 2019 at the AGM. Due to personal work arrangement, Mr. MA Jinlong resigned as an independent Supervisor of the Company on June 18, 2019.

EVENTS AFTER THE REPORTING PERIOD

After the Reporting Period and up to the date of this interim report, the Group has no material subsequent event.

Corporate Governance and Other Information

CHANGES IN DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S BIOGRAPHICAL DETAILS

Set out below are the changes in the Directors', the Supervisors' and the chief executives' biographical details between the period of January 1, 2019 to June 30, 2019 and up to the date of this interim report, which are required to be disclosed pursuant to Rule 13.51B of the Hong Kong Listing Rules:

		Position held at other members of the Group and term of office	
Name	Member of the Group	Positions held at members of the Group	Term of office
Mr. WANG Jian	Wenling Nanfang Hospital	Chairman, Manager	From January 2019 to present
Ms. ZHANG Feixue	Wenling Nanfang Hospital	Director	From January 2019 to present
Mr. YE Minjie	Hangzhou Yining Psychology Health Management Co., Ltd.	Executive director	From January 2019 to present
Mr. ZHOU Chaoyi	Hangzhou Yining Hospital	General manager	From April 2019 to present
Ms. WANG Hongyue	Zhejiang Yining Hospital Management Co., Ltd.	Executive director, General manager	From April 2019 to present
Ms. WANG Lianyue	Beijing Yining Hospital	Director	From May 2019 to present
Mr. YE Minjie	Wenzhou Yixin Health Technology Co., Ltd.	Executive director, General manager	From May 2019 to present
Mr. WANG Jian	Sihui Kangning Hospital	Chairman	From August 2016 to May 2019
Ms. WANG Hongyue	Sihui Kangning Hospital	Director	From August 2016 to May 2019
Mr. JIN Weiguang	Shandong Yining Hospital Management Co., Ltd.	Chairman	From August 2016 to May 2019
Ms. WANG Hongyue	Shandong Yining Hospital Management Co., Ltd.	Director	From August 2016 to May 2019
Ms. WANG Lianyue	Zhejiang Dening Medicine Co., Ltd.	Chairman	From June 2019 to present
Ms. WANG Hongyue	Zhejiang Dening Medicine Co., Ltd.	Director	From June 2019 to present
Ms. WANG Hongyue	Huainan Kangning Hospital	Supervisor	From June 2019 to present
Mr. WANG Jian	Huainan Kangning Hospital	Director	From June 2019 to present

Save as disclosed above, the Company is not aware of other changes in the Directors', the Supervisors' or the chief executives' biographical details which are required to be disclosed pursuant to Rule 13.51B of the Hong Kong Listing Rules.

Relocation of Cangnan Kangning Hospital

On July 7, 2016, the Company entered into a letter of intent with Wenzhou Dongjing Packaging Company Limited (as the vendor), pursuant to which the Company intends to acquire the vendor's land and property ("**Subject Property**") located in Lingxi Village, Cangnan County. However, the government did not approve the Subject Property to be used for hospital operation. In September 2016, the letter of intent was terminated by both parties without any further liability.

On February 28, 2017, Cangnan Kangning Hospital successfully bidded for the Subject Property at the online judicial auction held by the People's Court of Cangnan County. On July 13, 2017, the Company has completed the registration of the transfer of the Subject Property and obtained the real estate title certificate numbered Zhe (2017) Cangnan County Real Estate Title No. 0018361.

On September 12, 2019, Cangnan Kangning Hospital obtained the Proposal for Temporary Change of Property Use (《臨時改變房屋用途意見書》) issued by Cangnan County Housing and Urban-Rural Development Bureau, and signed a relevant agreement with it, agreeing to temporarily change the use of the Subject Property as a hospital.

At present, the construction project related to the Subject Property of Cangnan Kangning Hospital is undergoing the final stage of completion and acceptance. It is expected that, in the second half of 2019, the Subject Property of Cangnan Kangning Hospital will complete its overall relocation and be officially put into use.

Further disclosure will be made in the Company's annual report as and when appropriate in relation to the developments of the above matter.

Use of Proceeds from Initial Public Offering

The H Shares were listed on the Main Board of the Hong Kong Stock Exchange on November 20, 2015. The Company's net proceeds from the initial public offering amounted to approximately HK$693.2 million (equivalent to RMB580.7 million) after deducting underwriting commissions and all related expenses.

On March 30, 2017, the Board of Directors resolved a resolution to change the use of the net proceeds, deducted the allocation to finance renovation and upgrades for Wenzhou Kangning Hospital by RMB58.1 million, and increased the allocation to expand and ramp up healthcare facilities network and operating capacity by RMB58.1 million. Details please refer to the announcement of the Company dated March 31, 2017.

On March 23, 2018, the Board of Directors resolved a resolution to change the use of the net proceeds again, deducted the allocation to research, teaching and personnel training purposes by RMB17.4 million, deducted the allocation to develop mobile and online platform for medical consultation and upgrade information technology infrastructure by RMB29.1 million, and increased the allocation to expend and ramp up healthcare facilities network and operating capacity by RMB46.5 million. Details please refer to the announcement of the Company dated March 26, 2018.

Save as above, there were no other changes in the use of net proceeds from the global offering of the Company.

Corporate Governance and Other Information

Save as used above, as of June 30, 2019, the remaining funds of the Company's proceeds were approximately HK$7.7 million, US$1.2 million and RMB2.3 million, which were deposited in a special account opened by the Company in the bank.

The Company will gradually put the abovementioned net proceeds into use according to the development strategy, market condition and the revised utilization plan. The Company expects that the remaining unused proceeds will be fully used for the year ended December 31, 2019. Set out below is the revised proceeds utilization plan of the Company, including the net proceeds used as of the Latest Practicable Date:

	Amount of net proceeds used as of the Latest Practicable Date		Planned amount of net proceeds used as of December 31, 2019	
Use of net proceeds upon the change	Approximate (RMB million)	Approximate (%)	Approximate (RMB million)	Approximate (%)
To expand and ramp up our healthcare facility network and operating capacity	400.4	68.2	0.0	0.0
To finance renovation and upgrades for Wenzhou Kangning Hospital	88.3	15.0	0.0	0.0
Research, teaching and personnel training purposes	41.3	7.0	0.0	0.0
To develop our mobile and online platform for medical consultation and upgrade our information technology infrastructure	16.1	2.7	1.3	100.0
Working capital and other general corporate purposes	41.3	7.1	0.0	0.0
Total	**587.4**	**100.0**	**1.3**	**100.0**

Corporate Governance and Other Information

DISCLOSURE OF INTERESTS

Directors', Supervisors' and Chief Executives' Interests in Securities

As of June 30, 2019, the interests and short positions of the Directors, the Supervisors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company under Section 352 of the SFO, or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Directors	Class of Shares	Nature of Interest	Number of Shares	Total Number of Shares	Approximate Percentage in Shares of the Same Class[1]	Approximate Percentage of the Company's Total Issued Share Capital[1]
Mr. GUAN Weili	Domestic Shares	Beneficial owner	18,350,250(L)	22,144,750(L)	40.07%	29.33%
		Interest of spouse	3,794,500(L) [2]			
Ms. WANG Lianyue	Domestic Shares	Beneficial owner	3,794,500(L)	22,144,750(L)	40.07%	29.33%
		Interest of spouse	18,350,250(L) [2]			
Ms. WANG Hongyue	Domestic Shares	Beneficial owner	3,984,350(L)	5,527,350(L)	10.00%	7.32%
		Interest in a controlled corporation	1,543,000(L) [3]			

Notes:

(L): Long position

(1) The shareholding percentages are calculated on the basis of 55,260,000 Domestic Shares and 20,240,000 H Shares (an aggregate of 75,500,000 Shares) issued by the Company as of June 30, 2019.

(2) Mr. GUAN Weili is the spouse of Ms. WANG Lianyue and therefore, Mr. GUAN Weili is deemed to be interested in the Domestic Shares held by Ms. WANG Lianyue, and Ms. WANG Lianyue is deemed to be interested in the Domestic Shares held by Mr. GUAN Weili by virtue of Part XV of the SFO.

(3) Ms. WANG Hongyue is the general partner of Ningbo Xinshi Kangning Investment Management L.P. ("**Xinshi Kangning**"), which is a limited partnership, and holds approximately 34.57% in Xinshi Kangning. Therefore, by virtue of Part XV of the SFO, Ms. WANG Hongyue is deemed to be interested in all the Domestic Shares held by Xinshi Kangning in the Company.

Save as disclosed above, as of June 30, 2019, to the knowledge of the Board, none of the Directors, the Supervisors or the chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, the Supervisors and the chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Interests of Substantial Shareholders

As of June 30, 2019, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following person/entity (other than the Directors, the Supervisors or the chief executives of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class [1]	Approximate Percentage of the Company's Total Issued Share Capital [1]
Guangzhou GL Capital Investment Fund L.P. ("**Defu Fund**") (廣州德福股權投資基金合夥企業(有限合夥)(「**德福基金**」))	Domestic Shares	Beneficial owner	15,384,541(L)	27.84%	20.38%
Guangzhou GL Capital GP L.P. [2] (廣州德福投資諮詢合夥企業(有限合夥))	Domestic Shares	Interest in a controlled corporation	15,384,541(L)	27.84%	20.38%
Guangzhou Automobile Group Capital Co., Ltd. [3] (廣汽資本有限公司)	Domestic Shares	Interest in a controlled corporation	15,384,541(L)	27.84%	20.38%
Mr. XU Yi [4]	Domestic Shares	Interest of spouse	5,527,350(L)	10.00%	7.32%
Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥))	Domestic Shares	Beneficial owner	3,253,180(L)	5.89%	4.31%

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class [1]	Approximate Percentage of the Company's Total Issued Share Capital [1]
Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥))[5]	Domestic Shares	Interest in a controlled corporation	3,253,180(L)	5.89%	4.31%
Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥))	Domestic Shares	Beneficial owner	3,253,179(L)	5.89%	4.31%
Mr. ZHAO Yongsheng [6]	Domestic Shares	Interest in a controlled corporation	3,253,179(L)	5.89%	4.31%
Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司)[7]	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	11.77%	8.62%
Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝沛投資有限公司)	Domestic Shares	Beneficial owner	2,780,000(L)	5.03%	3.68%
Jinshi Investment Co., Ltd. (金石投資有限公司)[8]	Domestic Shares	Interest in a controlled corporation	2,780,000(L)	5.03%	3.68%
Citigroup Inc.	H Shares	Person having a security interest Approved lending agent	1,929,254(L) 2,699(L), (P)	9.53% 0.01%	2.56% 0.00%
Baring Asset Management Limited	H Shares	Investment manager	3,052,400(L)	15.08%	4.04%
Barings LLC (formerly known as Babson Capital Management LLC)	H Shares	Investment manager	3,034,200(L)	14.99%	4.02%
Northern Trust Fiduciary Services (Ireland) Limited	H Shares	Trustee	2,093,700(L)	10.34%	2.77%
OrbiMed Advisors LLC	H Shares	Investment manager	1,454,000(L)	7.18%	1.93%
OrbiMed Capital LLC	H Shares	Investment manager	2,150,900(L)	10.63%	2.85%

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class [1]	Approximate Percentage of the Company's Total Issued Share Capital [1]
OrbiMed Partners Master Fund Limited	H Shares	Beneficial owner	1,279,900(L)	6.32%	1.70%
Prime Capital Management Company Limited	H Shares	Investment manager	2,803,800(L)	13.85%	3.71%
OrbiMed Partners II, L.P.	H Shares	Beneficial owner	1,052,000(L)	5.20%	1.39%
Morgan Stanley	H Shares	Interest in a controlled corporation	1,208,534(L) 1,143,634(S)*	5.97% 5.65%	1.60% 1.51%
UBS Group AG	H Shares	Interest in a controlled corporation	3,880,900(L)	19.17%	5.14%

Notes:

(L): Long position

(P): Lending Pool

(S): Short position

* Cash settled unlisted derivatives

(1) The shareholding percentages are calculated on the basis of 55,260,000 Domestic Shares and 20,240,000 H Shares (an aggregate of 75,500,000 Shares) issued by the Company as of June 30, 2019.

(2) Guangzhou GL Capital GP L.P. is the general partner of Defu Fund, which is a limited partnership. Therefore, by virtue of Part XV of the SFO, Guangzhou GL Capital GP L.P. is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.

(3) Guangzhou Automobile Group Capital Co., Ltd. is a limited partner of Defu Fund, which holds approximately 52.45% interest in Defu Fund. Therefore, by virtue of Part XV of the SFO, Guangzhou Automobile Group Capital Co., Ltd. is deemed to be interested in all the Domestic Shares held by Defu Fund in the Company.

(4) Mr. XU Yi is the spouse of Ms. WANG Hongyue, an executive Director, and therefore, Mr. XU Yi is deemed to be interested in the Domestic Shares held by Ms. WANG Hongyue by virtue of Part XV of the SFO.

(5) Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥)) holds 99.99% equity interest in Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)). Therefore, by virtue of Part XV of the SFO, Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥)) is deemed to be interested in all the Domestic Shares held by Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)) in the Company.

(6) Mr. ZHAO Yongsheng holds 99.90% equity interest in Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥)). Therefore, by virtue of Part VX of the SFO, Mr. ZHAO Yongsheng is deemed to be interested in all the Domestic Shares held by Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥)) in the Company.

(7) Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) is the general partner of Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥)) and Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)). Therefore, by virtue of Part XV of the SFO, Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) is deemed to be interested in all the Domestic Shares held by Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥)) and Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥))in the Company.

(8) Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝內投資有限公司) is wholly held by Jinshi Investment Co., Ltd. (金石投資有限公司). Therefore, Jinshi Investment Co., Ltd. (金石投資有限公司) is deemed to be interested in the Domestic Shares held by Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝內投資有限公司) in the Company by virtue of Part XV of the SFO.

Save as disclosed above, as of June 30, 2019, to the knowledge of the Directors, no other person (other than a Director, a Supervisor or a chief executive of the Company) had, or was deemed or taken to have interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

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

Zhejiang, the PRC
August 26, 2019

Consolidated Balance Sheet

As at 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Current assets			
Cash at bank and on hand	4(1)	**88,643,935**	187,076,694
Accounts receivable	4(2)	**343,085,203**	299,750,063
Other receivables	4(3)	**63,601,330**	58,051,581
Advances to suppliers		**6,773,294**	16,683,839
Inventories		**23,496,443**	20,813,747
Current portion of non-current assets		**12,688,704**	12,688,704
Total current assets		**538,288,909**	595,064,628
Non-current assets			
Other non-current financial assets		**50,974,323**	50,974,323
Long-term equity investments	4(4)	**84,166,020**	100,321,983
Investment properties	4(5)	**138,214,682**	128,568,963
Fixed assets	4(6)	**429,798,060**	444,322,834
Construction in progress	4(7)	**128,365,125**	131,187,406
Right-of-use assets	4(8)	**262,857,848**	N/A
Intangible assets	4(9)	**119,723,596**	185,257,977
Goodwill	4(10)	**47,503,344**	19,296,005
Long-term prepaid expenses	4(11)	**159,645,805**	144,386,669
Deferred tax assets		**47,483,569**	33,825,347
Other non-current assets		**3,209,169**	7,517,900
Total non-current assets		**1,471,941,541**	1,245,659,407
TOTAL ASSETS		**2,010,230,450**	1,840,724,035

Consolidated Balance Sheet

As at 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Current liabilities			
Short-term borrowings	4(13)	**170,000,000**	145,000,000
Accounts payable	4(14)	**53,319,851**	73,644,717
Contract liabilities		**9,139,823**	2,244,706
Employee benefits payable		**19,877,674**	28,270,410
Taxes payable		**36,365,584**	41,119,676
Other payables		**118,956,827**	129,807,988
Current portion of non-current liabilities	4(15)	**84,786,940**	63,757,304
Total current liabilities		**492,446,699**	483,844,801
Non-current liabilities			
Long-term borrowings	4(16)	**40,000,000**	40,000,000
Lease liabilities	4(17)	**191,292,498**	N/A
Long-term payables	4(18)	**–**	86,645,200
Deferred income		**10,101,163**	10,253,059
Deferred tax liabilities		**17,514,645**	14,707,619
Total non-current liabilities		**258,908,306**	151,605,878
Total liabilities		**751,355,005**	635,450,679
Shareholders' equity			
Share capital	4(19)	**75,500,000**	75,500,000
Capital surplus	4(20)	**825,220,846**	827,379,886
Less: Treasury share	9	**(21,780,000)**	(21,910,000)
Surplus reserve		**29,981,034**	29,981,034
Undistributed profits	4(21)	**249,330,816**	210,044,608
Total equity attributable to shareholders of the Company		**1,158,252,696**	1,120,995,528
Minority interests		**100,622,749**	84,277,828
Total shareholders' equity		**1,258,875,445**	1,205,273,356
Total liabilities and shareholders' equity		**2,010,230,450**	1,840,724,035

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	**WANG Hongyue**	**XU Qunyan**

Balance Sheet

As at 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Current assets			
Cash at bank and on hand		**59,816,201**	147,680,587
Accounts receivable	16(1)	**117,715,778**	108,177,162
Advances to suppliers		**4,172,814**	3,882,154
Other receivables	16(2)	**620,179,047**	554,772,707
Inventories		**9,218,295**	8,404,245
Current portion of non-current assets		**12,688,704**	12,688,704
Total current assets		**823,790,839**	835,605,559
Non-current assets			
Other non-current financial assets		**50,974,323**	50,974,323
Long-term equity investments	16(3)	**263,785,541**	172,804,786
Fixed assets		**313,853,097**	319,978,975
Construction in progress		**677,195**	4,508,592
Intangible assets		**20,521,329**	96,340,865
Long-term prepaid expenses		**16,981,095**	18,656,548
Other non-current assets		**120,000**	171,000
Deferred tax assets		**7,362,210**	7,665,855
Total non-current assets		**674,274,790**	671,100,944
TOTAL ASSETS		**1,498,065,629**	1,506,706,503

Balance Sheet

As at 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Current liabilities		
Short-term borrowings	**170,000,000**	105,000,000
Accounts payable	**26,253,479**	24,081,460
Contract liabilities	**3,767,486**	779,733
Employee benefits payable	**7,927,922**	13,395,856
Taxes payable	**10,311,743**	10,129,626
Other payables	**63,207,188**	57,248,249
Current portion of non-current liabilities	**51,688,704**	63,757,304
Total current liabilities	**333,156,522**	274,392,228
Non-current liabilities		
Long-term borrowings	**40,000,000**	40,000,000
Long-term payables	**–**	86,645,200
Deferred income	**10,101,163**	10,253,059
Total non-current liabilities	**50,101,163**	136,898,259
Total liabilities	**383,257,685**	411,290,487
Shareholders' equity		
Share capital	**75,500,000**	75,500,000
Capital surplus	**831,490,826**	828,931,889
Less: Treasury share	**(21,780,000)**	(21,910,000)
Surplus reserve	**29,981,034**	29,981,034
Undistributed profits	**199,616,084**	182,913,093
Total shareholders' equity	**1,114,807,944**	1,095,416,016
Total liabilities and shareholders' equity	**1,498,065,629**	1,506,706,503

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	**WANG Hongyue**	**XU Qunyan**

Consolidated Income Statement

For the six months ended 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
1. Revenue	4(22)	**378,910,291**	356,778,081
Less: Cost of sales	4(22), 4(23)	**(286,882,183)**	(227,375,436)
Taxes and surcharges		**(831,972)**	(3,375,006)
Selling and distribution expenses	4(23)	**(4,476,806)**	(2,570,269)
General and administrative expenses	4(23)	**(52,890,346)**	(50,950,061)
Research and development expenses		**(2,304,024)**	–
Financial expenses – net	4(24)	**(10,198,874)**	(5,530,111)
Including: Interest expenses		**(11,068,131)**	(6,884,642)
Interest income		**1,925,426**	1,962,528
Add: Other income		**6,567,461**	4,253,548
Investment gains/(losses)	4(25)	**23,549,073**	(4,318,848)
Including: Share of losses of investments in associates		**(2,525,317)**	(4,318,848)
Less: Credit impairment losses	4(26)	**(10,730,916)**	(5,742,669)
Asset impairment losses		**–**	(1,160,929)
Losses on disposal of assets		**(18,587)**	(6,378)
2. Operating profit		**40,693,117**	60,001,922
Add: Non-operating income	4(27)	**26,438,682**	1,197,342
Less: Non-operating expenses	4(27)	**(14,470,650)**	(2,091,319)
3. Total profit		**52,661,149**	59,107,945
Less: Income tax expenses	4(28)	**(7,119,918)**	(18,256,405)
4. Net profit		**45,541,231**	40,851,540
Classified by continuity of operations			
Net profit from continuing operations		**45,541,231**	40,851,540
Net profit from discontinued operations		**–**	–
Classified by ownership of the equity			
Net profit attributable to shareholders of the Company		**52,064,124**	41,986,854
Minority interests		**(6,522,893)**	(1,135,314)
5. Total comprehensive income		**45,541,231**	40,851,540
Attributable to shareholders of the Company		**52,064,124**	41,986,854
Attributable to minority interests		**(6,522,893)**	(1,135,314)
6. Earnings per share			
Basic earnings per share (RMB Yuan)	4(29)	**0.71**	0.57
Diluted earnings per share (RMB Yuan)	4(29)	**0.70**	0.57

The accompanying notes1.297 Tw -61.138 -1.306 Td871,231

Income Statement

For the six months ended 30 June 2019
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	**For the six months ended 30 June 2019 (Unaudited)**	For the six months ended 30 June 2018 (Unaudited)
1. Revenue	16(4)	**175,199,966**	171,643,917
Less: Cost of sales	16(4)	**(123,423,751)**	(110,483,484)
Taxes and surcharges		**(44,146)**	(1,378,772)
Selling and distribution expenses		**(899,171)**	(1,263,237)
General and administrative expenses		**(26,435,922)**	(24,574,489)
Research and development expenses		**(2,286,834)**	–
Financial expenses – net		**(2,658,066)**	(6,228,634)
Including: Interest expenses		**(6,705,575)**	(5,242,880)
Interest income		**4,978,222**	1,036,748
Add: Other income		**5,609,404**	2,185,000
Investment losses	16(5)	**(772,149)**	(1,756,764)
Less: Credit impairment losses		**(4,778,638)**	(1,966,117)
Losses on disposal of assets		**(16,694)**	(123)
2. Operating profit		**19,493,999**	26,177,297
Add: Non-operating income		**25,940,864**	1,387,597
Less: Non-operating expenses		**(8,420,553)**	(1,176,588)
3. Total profit		**37,014,310**	26,388,306
Less: Income tax expenses		**(8,986,319)**	(7,040,048)
4. Net profit		**28,027,991**	19,348,258
Classified by continuity of operations			
Net profit from continuing operations		**28,027,991**	19,348,258
Net profit from discontinued operations		**–**	–
5. Total comprehensive income		**28,027,991**	19,348,258

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	**WANG Hongyue**	**XU Qunyan**

Consolidated Cash Flow Statement

For the six months ended 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

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

Consolidated Cash Flow Statement

For the six months ended 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

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

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	**WANG Hongyue**	**XU Qunyan**

Cash Flow Statement

For the six months ended 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

Item	**For the six months ended 30 June 2019 (Unaudited)**	For the six months ended 30 June 2018 (Unaudited)
1. Cash flows from operating activities		
Cash received from sales of goods or rendering of services	**167,659,842**	149,018,109
Cash received relating to other operating activities	**5,775,414**	25,043,603
Sub-total of cash inflows	**173,435,256**	174,061,712
Cash paid for goods and services	**(72,720,063)**	(65,933,275)
Cash paid to and on behalf of employees	**(59,764,383)**	(54,090,336)
Payments of taxes and surcharges	**(8,544,702)**	(7,943,244)
Cash paid relating to other operating activities	**(63,035,546)**	(108,382,712)
Sub-total of cash outflows	**(204,064,694)**	(236,349,567)
Net cash flows from operating activities	**(30,629,438)**	(62,287,855)
2. Cash flows from investing activities		
Cash received from disposal of investments	**447,095**	–
Cash received from returns on investments - net	**–**	18,000,000
Cash received relating to other investing activities	**4,978,274**	229,066,598
Sub-total of cash inflows	**5,425,369**	247,066,598
Cash paid to acquire fixed assets, intangible assets and other long-term assets	**(13,863,895)**	(23,518,704)
Cash paid to acquire investments	**(106,900,000)**	–
Sub-total of cash outflows	**(120,763,895)**	(23,518,704)
Net cash flows from investing activities	**(115,338,526)**	(34,824,756)

Cash Flow Statement

For the six months ended 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

Item	**For the six months ended 30 June 2019 (Unaudited)**	For the six months ended 30 June 2018 (Unaudited)

Consolidated Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

		Equity attributable to shareholders of the Company						
	Note	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Minority interests	Total shareholders' equity
Balance at 1 January 2019		75,500,000	827,379,886	(21,910,000)	29,981,034	210,044,608	84,277,828	1,205,273,356
Movements for the six months ended 30 June 2019								
Total comprehensive income								
Net profit		–	–	–	–	52,064,124	(6,522,893)	45,541,231
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders		–	–	–	–	–	4,245,000	4,245,000
Share-based payment included in shareholders' equity	9	–	2,688,937	–	–	–	–	2,688,937
Transactions with minority shareholders		–	(12,255)	–	–	(1,452,916)	245,168	(1,220,003)
Withdrawal by shareholders		–	(130,000)	130,000	–	–	(2,040,163)	(2,040,163)
Others		–	(4,705,722)	–	–	–	–	(4,705,722)
Business combination involving enterprise not under common control		–	–	–	–	–	20,417,809	20,417,809
Profit distribution								
Profit distribution to shareholders	4(21)	–	–	–	–	(11,325,000)	–	(11,325,000)
Balance at 30 June 2019		75,500,000	825,220,846	(21,780,000)	29,981,034	249,330,816	100,622,749	1,258,875,445

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	**WANG Hongyue**	**XU Qunyan**

Consolidated Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

		Equity attributable to shareholders of the Company					
	Note	Share capital	Capital surplus	Surplus reserve	Undistributed profits	Minority interests	Total shareholders' equity
Balance at 31 December 2017		73,040,000	808,244,186	23,710,012	146,840,254	58,662,363	1,110,496,815
Add: Changes in accounting policies		–	–	–	(164,301)	–	(164,301)
Balance at 1 January 2018 (Restated)		73,040,000	808,244,186	23,710,012	146,675,953	58,662,363	1,110,332,514
Movements for the six months ended 30 June 2018							
Total comprehensive income							
Net profit		–	–	–	41,986,854	(1,135,314)	40,851,540
Capital contribution and withdrawal by shareholders							
Capital contribution by shareholders		–	–	–	–	4,730,000	4,730,000
Share-based payment included in shareholders' equity	9	–	206,400	–	–	–	206,400
Gains on dilution of equity		–	910,596	–	–	–	910,596
Profit distribution							
Profit distribution to shareholders	4(21)	–	–	–	(10,956,000)	–	(10,956,000)
Balance at 30 June 2018		73,040,000	809,361,182	23,710,012	177,706,807	62,257,049	1,146,075,050

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	**WANG Hongyue**	**XU Qunyan**

Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

	Note	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2019		75,500,000	828,931,889	(21,910,000)	29,981,034	182,913,093	1,095,416,016
Movements for the six months ended 30 June 2019							
Total comprehensive income							
Net profit		-	-	-	-	28,027,991	28,027,991
Capital contribution and withdrawal by shareholders							
Withdrawal by shareholders		-	(130,000)	130,000	-	-	-
Share-based payment included in shareholders' equity	9	-	2,688,937	-	-	-	2,688,937
Profit distribution							
Profit distribution to shareholders	4(21)	-	-	-	-	(11,325,000)	(11,325,000)
Balance at 30 June 2019		75,500,000	831,490,826	(21,780,000)	29,981,034	199,616,084	1,114,807,944

The accompanying notes form an integral part of these financial statements.

Legal representative:	Principal in charge of accounting:	Head of accounting department:
GUAN Weili	**WANG Hongyue**	**XU Qunyan**

Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

	Note	Share capital	Capital surplus	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at 31 December 2017		73,040,000	807,109,474	23,710,012	137,084,775	1,040,944,261
Add: Changes in accounting policies		–	–	–	345,120	345,120
Balance at 1 January 2018		73,040,000	807,109,474	23,710,012	137,429,895	1,041,289,381
Movements for the six months ended 30 June 2018						
Total comprehensive income						
Net profit		–	–	–	19,348,258	19,348,258
Capital contribution and withdrawal by shareholders						
Share-based payment included in shareholders' equity	9	–	206,400	–	–	206,400
Profit distribution						
Profit distribution to shareholders	4(21)	–	–	–	(10,956,000)	(10,956,000)
Balance at 30 June 2018		73,040,000	807,315,874	23,710,012	145,822,153	1,049,888,039

The accompanying notes form an integral part of these financial statements.

Legal representative:
GUAN Weili

Principal in charge of accounting:
WANG Hongyue

Head of accounting department:
XU Qunyan

Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

1. General information

The Company was established as a joint stock cooperative enterprise under the name of Wenzhou City Kangning Psychiatric Rehabilitation Hospital in the PRC on 7 February 1996. The address of the Company's registered office is at Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, the PRC.

On 15 October 2014, the Company was converted into a joint stock limited liability company and renamed as Wenzhou Kangning Hospital Co., Ltd.

The principle activities of the Company and its subsidiaries (the "Group") are operating psychiatric hospitals and providing management services to hospitals in the PRC, also the Group has property development and investment property holding operation.

The Company had its initial listing on the Stock Exchange of Hong Kong Limited on 20 November 2015.

During the reporting period, many affiliated hospitals of the Group entered the stage of full operation and the Group continued to invest in associates (Note 4(4)) and provide management services to other hospitals (Note 4(9)) to expand its medical network.

The financial statements were approved for issue by the Company's Board of Directors on 26 August 2019.

2. Summary of significant accounting policies and accounting estimates

(1) Basis of preparation

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

The financial statements are prepared and disclosed in accordance with *CAS 32* "*Interim Financial Reporting*".

Except for Note 2(3) "Lease", Note 2(4) "Critical accounting estimates and judgements", the Group's accounting policies applied in preparing the financial statements are consistent with those policies applied in the financial statements for the year ended 31 December 2018. The interim financial statements shall be read together with the financial statements for the year ended 31 December 2018 of the Group.

The financial statements are prepared on a going concern basis.

The new Hong Kong *Companies Ordinance* took effect from 2016 and certain disclosures in the financial statements have been adjusted in accordance with requirements therein.

2. Summary of significant accounting policies and accounting estimates *(continued)*

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the six months ended 30 June 2019 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and the Company's financial position of the Company as at 30 June 2019 and their financial performance, cash flows and other information for the period then ended.

(3) Leases

A lease refers to the contract in which the lessor transfers the right-of-use of the assets to the lessee for a certain period of time to obtain the consideration.

The Group as the Lessee

The Group recognises the right-of-use assets on the commencement date of the lease period and recognises the lease liabilities at the present value of the lease payments that have not been paid. The lease payments comprise fixed payments and payments to be made in the event that it is reasonably determined to exercise the purchase option or terminate the lease option. The variable rentals determined at a certain percentage

2. Summary of significant accounting policies and accounting estimates *(continued)*

(3) Leases *(continued)*

The Group as the lessor

A lease that transfers substantially almost all the risks and rewards incidental to ownership of a lease asset is a finance lease. An operating lease is a lease other than a finance lease.

(a) Operating leases

For the self-owned buildings, machinery and equipment and motor vehicles leased out under operating lease, the rental income from operating lease is recognised on the straight-line basis over the lease terms. The variable rentals determined at a certain percentage of sales are recognised in rental income when incurred.

(b) Impairment

Right-of-use assets are tested for impairment if there is any indication that the assets may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

(4) Significant changes in accounting policies

The Ministry of Finance released the revised *Accounting Standard for Business Enterprises No. 21 - Lease* (hereinafter referred to as "new lease standards") in 2018 and the *Circular on the Amendment to the Formats of Corporate Financial Statements for the Year of 2019* (Cai Kuai [2019] No. 6) in 2019. The financial statements for the six months ended 30 June 2019 are prepared in accordance with the above standards and circular. The impacts on the financial statements of the Group and the Company are as follows:

2. Summary of significant accounting policies and accounting estimates *(continued)*

(4) Significant changes in accounting policies *(continued)*

(a) Leases

In accordance with relevant provisions of the new lease standards, the Group recognised the cumulative effect of initially applying the standard as an adjustment to relevant line items in the financial statements for the year ended 31 December 2019. The comparatives for the year ended 31 December 2018 were not restated.

The nature and the reasons of the changes in accounting policies	The line items affected	The amounts affected 1 January 2019 The Group
For operating lease contracts that existed prior to the initial implementation of the new lease standards, the Group has different connection methods according to the remaining lease period:	Right-of-use assets	234,963,917
	Lease liabilities	(198,596,521)
	Current portion of non-current liabilities	(26,230,361)
If the remaining lease term is over 1 year, on 1 January 2019 (the "initial implementation date"), the Group measured lease liabilities based on the present value of the remaining lease payments discounted at the incremental borrowing rate on the initial implementation date. At the same time, the Group selected an amount equal to lease liabilities and measured the right-of-use asset based on the prepaid rental after necessary adjustment.	Advances to suppliers	(13,968,903)
	Other payables	3,831,868
If the remaining lease term is less than 1 year, the Group adopted a simplified method and do not recognise right-of-use assets and lease liabilities, which has no significant impact on the financial statements.		
For operating lease contracts for low-value assets that existed prior to the initial implementation of the new lease standards, the Group adopt a simplified method and do not recognise right-of-use assets and lease liabilities, which has no significant impact on the financial statements.		

2. Summary of significant accounting policies and accounting estimates *(continued)*

(4) Significant changes in accounting policies *(continued)*

(a) Leases (continued)

As at 1 January 2019, when the Group measured the lease liabilities, the same discount rate was adopted for the lease contracts with similar characteristics, and the weighted average of the incremental borrowing rate adopted was 4.88%.

As at 1 January 2019, the Group's reconciliation from the minimum operating lease payments not paid yet disclosed under the old lease standards to the lease liabilities recognised under the new lease standards are as follows:

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

3. Taxation

The main categories and rates of taxes applicable to the Group are set out below:

Category	Tax rate	Tax base
Enterprise income tax	25%	Taxable income
Value added tax ("VAT") (a)	3%, 5% or 6%	Revenue
City maintenance and construction tax	7%	The amount of VAT and business tax actually paid
Educational surcharge	3%	The amount of VAT and business tax actually paid
Local educational surcharge	2%	The amount of VAT and business tax actually paid
Property tax (b)	1.2% or 12%	70% of the cost of the property or rental income
Land use tax (c)	RMB 5/m^2	The square of the land
Land VAT	30% to 60%	Value-added amount

3. Taxation *(continued)*

(a) Pursuant to the *Regulations on the Implementation of the Pilot Interim Policies of Levying VAT in place of Business Tax in the Circular on the Overall Promotion of Pilot Program of Levying VAT in Place of Business Tax* (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, as from 1 May 2016, the revenue from providing medical service of the Company and its subsidiary, Qingtian Kangning Hospital Co., Ltd ("Qingtian Kangning Hospital"), Cangnan Kangning Hospital Co., Ltd ("Cangnan Kangning Hospital"), Yongjia Kangning Hospital Co., Ltd ("Yongjia Kangning Hospital"), Yueqing Kangning Hospital Co., Ltd ("Yueqing Kangning Hospital"), Linhai Kangning Hospital Co., Ltd ("Linhai Kangning Hospital"), Shenzhen Yining Investment Co., Ltd. ("Shenzhen Yining Investment"

3. Taxation *(continued)*

(b) Pursuant to the *Notice on Taxation Affairs* (Ping Di Shui Kun Tong [2017] No. 930) and (Ping Di Shui Kun Tong [2017] No. 931) issued by Pingyang County Local Tax Bureau Kunyang Branch on 13 April 2017, Pingyang Kangning Hospital Co., Ltd. ("Pingyang Kangning Company") enjoyed exemption of property tax for 3 years since 6 December 2017. Per the Article 10 the Notice on the *Interpretation and Interim Regulations on Certain Specific Issues of Property Tax*, and the *Interpretation and Interim Provisions on Certain Specific Issues Concerning Vehicle and Vessel Use Tax* (Cai Shui Di Zi [1986] No. 8) issued by Ministry of Finance and the State Administration of Taxation, the properties used by the various types of hospitals operated by the enterprise may be exempt from the property tax, similar to the properties used by the units funded by the state finance authorities. The Company and its subsidiary Cangnan Kangning Hospital enjoy preferential property tax exemption.

(c) Pursuant to the *Implementation Plan on Adjustment of Urban Land Use Tax Policy in Wenzhou City to Promote Land Intensive Use and Utilisation* issued by Wenzhou Municipal People 's Government Office on 9 May 2016 and the Notice on Taxation Affairs issued by Wenzhou City Local Taxation Bureau Lucheng Branch on 19 July 2016 and 13 January 2017 respectively (Wen Di Shui Lu You Pi Tong [2016] No.173 and Wen Lu Di Shui Tong [2017] No. 45068), the Company enjoyed 100% exemption on urban land use tax for the year ended 31 December 2019.

4. Notes to the interim condensed consolidated financial statements

(1) Cash at bank and on hand

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Cash on hand	**465,470**	657,361
Cash at bank	**87,574,028**	186,180,534
Other cash balances	**604,437**	238,799
	88,643,935	187,076,694

As at 30 June 2019, there were no fixed deposits with the term of over three months (31 December 2018: RMB10,000).

4. Notes to the interim condensed consolidated financial statements *(continued)*

(2) Accounts receivable

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Receivables from related parties (Note 8(5)(a))	**6,750,000**	6,749,917
Receivables from non-related parties	**366,111,251**	318,519,503
Sub-total	**372,861,251**	325,269,420
Less: Provision for bad debts	**(29,776,048)**	(25,519,357)
	343,085,203	299,750,063

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

(i) The ageing of accounts receivable based on their recording dates is analysed as follows:

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

(a) Provision for bad debts

For accounts receivables, the Group measures the loss provision based on the lifetime expected credit losses.

(i) As at 30 June 2019, there were no accounts receivable for which the related provision for bad debts was provided on the individual basis.

(ii) As at 30 June 2019, the Group made a provision for bad debts of accounts receivable at an amount equal to the lifetime expected credit losses, amounting to RMB29,776,048:

4. Notes to the interim condensed consolidated financial statements *(continued)*

(2) Accounts receivable *(continued)*

4. Notes to the interim condensed consolidated financial statements *(continued)*

(3) Other receivables

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Loans to third parties (i)	**23,292,000**	20,712,000
Advances (ii)	**15,744,230**	7,461,889
Receivables from related parties (Note 8(5)(a))	**14,584,437**	17,970,291
Deposits and guarantees	**7,175,102**	7,709,142
Others	**11,014,058**	8,443,740
	71,809,827	62,297,062
Less: Provision for bad debts	**(8,208,497)**	(4,245,481)
	63,601,330	58,051,581

(i) As at 30 June 2019, the amount that the Company lent to the Pujiang Hospital and Chun'an Hospital were RMB16,032,000 and RMB7,260,000 respectively (31 December 2018: RMB13,402,000 and RMB7,310,000), with an interest rate of 7.2% per annum.

(ii) Such advances mainly included the rental expenses of Nanchang Kangning Hospital Co., Ltd. and the Housing Maintenance Fund due from customers.

As at 30 June 2019, the rentals of Nanchang Kangning Hospital Co., Ltd., which Xiong Guoxiu and Min Honggen should refund and was paid by the Group, amounted to RMB2,156,115.

As at 30 June 2019, the Housing Maintenance Fund due from customers of RMB3,303,167 (31 December 2018: RMB3,307,591) was paid by Wenzhou Guoda Investment Higher Education Park Business Centre Phase I and Phase II Properties to Wenzhou Ouhai Real Estate Administrative Bureau before obtaining property ownership certificate. Such amount was a one-off contribution at the price of RMB53 per square of construction, which would be recovered from property buyers when the property is sold.

4. Notes to the interim condensed consolidated financial statements *(continued)*

(3) Other receivables *(continued)*

(a) Statement of changes in loss provision and relevant balance

	Stage 1		Stage 3		
	Expected credit loss within 12 months (Group)		Lifetime expected credit losses (Credit-impaired)		Total
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Provision for bad debts
31 December 2018	60,140,947	3,035,451	2,156,115	1,210,030	4,245,481
Increase in the current period	10,512,765	474,390	8,819,170	4,909,585	5,383,975
Write-off in the current period	–	–	(1,000,000)	(1,000,000)	(1,000,000)
Transfer to stage 3	(8,819,170)	(420,959)	–	–	(420,959)
30 June 2019	61,834,542	3,088,882	9,975,285	5,119,615	8,208,497

(i) As at 30 June 2019, the provision for bad debts of other receivables in the Stage 1 was analysed as follows:

	Ending balance	Expected credit loss rate within 12 months	Provision for bad debts
On the group basis:			
Loans to third parties	23,292,000	7%	1,630,440
Advances	5,768,945	7%	403,826
Receivable from related parties			
- outside the Group	14,584,437	5%	729,222
Deposits and guarantees	7,175,102	3%	215,253
Others	11,014,058	1%	110,141
	61,834,542		3,088,882

(ii) As at 30 June 2019, there were no other receivables in the Stage 2.

4. Notes to the interim condensed consolidated financial statements *(continued)*

(3) Other receivables *(continued)*

(a) Statement of changes in loss provision and relevant balance (continued)

(iii) As at 30 June 2019, the provision for bad debts of other receivables in the Stage 3 was analysed as follows:

	Ending balance	Lifetime expected credit loss rate	Provision for bad debts
On the individual basis:			
Yanjiao Furen Integrated Traditional Chinese and Western Medicine Hospital ("Yanjiao Furen Hospital") i)	7,819,170	50%	3,909,585
Xiong Guoxiu and Min Honggen ii)	2,156,115	56%	1,210,030
Total	9,975,285		5,119,615

i) Such amount represents the advances paid by the Group for Yanjiao Furen Hospital in the previous year. The organiser of Yanjiao Furen Hospital requested the unilateral lifting of the management service agreement signed by the Group and Yanjiao Furen Hospital (Note 4(9)) in May 2019, and filed a lawsuit against the Group in June 2019. As at 30 June 2019, the case was still on trial. Management of the Group considered that the receivables were in the Stage 3 and provided for bad debts of the receivables on the individual basis.

ii) Such amount represents the housing rental paid by the Group in the previous year, after which the Group requested to terminate the contract and requested the counterparty to repay the rental. As at 30 June 2019, the case was still on trial. Management of the Group considered that the receivables were in the Stage 3 and provided for bad debts of the receivables on the individual basis.

4. Notes to the interim condensed consolidated financial statements *(continued)*

(4) Long-term equity investments

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Associates (a)	**84,166,020**	100,321,983
Less: Provision for impairment of long-term equity investments	**–**	–
	84,166,020	100,321,983

The Group did not have significant restrictions on the realisation of long-term equity investments.

(a) Associates

	31 December 2018	Increase in investment	Decrease in investment	Share of net profit/(loss) under equity method	Share of other changes in equity	30 June 2019
Shandong Yining Hospital Co., Ltd ("Shandong Yining") (i)	15,285,189	–	(15,285,189)	–	–	–
Beijing Yining Hospital Co., Ltd ("Beijing Yining") (ii)	8,977,487	–	–	(1,170,846)	(7,806,641)	–
Hangzhou Anken Information Technology Co., Ltd ("Hangzhou Anken Information Technology")	7,381,414	–	–	(730,139)	–	**6,651,275**
Chongqing Hechuan Kangning Hospital Co., Ltd ("Hechuan Kangning")	13,750,895	800,000	–	591,267	–	**15,142,162**
Shanxi Shanda Hospital Management Co., Ltd. ("Shanxi Shanda")	24,725,191	–	–	(261)	–	**24,724,930**
Chengdu Yining Hospital Co., Ltd ("Chengdu Yining Hospital")	15,788,251	–	–	(1,236,681)	–	**14,551,570**
Huainan Kangning Hospital Co., Ltd. ("Huainan Kangning Hospital") (iii)	2,413,556	–	–	(74,740)	(2,338,816)	–
Hangzhou Anken Medical Management Consulting Co., Ltd. ("Hangzhou Anken Consulting") (iv)	12,000,000	11,000,000	–	96,083	–	**23,096,083**
	100,321,983	11,800,000	(15,285,189)	(2,525,317)	(10,145,457)	**84,166,020**

4. Notes to the interim condensed consolidated financial statements *(continued)*

(4) Long-term equity investments *(continued)*

(a) Associates (continued)

(i) Shandong Yining Hospital completed the liquidation on 9 May 2019. The Group recovered investment cost of RMB15,147,095 and incurred an investment loss of RMB138,094.

(ii) Beijing Yining Hospital was set up in August 2015. The capital contribution of RMB14,700,000 by the Company was settled in cash, representing 49% of the equity interest. In January 2018, the Company entered into a capital increase agreement with Beijing Yining Hospital, Ningbo Meishan Bonded Port Kuanzhan Investment Management Partnership (Limited Partnership) (hereinafter referred to as "Ningbo Meishan Kuanzhan") and Chongqing Jinpu Medical&Health Service Industry Equity Investment Fund Partnership (Limited Partnership) (hereinafter referred to as "Chongqing Jinpu Fund"), which agreed that Chongqing Jinpu Fund increased its investment in Beijing Yining Hospital by RMB20 million as capital premium, accounting for 33.33% of the equity interest and registered capital of RMB15 million. The transaction diluted the Group's equity interest in Beijing Yining Hospital from 49% to 32.67%, but the Group still retained significant influence on Beijing Yining Hospital. In 2018, all shareholders of Beijing Yining Hospital entered into a capital increase agreement that Zhejiang Kangning Hospital injects capital into Beijing Yining Hospital by RMB7,330,000 and the registered capital increased by RMB5,497,500, other shareholders voluntarily waive the right to preempt capital contribution. After the transaction, Zhejiang Kangning Hospital held 40% of the equity interest of Beijing Yining Hospital and still retained significant influence on Beijing Yining Hospital. In May 2019, Zhejiang Kangning Hospital and Beijing Yining Hospital entered into a capital increase agreement that Zhejiang Kangning Hospital injects capital into Beijing Yining by RMB16,623,300 in cash and the registered capital increased by RMB11,339,200. After the completion of the capital increase, the Group held 51% of the equity interest of Beijing Yining Hospital, which was consolidated as a subsidiary (Note 5).

(iii) In June 2019, Zhejiang Kangning signed the equity transfer agreement with the natural person shareholder of Huainan Kangning Hospital, under which Zhejiang Kangning would acquire 20% of the equity interest of Huainan Kangning Hospital held by natural person shareholders at the consideration of RMB3,200,000. After the completion of the equity transfer, the Group held 65% of the equity interest of Huainan Kangning Hospital, which was consolidated as a subsidiary (Note 5).

(iv) Hangzhou Anken Medical Management Consulting Co., Ltd. was set up on 23 July 2018. The Company made a contribution at RMB23,000,000 in cash, accounting for 40% of the equity interest.

4. Notes to the interim condensed consolidated financial statements *(continued)*

(5) Investment properties

	Buildings and relevant land use rights (Unaudited)
Fair value	
31 December 2018	128,568,963
Transfer from fixed assets	9,108,062
Changes in fair value at the transfer date	537,657
30 June 2019	**138,214,682**

For the sixth months ended 30 June 2019, the self-used buildings of the Group's subsidiary Wenzhou Guoda with carrying amount of RMB9,108,062 were changed from self-used buildings to leased buildings, and were transferred to investment properties. The difference between the fair value and the original carrying amount of RMB537,657 at the date of the transfer is recorded in capital surplus (Note 4(20)) (for the six months ended 30 June 2018: nil).

Wenzhou Guoda, a subsidiary of the Group, had pledged its completed properties, Phase II of Business Center of Wenzhou Higher Education Mega Center, to the China Zheshang Bank. As of June 30, 2019, the mortgage loan procedures were still in progress.

4. Notes to the interim condensed consolidated financial statements *(continued)*

(13) Short-term borrowingsUnauditAudit

4. Notes to the interim condensed consolidated financial statements *(continued)*

(15) Current portion of non-current liabilities

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Current portion of long-term borrowings (Note 4(16))	**39,000,000**	40,000,000
Current portion of lease liabilities (Note 4(17))	**33,098,236**	N/A
Current portion of long-term payables (Note 4(18))	**12,688,704**	23,757,304
	84,786,940	63,757,304

(16) Long-term borrowings

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Guaranteed borrowings	**79,000,000**	80,000,000
Less: Current portion of long-term borrowings (Note 4(15))		
Guaranteed borrowings	**(39,000,000)**	(40,000,000)
	40,000,000	40,000,000

In January 2016, the Company obtained the fixed assets loan credit line of RMB130,000,000 with fixed interest rate of 4.75%. The loan period is from 5 January 2016 to 5 January 2021. As at 30 June 2019, the balance of such loan is RMB79,000,000 (31 December 2018: RMB80,000,000), and was guaranteed jointly by Guan Weili, Wang Lianyue and Wang Hongyue, shareholders of the Company (Note 8(4)(f)).

As at 30 June 2019, the weighted average interest rate of long-term borrowings was 4.75% (31 December 2018: 4.75%).

(17) Lease liabilities

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Lease liabilities	**224,390,734**	N/A
Less: Current portion of lease liabilities (Note 4(15))	**(33,098,236)**	N/A
	191,292,498	N/A

As at 30 June 2019, the Group did not have any items that were not included in lease liabilities but would result in potential future cash outflows.

4. Notes to the interim condensed consolidated financial statements *(continued)*

(18) Long-term payables

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Guarantees payable (i)	**12,688,704**	12,688,704
Long-term payables for contractual right to provide management service (Note 4(9))	**–**	97,713,800
	12,688,704	110,402,504
Less: Current portion of long-term payables (Note 4(15))	**(12,688,704)**	(23,757,304)
	–	86,645,200

(i) It represented the performance guarantees and the deposits for the salaries of migrant workers that the contractor of the expansion project of the hospital shall pay the Company at 10% of the total contract price in accordance with the construction project contract. After completion and settlement of the project, such amounts shall be repaid to the contractor. As at 30 June 2019, the Company and the counterparty did not agree to settle the accounts, but the management believed that it would be settled within the next year. At the same time, the Company had legal disputes with the counterparty over the settlement amount of project. As at the authorised issuance date of the financial statements, the case was still on trial. The Company believed there was a high possibility to win the litigation, thus, no provision was necessary.

(19) Share capital

	31 December 2018 (Audited)	Increase in the current period	**30 June 2019 (Unaudited)**
Share capital	75,500,000	–	**75,500,000**

4. Notes to the interim condensed consolidated financial statements *(continued)*

(20) Capital surplus

	31 December 2018 (Audited)	Increase in the current period	Decrease in the current period	**30 June 2019 (Unaudited)**
Share premium	778,272,727	–	(12,255)	**778,260,472**
Other capital surplus				
– Share-based payment (Note 9)	6,245,972	2,688,937	(130,000)	**8,804,909**
– Others (i)	42,861,187	537,657	(5,243,379)	**38,155,465**
	827,379,886	3,226,594	(5,385,634)	**825,220,846**

(i) Increase in the current period represents the investment properties at fair value transferred from self-used buildings, and the difference between the fair value at the transfer date and the original carrying amount of RMB537,657 is recorded into capital surplus (Note 4(5)).

The decrease in the current period represents the Group's control over the additional investment of the associate Beijing Yining Hospital and is converted into subsidiary accounting (Note (4)(a)(ii)), thus for the dilution gains recognised for Beijing Yining Hospital before the date of purchase due to capital increase of minority shareholders, the amount of RMB5,243,379 is included in capital surplus and converted to investment income.

4. Notes to the interim condensed consolidated financial statements *(continued)*

(21) Undistributed profits

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Undistributed profits at the beginning of the period (before adjustment)	**210,044,608**	146,840,254
Changes in accounting policies	**–**	(164,301)
Undistributed profits at the beginning of the period (after adjustments)	**210,044,608**	146,675,953
Add: Net profit attributable to shareholders of the Company	**52,064,124**	41,986,854
Ordinary share dividends payable (i)	**(11,325,000)**	(10,956,000)
Transactions with minority shareholders (ii)	**(1,452,916)**	–
Undistributed profits at the end of the period	**249,330,816**	177,706,807

(i) Pursuant to the resolution at the shareholders' meeting dated 18 June 2019, the Company declared the cash dividends of RMB0.15 per share for issued 75,500,000 shares for the year ended 31 December 2018, totalling RMB11,325,000. As at 30 June 2019, such dividends were not paid in full.

(ii) The Group purchased 2% of the equity interest of Shenzhen Yining Hospital from the minority shareholders. The difference between the newly acquired long-term equity investment and the shares of net assets based on new share holding in Shenzhen Yining Hospital accumulatively calculated from the acquisition date shall be offset against undistributed profits.

4. Notes to the interim condensed consolidated financial statements *(continued)*

(22) Revenue and cost of sales

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

(a) Revenue and cost of sales from main operations

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue (Unaudited)	**Cost of sales (Unaudited)**	Revenue (Unaudited)	Cost of sales (Unaudited)
Pharmaceutical sales	**96,629,883**	**82,628,810**	78,253,106	65,087,164
Treatments and general healthcare services	**263,579,519**	**197,304,478**	252,958,034	149,416,996
Management service	**12,800,139**	**6,073,089**	12,107,112	6,360,903
	373,009,541	**286,006,377**	343,318,252	220,865,063

(b) Revenue and cost of sales from other operations

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue (Unaudited)	**Cost of sales (Unaudited)**	Revenue (Unaudited)	Cost of sales (Unaudited)
Sales of real estate	**–**	**–**	8,531,185	5,918,564
Rental income	**3,419,745**	**–**	3,806,032	–
Others	**2,481,005**	**875,806**	1,122,612	591,809
	5,900,750	**875,806**	13,459,829	6,510,373

4. Notes to the interim condensed consolidated financial statements *(continued)*

(23) Expenses by nature

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

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Employee benefits	**128,148,366**	96,507,234
Pharmaceutical and medical consumables used	**102,806,511**	81,252,389
Sales cost of real estate	**–**	5,918,564
Depreciation of fixed assets	**16,566,550**	14,658,943
Depreciation of right-of-use assets	**14,119,451**	N/A
Amortisation of intangible assets	**5,695,740**	4,344,342
Amortisation of long-term prepaid expenses	**16,951,842**	11,132,956
Housing rental expenses	**136,523**	18,871,420
Canteen expenditure	**16,576,520**	12,640,206
Consumables	**8,792,923**	6,541,605
Outsourcing expenses	**3,989,592**	2,158,237
Testing fee	**7,806,657**	7,002,178
Consulting expense	**4,358,631**	4,447,878
Promotion expenses	**2,553,335**	1,284,407
Travelling expenses	**3,058,517**	2,813,564
General office expenses	**3,633,190**	3,527,167
Share-based payment (Note 9)	**2,688,937**	206,400
Others	**8,670,074**	7,588,276
	346,553,359	280,895,766

4. Notes to the interim condensed consolidated financial statements *(continued)*

(24) Financial expenses - net

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Interest expenses of borrowings	**6,178,854**	5,621,941
Less: Interest of capitalisation	**(2,658,449)**	(1,487,399)
Add: Interest expense from lease liabilities	**5,706,426**	N/A
The amortisation of unrecognised financial expenses (i)	**1,841,300**	2,750,100
Interest expenses	**11,068,131**	6,884,642
Less: Interest income	**(1,925,426)**	(1,962,528)
Exchange gains or losses	**758,597**	355,273
Others	**297,572**	252,724
	10,198,874	5,530,111

(i) The amount represented the unwinding of discount on long-term payables being calculated using effective interest rate method (Note 4(18)).

(25) Investment (gains)/losses

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Investment losses recognised under equity method (Note 4(4))	**2,525,317**	4,318,848
Investment income from disposal of long-term equity investment (i)	**(26,074,390)**	–
Total	**(23,549,073)**	4,318,848

(i) Investment income from disposal of long-term equity investment represents the controls obtained by the Group over Beijing Yining Hospital (Note 4(a)(ii)) and Huainan Kangning Hospital (Note 4(a)(iii)) through additional investment. The 40% equity held in Beijing Yining Hospital and the 45% equity held in Huainan Kangning Hospital by the Group before the date of purchase are reclassified at the fair value of such equity at the date of purchase, and the differences between their respective fair value and carrying amounts are included in investment gains, amounting to RMB17,066,273 and RMB3,893,18 respectively. Meanwhile, other changes in equity of RMB5,243,379 calculated for the 40% equity held in Beijing Yining Hospital by the Group under the equity method are transferred to investment gains (Note 4(20)).

Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the interim condensed consolidated financial statements *(continued)*

(28) Income tax expenses

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

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

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

4. Notes to the interim condensed consolidated financial statements *(continued)*

(29) Earning per share

(a) Basic earning per share

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

(i) As stated in Note 9, the Company issued 2,460,000 shares for the employee stock incentive plan approved by shareholders' meeting on 13 June 2018. As these stocks are regarded as treasury stock, according to *Interpretation of Accounting Standard for Business Enterprises No. 7*, the Company has deducted 2,460,000 restricted shares from the number of common shares issued outside the Company when calculating the basic earnings per share for the six months ended 30 June 2019.

(b) Diluted earning per share

Diluted earning per share is calculated by the profit attributed to the ordinary shareholders of the Company adjusted by the potential shares divided by the adjusted weighted average number of ordinary shares. For the six months ended 30 June 2019, the profit attributed to the ordinary shareholders of the Company is RMB52,064,124 after the company's adjusted it based on the dilutive potential common shares. The adjusted weighted average of common shares issued by the company is 73,915,743, and the diluted earning per share is 0.70. The Company did not have any potential dilutive shares throughout the six months ended 30 June 2018. Accordingly, diluted earning per share is the same as the basic earnings per share.

4. Notes to the interim condensed consolidated financial statements *(continued)*

(30) Supplementary information to the statement of cash flows

(a) Supplementary information to the statement of cash flows

Reconciliation from net profit to cash flows from operating activities

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Net profit	**45,541,231**	40,851,540
Add: Asset impairment loss	**–**	1,160,929
Losses on credit impairment	**10,730,916**	5,742,669
Depreciation of fixed assets	**16,566,550**	14,658,943
Depreciation of right-of-use assets	**14,119,451**	N/A
Interest expense from lease liabilities	**5,706,426**	N/A
Amortisation of intangible assets	**5,695,740**	4,344,342
Amortisation of long-term prepaid expenses	**16,951,842**	11,132,956
Losses on disposal of fixed assets, intangible assets and other long-term assets	**18,587**	6,378
Non-operating income	**(25,666,158)**	–
Non-operating expenses	**13,240,493**	–
Financial expenses	**4,194,874**	4,184,487
Investment (gains)/losses	**(23,549,073)**	4,318,848
Decrease in deferred income	**(151,896)**	(151,896)
Increase in deferred tax assets	**(7,271,877)**	(1,888,173)
Decrease in deferred tax liabilities	**(432,974)**	(339,143)
(Increase)/Decrease in inventories	**(2,043,890)**	3,142,972
Share-based payments	**2,688,937**	206,400
Increase in operating receivables	**(39,451,211)**	(44,251,714)
Decrease in operating payables	**(32,730,778)**	(17,729,444)
Net cash flows from operating activities	**4,157,190**	25,390,094

4. Notes to the interim condensed consolidated financial statements *(continued)*

(30) Supplementary information to the statement of cash flows *(continued)*

(a) Supplementary information to the statement of cash flows (continued)

Significant investing and financing activities that do not involve cash receipts and payments

For the six months ended 30 June 2019, significant investing and financing activities that do not involve cash receipts and payments by the Company are as follows:

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Increase in right-of-use assets	**234,963,917**	N/A

Net increase/(decrease) in cash

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Cash at the end of the period	**88,643,935**	156,099,617
Less: Cash at the beginning of the period	**(187,066,694)**	(237,538,659)
Net decrease in cash	**(98,422,759)**	(81,439,042)

(b) Acquisition of subsidiaries

	For the six months ended 30 June 2019 (Unaudited)
Consideration received in cash	**3,200,000**
Less: Cash and cash equivalents in the subsidiary acquired	**(1,953,651)**
Net cash outflow on acquisition of the subsidiary	**1,246,349**

4. Notes to the interim condensed consolidated financial statements *(continued)*

(30) Supplementary information to the statement of cash flows *(continued)*

(b) Acquisition of subsidiaries (continued)

Net assets, on the acquisition date, of the subsidiaries acquired during the six months ended 30 June 2019

Current assets	**23,841,080**
Non-current assets	**53,236,452**
Current liabilities	**(7,812,925)**
Non-current liabilities	**(25,677,787)**

(c) Cash and cash equivalents

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Cash in hand		
Including: Cash on hand	**465,470**	657,361
Cash at bank that can be readily drawn on demand	**87,574,028**	186,170,534
Other cash balances	**604,437**	238,799
Cash at the end of the period	**88,643,935**	187,066,694

5 Changes in the consolidation scope

On 27 December 2018, the Company established Hangzhou Yelimi Information Technology Co., Ltd., a wholly-owned subsidiary, with a registered capital of RMB5 million.

On 1 May 2019 (the settlement date), Zhejiang Kangning, a subsidiary of the Group, subscribed for 11% equity of Beijing Yining Hospital for RMB16,623,300. The Group held 51% of the shares of Beijing Yining Hospital upon completion of the transaction.

On 30 June 2019, Zhejiang Kangning, a subsidiary of the Group, entered into an equity transfer agreement with the natural person shareholders of Huainan Kangning Hospital to purchase 20% equity of Huainan Kangning Hospital held by the natural person shareholders, at a consideration of RMB3.2 million. The Group held 65% equity of Huainan Kangning Hospital upon completion of the transaction.

On 14 May 2019, Zhejiang Kangning, a subsidiary of the Group, purchased 100% equity of Wenzhou Yixin Health Technology Co., Ltd. held by the natural person shareholders at a consideration of RMB200,000.

On 2 January 2019, Zhejiang Kangning, a subsidiary of the Group, together with other natural person shareholders, established Hangzhou Yining Mental Health Management Co., Ltd. with the natural person shareholders, with a registered capital of RMB1 million. Zhejiang Kangning contributed RMB510,000 and held 51% of its equity.

On 10 May 2019, Shenzhen Yining Investment, a subsidiary of the Group, withdrew RMB1,836,000 from Sihui Kangning, a subsidiary with 51% shareholding controlled. After the completion of the divestment, the Group no longer holds the equity of Sihui Kangning.

For details about the paid-up contribution of the above subsidiaries, please refer to Note 16(3).

5 Changes in the consolidation scope *(continued)*

(1) Business combinations involving enterprises not under common control

(a) Business combination involving enterprises not under common control in the current year

Acquiree	Date of addition	Purchase consideration	% of equity interest	Date of acquisition	Basis for acquisition	Revenue of the acquiree from the date of acquisition to the end of the period	Net loss of the acquiree from the date of acquisition to the end of the period	Cash flows used in operating activities of the acquiree from the date of acquisition to the end of

5 Changes in the consolidation scope *(continued)*

(1) Business combinations involving enterprises not under common control *(continued)*

(c) The assets and liabilities of the acquiree at the date of purchase are listed as below:

(i) Beijing Yining Hospital

	Acquisition date Fair value	Acquisition date Carrying amount	31 December 2018 Carrying amount
Cash at bank and on hand	1,732,956	1,732,956	1,671,979
Receivables	778,481	778,481	627,455
Inventories	408,640	408,640	342,628
Contract asset	714,524	714,524	1,640,446
Fixed assets	1,617,880	1,617,880	1,891,777
Intangible assets	10,975,193	35,193	51,459
Other receivables	17,977,229	17,977,229	1,285,332
Long-term prepaid expenses	3,256,778	3,256,778	3,584,808
Right-of-use assets	20,997,120	20,997,120	N/A
Deferred tax assets	6,223,432	6,223,432	–
Accounts payable	(241,298)	(241,298)	(73,515)
Contract liabilities	(1,418,911)	(1,418,911)	(1,010,000)
Employee benefits payable	(487,691)	(487,691)	(512,915)
Lease liabilities	(20,298,140)	(20,298,140)	N/A
Other payables	(2,216,101)	(2,216,101)	(1,942,965)
Other liabilities	(410,642)	(410,642)	(387,593)
Deferred tax liabilities	(2,735,000)	–	–
Net assets	36,874,450	28,669,450	7,168,896
Less: Minority interests	(18,068,481)	(14,048,030)	(3,512,759)
Net assets obtained	18,805,969	14,621,420	3,656,137

The fair value assets and liabilities of Beijing Yining Hospital are determined by the Group using valuation technique. The valuation approaches and key assumptions of major assets are listed as below:

The valuation approach of intangible assets is income approach. Key assumptions of intangible assets are future growth rate of healthcare services income, gross profit margin and discount rate.

5 Changes in the consolidation scope *(continued)*

(1) Business combinations involving enterprises not under common control *(continued)*

(c) The assets and liabilities of the acquiree at the date of purchase are listed as below: (continued)

(ii) Huainan Kangning Hospital

	Acquisition date Fair value	Acquisition date Carrying amount	31 December 2018 Carrying amount
Cash at bank and on hand	220,695	220,695	331,882
Receivables	1,774,517	1,774,517	708,259
Inventories	230,166	230,166	99,219
Contract asset	–	–	232,000
Right-of-use assets	2,346,091	2,346,091	N/A
Fixed assets	1,451,457	1,451,457	1,590,729
Intangible assets	2,095,000	75,000	85,000
Long-term prepaid expenses	3,549,226	3,549,226	2,681,164
Other receivables	3,872	3,872	27,330
Deferred tax assets	724,275	724,275	–
Lease liabilities	(2,139,647)	(2,139,647)	N/A
Other payables	(2,293,691)	(2,293,691)	(2,494,705)
Accounts payable	(495,993)	(495,993)	(458,569)
Contract liabilities	(64,910)	(64,910)	(10,500)
Employee benefits payable	(172,335)	(172,335)	(234,325)
Other liabilities	(11,353)	(11,353)	(12,471)
Deferred tax liabilities	(505,000)	–	–
Net assets	6,712,370	5,197,370	2,545,013
Less: Minority interests	(2,349,330)	(1,819,080)	(890,755)
Net assets obtained	4,363,040	3,378,290	1,654,258

The fair value assets and liabilities of Huainan Kangning Hospital are determined by the Group using valuation technique. The valuation approaches and key assumptions of major assets are listed as below:

The valuation approach of intangible assets is income approach. Key assumptions of intangible assets are future growth rate of healthcare services income, gross profit margin and discount rate.

6 Interests in other entities

(1) Interests in subsidiaries

(a) The Group structure

Name of the subsidiaries	Major business location	Place of registration	Nature of business	Shareholding		Method of acquisition
				Direct	Indirect	
Qingtian Kangning Hospital	Qingtian	Qingtian	Medical service	100.00%	–	Incorporation
Cangnan Kangning Hospital	Cangnan	Cangnan	Medical service	100.00%	–	Incorporation
Yongjia Kangning Hospital	Yongjia	Yongjia	Medical service	100.00%	–	Incorporation
Yueqing Kangning Hospital	Yueqing	Yueqing	Medical service	100.00%	–	Incorporation
Linhai Kangning Hospital	Linhai	Linhai	Medical service	80.00%	–	Incorporation
Langfang Yining Hospital	Langfang	Langfang	Hospital Management	100.00%	–	Incorporation
Zhejiang Huangfeng	Hangzhou	Hangzhou	Hospital Management	66.00%	–	Asset acquisition
Judicial Forensic Center	Wenzhou	Wenzhou	Forensic psychiatric identification	100.00%	–	Incorporation
Shenzhen Yining Medical Investment	Shenzhen	Shenzhen	Investment	100.00%	–	Incorporation
Shenzhen Yining Hospital	Shenzhen	Shenzhen	Medical service	–	54.00%	Incorporation
Zhejiang Kangning	Ningbo	Ningbo	Hospital Management	100.00%	–	Incorporation
Hangzhou Yining Hospital	Hangzhou	Hangzhou	Medical service	–	60.00%	Incorporation
Quzhou Yining Hospital	Quzhou	Quzhou	Medical service	–	60.00%	Incorporation
Wenzhou Yining Geriatric Hospital	Wenzhou	Wenzhou	Medical service	–	100.00%	Incorporation
Pingyang Kangning Hospital	Pingyang	Pingyang	Medical service	–	100.00%	Incorporation
Taizhou Kangning Hospital	Taizhou	Taizhou	Medical service	–	51.00%	Incorporation
Wenzhou Guoda Investment	Wenzhou	Wenzhou	Real estate	–	75.00%	Asset acquisition
Taizhou Luqiao Cining Hospital Co., Ltd.	Taizhou	Taizhou	Medical service	–	51.00%	Incorporation
Yiwu Kangning Hospital	Yiwu	Yiwu	Hospital Management	–	100.00%	Incorporation
Hangzhou Cining Hospital	Hangzhou	Hangzhou	Medical service	–	100.00%	Incorporation
Wenzhou Tianzhentang Chinese Medicine Clinic Co., Ltd.	Wenzhou	Wenzhou	Medical service	–	100.00%	Incorporation
Beijing Yining Hospital Limited company	Beijing	Beijing	Medical service	–	51.00%	Asset acquisition
Wenzhou Yixin Health Technology Co., Ltd.	Wenzhou	Wenzhou	Medical service	–	100.00%	Asset acquisition
Huainan Kangning Hospital Limited company	Huainan	Huainan	Medical service	–	65.00%	Asset acquisition
Hangzhou Yining Mental Health Management Co., Ltd.	Hangzhou	Hangzhou	Medical service	–	51.00%	Asset acquisition
Hangzhou Yelimi Information Technology Co., Ltd.	Hangzhou	Hangzhou	Software and IT services	–	100.00%	Incorporation

6 Interests in other entities *(continued)*

(1) Interests in subsidiaries ***(continued)***

(b) Minority interests

	30 June 2019

6 Interests in other entities *(continued)*

(1) Interests in subsidiaries *(continued)*

(c) Subsidiaries with significant minority interests (continued)

The major financial information of the significant non-fully-owned subsidiaries of the Group is listed below:

	30 June 2019					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Wenzhou Guoda Investment	9,017,603	165,401,806	174,419,409	109,918,231	9,308,167	119,226,398
Shenzhen Yining Hospital	12,750,394	66,451,205	79,201,599	6,091,426	39,631,750	45,723,176
Zhejiang Huangfeng Hospital	44,081,667	29,835,438	73,917,105	18,378,280	–	18,378,280
Heze Yining Hospital	8,863,711	42,783,079	51,646,790	13,519,241	10,022,133	23,541,374
Beijing Yining Hospital	21,838,906	43,154,610	64,993,516	4,674,231	23,851,644	28,525,875
	96,552,281	347,626,138	444,178,419	152,581,409	82,813,694	235,395,103

	For the six months ended 30 June 2019			
	Revenue	Net profit/ (loss)	Total comprehensive income	Cash flows from operating activities
Wenzhou Guoda Investment	3,337,089	(447,895)	(447,895)	1,445,439
Shenzhen Yining Hospital	9,081,527	(3,076,444)	(3,076,444)	(7,813,344)
Zhejiang Huangfeng Hospital	4,904,513	2,649,435	2,649,435	310,342
Heze Yining Hospital	7,364,556	(1,006,982)	(1,006,982)	(4,620,595)
Beijing Yining Hospital	4,563,638	(406,808)	(406,808)	672,216
	29,251,323	(2,288,694)	(2,288,694)	(10,005,942)

6 Interests in other entities *(continued)*

(2) Interests in associates

(a) Summarised information of significant associates

	Major business location	Place of registration	Nature of business	Is it strategic to Group business	Shareholding	
					Direct	Indirect
Chengdu Yining Hospital	Chengdu	Chengdu	Medical service	No	–	24%
Shanxi Shanda	Xi'an	Xi'an	Hospital Management	No	–	30%

The Group adopted the equity model as accounting method for the equity investments above.

(b) Financial information of significant associates

	30 June 2019	
	Chengdu Yining Hospital (Unaudited)	**Shanxi Shanda (Unaudited)**
Current assets	**11,473,874**	**42,334,386**
Non-current assets	**54,926,190**	**44,630,558**
Total assets	**66,400,064**	**86,964,944**
Total liabilities	**27,118,418**	**19,529,464**
Attributable to shareholders' equity of the Company	**39,281,646**	**67,435,480**
Share in net assets calculated by shareholding ratio (i)	**9,427,595**	**20,230,644**
Adjustment		
– Goodwill	**5,024,000**	**4,494,286**
– Others	**99,975**	**–**
The Carrying amount of equity investment in the associates	**14,551,570**	**24,724,930**

6 Interests in other entities *(continued)*

(2) Interests in associates ***(continued)***

(b) Financial information of significant associates (continued)

	For the six months ended 30 June 2019	
	Chengdu Yining Hospital (Unaudited)	**Shanxi Shanda (Unaudited)**
Revenue	**1,845,013**	**3,137,423**
Net profit and total comprehensive income	**(5,152,838)**	**(870)**

(i) The Group calculated asset proportion by shareholding ratio based on the amount attributable to the parent in the associates' consolidated financial statements. The amounts on the associates' consolidated financial statement take into account adjustments on the fair value of identifiable assets and liabilities when obtaining the investment and the effects of the uniform accounting policies into consideration.

(c) Summarised information of insignificant associates

The name of the associates of the Company were stated as in Note 4(4).

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Aggregated carrying amount of investments	**44,889,520**	55,768,900
Aggregate of the following items in proportion		
Net loss (i)	**(1,288,375)**	(3,851,363)
Total comprehensive income	**(1,288,375)**	(3,851,363)

(i) Net losses have taken into the account the adjustment of the fair value of the identifying assets and liabilities at the time of acquisition and the accounting policy.

7 Segment information

The reportable segments of the Group are the business units that provide different products or service, or operate in the different areas. Different businesses or areas require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Group identified 2 reportable segments as follows:

– Healthcare service, specialised in providing healthcare and related service; and

– Property investment and development, specialised in providing the property development, leasing and rental service.

There is no inter-segment sales during the year.

The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

(a) The segment information as at 30 June 2019 is as follows:

	Medical service	Property investment and development	Total
Revenue from external customers	375,573,202	3,337,089	378,910,291
Cost of main operations	(286,882,183)	–	(286,882,183)
Interest income	1,921,826	3,600	1,925,426
Interest expenses	(1,330,464)	(2,189,941)	(3,520,405)
Investment income from associates	23,549,073	–	23,549,073
(Losses on)/Reversal of credit impairment	(10,990,900)	259,984	(10,730,916)
Depreciation and amortisation	(52,835,266)	(498,317)	(53,333,583)
Total profit/(loss)	53,109,045	(447,896)	52,661,149
Income tax expenses	(7,119,918)	–	(7,119,918)
Net profit/(loss)	45,989,127	(447,896)	45,541,231
Total assets	1,835,811,041	174,419,409	2,010,230,450
Total liabilities	(632,128,606)	(119,226,399)	(751,355,005)
Long-term equity investments in associate	84,166,020	–	84,166,020
Increase of non-current assets (i)	228,255,014	524,861	228,779,875

(i) Non-current assets are excluding financial assets, long-term equity investment and deferred tax assets.

(b) The Group did not have the revenue generated from other countries or regions.

8 Related parties and related party transactions

(1) Information of the parent company

The Company doesn't not have a parent company. In the reporting period, the equity of the Company held by Guan Weili and his spouse Wang Lianyue were over 30%, therefore they were regarded as actual controlling persons.

(2) Information of the subsidiaries

The general information and other related information of the subsidiaries are set out in Note 6(1).

(3) Information of other related parties

The related parties of the company except those disclosed in other place of the financial statement are as follows:

	Relationship with the Group
Yiwu Jingwei	Not-for profit organisation invested and with council members nominated by the Group
Zhejiang Tianqu Environment Construction Co., Ltd. ("Zhejiang Tianqu")	Minority shareholder of a subsidiary
Shandong Furen Hospital Management Co., Ltd. ("Shandong Furen")	Minority shareholder of a subsidiary
Xu Chengfa	Minority shareholder of a subsidiary
Chen Xianfa	Minority shareholder of a subsidiary
Qu Kaisheng	Minority shareholder of a subsidiary
Huang Chen	Minority shareholder of a subsidiary
Yanjiao Furen Hospital	Not-for profit organisation invested and with council members nominated by the Group, and no longer being a related party since 30 April 2019
Other individuals	The near relative of directors, supervisors and senior managements

8 Related parties and related party transactions *(continued)*

(4) Related party transactions

(a) Pricing policies

The price of providing service or rental payment to the related party is determined based on the negotiation.

(b) Rendering of healthcare management services

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Yiwu Jingwei	**1,456,311**	1,500,000
Yanjiao Furen Hospital	**389,337**	186,812
Other individuals	**303,286**	274,153
	2,148,934	1,960,965

(c) Rental payment to related parties

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Zhejiang Tianqu	**518,664**	518,664

(d) Expenses paid on behalf of related parties

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Non-for-profit organisation established by the Company	**310,306**	855,806
Beijing Yining Hospital	**–**	97,169
Chengdu Yining Hospital	**845,551**	3,204,090
Hangzhou Anken Information Technology	**28,483**	–
Huainan Kangning Hospital	**–**	11,600
	1,184,340	4,168,665

8 Related parties and related party transactions *(continued)*

(4) Related party transactions *(continued)*

(e) Remuneration of key management

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Salaries and bonus	**2,375,964**	2,117,730
Share-based payments	**569,075**	115,471
	2,945,039	2,233,201

(f) Accepting guarantee

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Guan Weili/Wang Lianyue/Wang Hongyue	**249,000,000**	252,000,000
Guan Weili/Wang Lianyue	**–**	44,000,000
	249,000,000	296,000,000

8 Related parties and related party transactions *(continued)*

(5) Receivables from and payables to related parties

(a) Receivables from related parties

		30 June 2019		31 December 2018	
		Ending balance (Unaudited)	**Provision for bad debts (Unaudited)**	Ending balance (Audited)	Provision for bad debts (Audited)
Accounts receivable	Yiwu Health Center	**6,750,000**	**(337,500)**	5,250,000	(420,000)
	Yanjiao Furen Hospital	**N/A**	**N/A**	1,499,917	(142,573)
		6,750,000	**(337,500)**	6,749,917	(562,573)
Other receivables	Beijing Yining Hospital	**–**	**–**	179,057	(8,953)
	Chengdu Yining Hospital	**10,536,016**	**(526,801)**	6,183,117	(309,156)
	Huainan Kangning Hospital	**–**	**–**	911,600	(45,580)
	Yanjiao Furen Hospital	**N/A**	**N/A**	7,012,380	(350,619)
	Non-for-profit organisation established by the Company	**3,997,442**	**(199,722)**	3,684,137	(184,207)
	Hangzhou Anken Information Technology	**50,979**	**(2,549)**	–	–
		14,584,437	**(729,072)**	17,970,291	(898,515)

8 Related parties and related party transactions *(continued)*

(5) Receivables from and payables to related parties *(continued)*

(b) Receivables due to related parties

		30 June 2019 (Unaudited)	31 December 2018 (Audited)
Long-term payables	Yanjiao Furen Hospital	**N/A**	86,645,200
Other payables	Hangzhou Anken Information Technology	**–**	124,453
	Qu Kaisheng	**4,254,899**	4,274,945
	Huang Chen	**1,501,995**	2,159,583
	Shandong Yi Ning Hospital Management Co., Ltd.	**–**	14,700,000
	Shandong Furen Hospital Management Co., Ltd.	**2,964,251**	3,015,289
	Xu Chengfa	**–**	500,000
	Zhejiang Tianqu Environment Construction Co., Ltd.	**2,023,252**	2,137,083
		10,744,397	26,911,353

(6) The highest-paid five individuals

The five individuals whose emoluments were the highest in the Group for the six months ended 30 June 2019 included no director (for the six months ended 30 June 2018: one) whose emoluments were reflected in the analysis shown in the table above. The emoluments payable to the remaining five (for the six months ended 30 June 2018: four) individuals during the six months are as follows:

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Basic salaries, bonuses, housing allowances and other subsidies	**1,763,119**	1,110,781
Equity incentive plan	**455,260**	15,547
	2,218,379	1,126,328

8 Related parties and related party transactions *(continued)*

(6) The highest-paid five individuals *(continued)*

	Number of people	
	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Range:		
RMB 0 - 500,000	–	–
RMB 500,000 -1,000,000	5	4

9 Share-based payments

(a) The Restricted Shares Scheme I

As at 31 December 2018, the Company's employee equity incentive plan has been implemented as follows: The Company's third meeting of the first Board of Directors dated on 4 July 2014 and the first shareholders' meeting in 2014 dated 21 July 2014 approved the *Wenzhou Kangning Hospital Co., Ltd. Equity Incentive Plan*.

The main terms of the Restricted Shares Scheme I are set out below:

(1) Instruments granted under the Scheme: To furnish the Restricted Shares Scheme, three limited liability partnerships ("LLP") were established, namely Ningbo Renai Kangning Investment Management Partnership(Limited Partnership) ("Renai Kangning"), Ningbo Enci Kangning Investment Management Partnership (Limited Partnership) ("Enci Kangning") and Ningbo Xinshi Kangning Investment Management Partnership (Limited Partnership) ("Xinshi Kangning"). The general partner of Renai Kangning and Enci Kangning is Ms. Wang Biyu (the relative of the actual controlling persons and the employee of the Company); the general partner of Xinshi Kangning is Ms. Wang Hongyue. The qualified employees participating the Restricted Shares Scheme contributed the capital at the grant price and become the limited partner of the LLP. After the establishment of the LLPs mentioned above, the original shareholder of the Company, Guan Weili and Wang Hongyue, transferred their share capital of RMB1,120,959 (4% of the equity of the Company) to the above three LLPs at price of RMB18.684 per share.

9 Share-based payments *(continued)*

(a) The Restricted Shares Scheme I *(continued)*

(2) Vesting period: since the day becoming the partners of the LLP, those participating employees who will contributed the capital over RMB150,000 committed to serve the Company for 36 months while those contributed below RMB150,000 for 12 months from the date the Company was listed in a stock exchange. They would not resign during this period.

(3) If any employee resign before the end of the selling restricted period set by CSRC after the shares of the Company listed in the stock exchange, the following rules will be applied:

(i) The employees with 12 months vesting period resigning before the expiration of the selling restricted period do not have to withdraw from the LLP but their equity is frozen. After the

s

9 Share-based payments *(continued)*

(b) The Restricted Shares Scheme II *(continued)*

The main terms of the Restricted Shares Scheme II are set out below:

(1) Instruments granted under the Scheme: Wenzhou Kangning Hospital prepared to establish five employee share ownership platforms including Wenzhou Zhenyan Kangning Investment Management Partnership (Limited Liabilities Partnership) ("Wenzhou Zhenyan"), Wenzhou Jiamei Kangning Investment Management Partnership (Limited Liabilities Partnership) ("Wenzhou Jiamei"), Wenzhou Enquan Kangning Investment Management Partnership (Limited Liabilities Partnership) ("Wenzhou Enquan"), Wenzhou Jiate Kangning Investment Management Partnership(Limited Liabilities Partnership) ("Wenzhou Jiate") and Wenzhou Shouwang Kangning Investment Management Partnership (Limited Liabilities Partnership) ("Wenzhou Shouwang") to issue 2,460,000 domestic shares (accounted for 3.37% of the total equity before issuance and 3.26% of the total equity after issuance) at issue price of RMB10.47 per share. As of 30 June 2019, employees paid out RMB21,780,000, of which RMB2,460,000 was recognised in equity and RMB19,320,000 in capital reserve - share premium.

(2) Vesting period: the lock-in period of the incentive share awarded by the incentive plan is 48 months. From the date when the incentive share is awarded to the incentive employees, the incentive stock first awarded will be unlocked completely at one time after 48 months from the date of the first award, the reserved part of the incentive share will be unlocked at the same time as the incentive stock first awarded; The share of incentive stock awarded by the incentive plan through the employee share ownership platform indirectly owns incentive stock after paying subscription price. The share of incentive stock granted by the incentive object shall not be transferred, pledged or otherwise disposed of during the lock-in period.

(3) The approach of revenue realisation

(i) If the shares involved in the incentive plan fail to realise the listing during the validity period, the company undertakes to assist the owners in transferring the shares of the company corresponding to its share of equity held through the partnership to an independent third party of the company. If the transfer price is less than RMB32 per share at that time, the owner may require the actual controller of the company to pay for the difference between the actual transfer price and RMB32 per share.

9 Share-based payments

10 Commitments

(1) Capital commitments

Capital expenditures contracted for by the Group but are not yet necessary to be recognised on the balance sheet as at the balance sheet date are as follows:

	30 June 2019	31 December 2018
Buildings, machinery and equipment	**146,605,915**	146,163,230
Intangible assets	**161,250**	698,000
	146,767,165	146,861,230

(2) External investment commitments

As at 30 June 2019, there are no external investment commitments in the Group.

11 Operating lease receipts after the balance sheet date

As the lessor, the undiscounted amount of the lease receivables after the balance sheet date is summarised as follows:

	30 June 2019	31 December 2018
Within 1 year	**8,161,555**	11,777,467
1 to 2 years	**4,675,515**	4,655,515
2 to 3 years	**4,711,185**	4,711,185
3 to 4 years	**3,945,172**	3,945,172
4 to 5 years	**3,945,172**	3,945,172
Over 5 years	**10,121,020**	10,161,020
	35,559,619	39,195,531

12 Events after the balance sheet date

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

13 Financial risk

The Group's activities expose it to a variety of financial risks: market risk (primarily interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets, primarily with respect to HKD. The Group's finance department at its headquarters is responsible for monitoring the amount of assets and transactions denominated in foreign currencies, to reduce foreign exchange risk to the greatest extent.

As at 30 June 2019 and 31 December 2018, the carrying amounts in RMB equivalent of the Group's assets denominated in foreign currencies are summarised below:

	30 June 2019 (Unaudited)		
	HKD	**USD**	**Total**
Financial assets denominated in foreign currency -			
Cash at bank and on hand	**6,743,007**	**8,318,012**	**15,061,019**

	31 December 2018 (Audited)		
	HKD	USD	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	34,063,970	15,166,718	49,230,688

As at 30 June 2019, for various financial assets denominated in HKD, if the RMB strengthens/weakens by 3% against the HKD while holding all other variables constant, the Group's net profit for the period will be approximately RMB151,718 (31 December 2018: RMB766,439) lower/higher. For various financial assets denominated in USD, if the RMB strengthens/weakens by 3% against the USD while holding all other variables constant, the Group's net profit for the period will be approximately RMB187,155 (31 December 2018: RMB341,251) lower/higher.

13 Financial risk *(continued)*

(1) Market risk *(continued)*

(b) Interest rate risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 30 June 2019, the Group's long-term interest-bearing borrowings were mainly RMB-denominated contracts with fixed rates, amounting to RMB79,000,000 (31 December 2018: RMB80,000,000).

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowings and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. Management of the Group makes adjustments timely with reference to the latest market conditions.

As at 30 June 2019, taking into account the impact of interest capitalization, if the interest rate of long-term borrowings calculated at floating rate had risen/fallen by 50 basis points while all other variables had been held constant, the Group's net profit would not decrease/increase with the impact of interest capitalisation taken into consideration (30 June 2018: The same).

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables and long-term receivables, etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

13 Financial risk *(continued)*

(2) Credit risk *(continued)*

The Group's accounts receivable mainly arise from sales of pharmaceuticals and medical services to patients, as well as the management service fee. According to the local social security policy applicable to the Group's hospitals, the patient's medical expenses are usually borne by the patient and social insurance. The Company usually collects certain prepayment when the patient goes through the hospitalisation procedure. When the patient is discharged from the hospital, the patient needs to settle the part that should be borne by the patient. For the patients who have not settled the payment at the time of discharge, the Company collects the owed money through regular collection requests. For the medical expenses that should be borne by social insurance, the Company will apply for reimbursement to the social insurance institution in time after issuing the invoice to the patient. The reimbursement is usually received within 2-9 months after the application for reimbursement. The Company believes that there is no significant credit risk associated with the reimbursement. The Group also has some medical expenses that should be borne by the government

13 Financial risk *(continued)*

(3) Liquidity risk *(continued)*

The financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	30 June 2019				
	Within 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
Accounts payable	**53,319,851**	**–**	**–**	**–**	**53,319,851**
Other payables	**118,956,827**	**–**	**–**	**–**	**118,956,827**
Lease liabilities	**34,197,784**	**34,599,646**	**105,183,947**	**135,193,933**	**309,175,310**
Long-term payables	**12,688,704**	**–**	**–**	**–**	**12,688,704**
Bank borrowings	**219,154,431**	**41,816,815**	**–**	**–**	**260,971,246**
	438,317,597	**76,416,461**	**105,183,947**	**135,193,933**	**755,111,938**

	31 December 2018				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Accounts payable	73,644,717	–	–	–	73,644,717
Other payables	130,587,030	206,950	–	–	130,793,980
Long-term payables	23,757,304	6,377,600	23,220,900	118,035,800	171,391,604
Bank borrowings	191,380,007	41,905,205	–	–	233,285,212
	419,369,058	48,489,755	23,220,900	118,035,800	609,115,513

Bank and other borrowings are analysed by repayment terms as follows:

	30 June 2019		31 December 2018	
	Bank borrowings	**Other borrowings**	Bank borrowings	Other borrowings
Within 1 year	**209,000,000**	**6,000,000**	185,000,000	6,496,800
1 to 2 years	**40,000,000**	**6,320,000**	40,000,000	–
	–	**–**	–	5,440,000
	249,000,000	**12,320,000**	225,000,000	11,936,800

At the balance sheet date, the Group has no lease contracts that had been signed but had not yet been performed.

14 Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(1) Assets measured at fair value on a recurring basis

As at 30 June 2019 and 31 December 2018, the financial assets measured at fair value by the above three levels are analysed below:

	30 June 2019			
	Level 1	**Level 2**	**Level 3**	**Total (Unaudited)**
Financial assets -				
Other non-current financial assets	–	–	**50,974,323**	**50,974,323**
Non-financial assets				
Investment properties	–	–	**138,214,682**	**138,214,682**
Total assets	–	–	**189,189,005**	**189,189,005**

	31 December 2018			
	Level 1	Level 2	Level 3	Total (Audited)
Financial assets -				
Other non-current financial assets	–	–	50,974,323	50,974,323
Non-financial assets				
Investment properties	–	–	128,568,963	128,568,963
Total assets	–	–	179,543,286	179,543,286

14 Fair value estimates *(continued)*

(1) Assets measured at fair value on a recurring basis *(continued)*

Other non-current financial assets represent the investment funds held by the Group and continue to be subsequently measured at fair value. The Group engaged external third-party valuers to assess the fair value of the investment funds. As at 30 June 2019, there was no significant change in the valuation techniques and specific parameters adopted by the Group, compared with those as at 31 December 2018.

The Group engaged Wenzhou Huaxin Assets Valuation Co., Ltd to determine the fair value of the investment properties and the method of valuation adopted is the income based method. The input value adopted were the growth rate of rental, the return on rental and vacancy rate. There is no significant change in specific parameters, compared with that on 31 December 2018.

The financial department of the Group is responsible for determining the fair value of the financial assets and liabilities. The financial department of the Group verified and accounted the assessment result mentioned above and prepared the disclosure information relating to the fair value based on the verified value assessment result.

(2) Assets and liabilities not measured at fair value but for which the fair value is disclosed

Financial assets and liabilities measured at amortised cost mainly include receivables, payables, long-term payables and borrowings.

The carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of their fair value.

15 Capital management

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

The Group's total capital is calculated as 'owners' equity' as shown in the consolidated balance sheet. The Group is not subject to external mandatory capital requirements, and monitors capital on the basis of gearing ratio.

As at 30 June 2019 and 31 December 2018, the Company's asset-liability ratio rate is as follows:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Gearing ratio	**37.38%**	34.52%

16 Notes to the condensed financial statements

(1) Accounts receivable

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Accounts receivable	**128,804,827**	118,533,802
Less: Provision for bad debts	**(11,089,049)**	(10,356,640)
	117,715,778	108,177,162

According to the Group's terms of business, all bills are payable upon issued.

(a) Provision for bad debts

(i) As at 30 June 2019, no provision for bad debts of account receivables was made individually.

(ii) As at 30 June 2019, the ageing analysis of accounts receivable based on the billing date by group is as follows:

	30 June 2019		
	Ending balance	Provision for bad debts	
	Amount	Lifetime expected credit loss rate	Amount
Not overdue – unbilled	**13,681,685**	**1%**	**136,817**
Within 3 months	**42,689,125**	**5%**	**2,134,456**
Within 1 year	**36,116,617**	**6%**	**2,166,997**
1 to 2 years	**29,954,709**	**11%**	**3,295,018**
2 to 3 years	**6,013,861**	**50%**	**3,006,931**
Over 3 years	**348,830**	**100%**	**348,830**
Total	**128,804,827**	**9%**	**11,089,049**

(iii) Accrued provision for bad debts during this period is RMB989,261 with no reversed or recovered provision.

(b) The actual amount of accounts receivable write-off is RMB256,852, and the provision for bad debts is RMB256,852, which is mainly Medical insurance deduction.

16 Notes to the condensed financial statements *(continued)*

(2) Other receivables

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Amounts due from related parties	**621,359,468**	552,370,656
Prepayments	**2,961,888**	2,866,522
Deposit	**661,000**	704,200
Others	**1,121,666**	966,927
	626,104,022	556,908,305
Less: Provision for bad debts	**(5,924,975)**	(2,135,598)
	620,179,047	554,772,707

(a) Loss provision and changes in the ending balance

	The First Stage		The Third Stage		
	Expected Credit Loss within 12 months (Comprehensive)		Expected Credit loss entire stage (Credit lost)		Total
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Provision for bad debts
31 December 2018	554,752,190	925,568	2,156,115	1,210,030	2,135,598
Addition	69,195,717	270,751	7,819,170	3,909,585	4,180,336
Transfer to the third stage	(7,819,170)	(390,959)	–	–	(390,959)
30 June 2019	616,128,737	805,360	9,975,285	5,119,615	5,924,975

16 Notes to the condensed financial statements *(continued)*

(2) Other receivables *(continued)*

(a) Loss provision and changes in the ending balance (continued)

(i) As at 30 June 2019, other receivables in the first stage was analysed as follows:

	Ending balance	Expected Credit Loss rate within 12 months	Provision for bad debts
Provided on the grouping basis			
Prepayments	805,773	7%	56,404
Receivable from related parties-outside the Group	14,358,177	5%	717,909
Receivable from related parties-inside the Group	599,182,121	0%	–
Deposit	661,000	3%	19,830
Others	1,121,666	1%	11,217
	616,128,737		805,360

(ii) As at 30 June 2019, there was no other receivables in the second stage.

(iii) As at 30 June 2019, other receivables in the third stage was analysed as follows:

	Ending balance	Lifetime expected credit loss rate	Provision for bad debts
Provided on the individual basis			
Yanjiao Furen Hospital	7,819,170	50%	3,909,585
Xiong Guoxiu and Min Honggen	2,156,115	56%	1,210,030
	9,975,285		5,119,615

(b) Accrued provision for bad debts during this period was RMB3,789,377; no provisions were reversed or recovered.

(c) There were no other receivables written off during the period.

16 Notes to the condensed financial statements *(continued)*

(3) Long-term equity investments

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Subsidiary (a)	**235,627,432**	139,727,432
Associate (b)	**28,158,109**	33,077,354
	263,785,541	172,804,786

The Company is not subject to significant restrictions on the realisation of long-term equity investments.

(a) Subsidiary

	Increase/Decrease in the current period	
31 December 2018	Increase in investment	Decrease in investment

16 Notes to the condensed financial statements *(continued)*

(3) Long-term equity investments *(continued)*

(b) Associate

		Increase/Decrease in the current period									
	31 December 2018 (Audited)	Initial investment	Decrease in investment	Share of net profit/ (loss) under equity method	Other comprehensive income adjustment	Other changes in equity	Distribution of cash dividends or profits declared	Provision for impairment loss	Others	2019 30 December (Unaudited)	Ending balance of provision for impairment loss
Hangzhou Anken	5,792,165	-	-	(730,139)	-	-	-	-	-	5,062,026	-
Shandong Yi Ning Hospital	15,285,189	-	(15,285,189)	-	-	-	-	-	-	-	-
Hangzhou Anken Medical Consultation	12,000,000	11,000,000	-	96,083	-	-	-	-	-	23,096,083	-
	33,077,354	11,000,000	(15,285,189)	(634,056)	-	-	-	-	-	28,158,109	-

16 Notes to the condensed financial statements *(continued)*

(4) Revenue and cost of sales

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue (Unaudited)	**Cost of sales (Unaudited)**	Revenue (Unaudited)	Cost of sales (Unaudited)
Main operations	**174,629,078**	**123,423,751**	171,293,262	110,483,484
Other operations	**570,888**	**–**	350,655	–
	175,199,966	**123,423,751**	171,643,917	110,483,484

(a) Revenue and cost of sales from main operations

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue (Unaudited)	**Cost of sales (Unaudited)**	Revenue (Unaudited)	Cost of sales (Unaudited)
Sales of medicine	**52,599,193**	**45,343,114**	45,937,003	38,918,721
Diagnosis & treatment and general medical services	**115,590,570**	**73,393,426**	117,961,952	66,321,246
Management service	**6,439,315**	**4,687,211**	7,394,307	5,243,517
	174,629,078	**123,423,751**	171,293,262	110,483,484

(b) Revenue and cost of sales from other operations

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue (Unaudited)	**Cost of sales (Unaudited)**	Revenue (Unaudited)	Cost of sales (Unaudited)
Others	**570,888**	**–**	350,655	–

16 Notes to the condensed financial statements *(continued)*

(5) Investment losses

	For the six months ended 30 June 2019 (Unaudited)	For the six months ended 30 June 2018 (Unaudited)
Share of net gains or losses of investees under the equity method	**634,056**	(1,756,764)
Net gains or loss arising from disposal of long-term equity investment	**138,093**	–
	772,149	1,756,764

The Company is not subject to significant restrictions on remittance of investment income.

Definitions

"AGM"	the annual general meeting of the Company for the year 2018 convened and held on June 18, 2019
"Audit Committee"	the audit committee of the Board
"Beijing Yining Hospital"	Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司), a company established in the PRC with limited liability on August 17, 2015, one of the Company's indirect non-wholly owned subsidiaries
"Board of Directors" or "Board"	the board of directors of the Company
"Cangnan Kangning Hospital"	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company's wholly-owned subsidiaries
"Chun'an Hospital"	Chun'an Huangfeng Kang'en Hospital (淳安黃鋒康恩醫院)
"Company" or "Wenzhou Kangning Hospital"	Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2120)
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted Shares which are currently not listed or traded on any stock exchange
"Geriatric Hospital"	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), one of the wholly-owned subsidiaries indirectly held by the Company, is principal engaged in providing medical services for the geriatric, including geriatric psychiatric and psychological treatment
"Group" or "we" or "our"	the Company and its subsidiaries

Definitions

Guanxian Yining Hospital	Guanxian Yining Hospital Co., Ltd. (冠縣怡寧醫院有限公司), a company established in the PRC with limited liability on March 1, 2017, one of the Company's indirect non-wholly owned subsidiaries
"H Share(s)"	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Hong Kong Stock Exchange
"Hangzhou Yining Hospital"	Hangzhou Yining Hospital Co., Ltd. (杭州怡寧醫院有限公司), a company established in the PRC with limited liability on August 25, 2016, one of the Company's indirect non-wholly owned subsidiaries
"Heze Yining Hospital"	Heze Yining Psychiatric Hospital Co., Ltd. (菏澤怡寧神病醫院有限公司, previously known as Heze Yining Hospital Co., Ltd. (菏澤怡寧醫院有限公司)), a company established in the PRC with limited liability on April 6, 2017, one of the Company's indirect non-wholly owned subsidiaries
"HK$" or "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
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Huainan Kangning Hospital"	Huainan Kangning Hospital Co., Ltd. (淮南康寧醫院有限公司), a company established in the PRC with limited liability on September 22, 2017, one of the Company's indirect non-wholly owned subsidiaries
"Langfang Yining Hospital"	Langfang Yining Hospital Co., Ltd. (廊坊怡寧醫院有限公司, previously known as Langfang Yining Hospital Management Co., Ltd. (廊坊市怡寧醫院管理有限公司)), a company established in the PRC with limited liability on December 2, 2015, one of the Company's wholly-owned subsidiaries
"Latest Practicable Date"	September 23, 2019, being the latest practicable date for inclusion of certain information in this report prior to its publication
"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

Definitions

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"Nanjing Yining Hospital"	Nanjing Yining Hospital Co., Ltd. (南京怡寧醫院有限公司), a company established in the PRC with limited liability on June 22, 2018, one of the Company's indirect non-wholly owned subsidiaries
"Nomination Committee"	the nomination committee of the Board
"Pingyang Changgeng Ward"	the psychiatric healthcare department of Pingyang Changgeng Hospital Co., Ltd. (平陽縣長庚醫院有限責任公司)
"Pingyang Kangning Hospital"	Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the Company's indirect wholly-owned subsidiaries
"PRC" or "China"	the People's Republic of China which, for the purpose of this interim report, excludes Hong Kong, Macau and Taiwan
"PRC Company Law"	the Company Law of the People's Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Twelfth National People's Congress on December 28, 2013 and effective on March 1, 2014 (as amended, supplemented or otherwise modified from time to time)
"Prospectus"	the prospectus of the Company dated November 10, 2015
"Pujiang Hospital"	Pujiang Huangfeng Psychiatric Specialty Hospital (浦江黃鋒精神專科醫院)
"Qingtian Kangning Hospital"	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011, one of the Company's wholly-owned subsidiaries
"Reporting Period"	the six months ended June 30, 2019
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	the lawful currency of the PRC

Definitions

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"Sihui Kangning Hospital"	Sihui Kangning Hospital Co., Ltd. (四會康寧醫院有限公司), a company established in the PRC with limited liability on August 19, 2016, which used to be one of the Company's indirect non-wholly owned subsidiaries. The Company transferred all the indirect equity of Sihui Kangning Hospital to Guangdong Zhaokang Medical Investment Co., Ltd. (廣東肇康醫療投資有限公司) on May 10, 2019
"Strategy and Risk Management Committee"	the strategy and risk management committee of the Board
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
"substantial shareholder(s)"	has the meaning ascribed thereto in the Hong Kong Listing Rules
"Supervisor(s)"	the members of the Supervisory Committee
"Supervisory Committee"	the Company's Supervisory Committee established pursuant to the PRC Company Law
"Taizhou Kangning Hospital"	Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company's indirect non-wholly owned subsidiaries
"Wenling Nanfang Hospital"	Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd. (溫嶺南方精神疾病專科醫院有限公司), a company established in the PRC with limited liability on June 20, 2018, one of the Company's indirect non-wholly owned subsidiaries
"Wenzhou Cining Hospital"	Wenzhou Cining Hospital Co., Ltd. (溫州慈寧醫院有限公司), an independent third party established in the PRC with limited liability on January 25, 2006
"Wenzhou Guoda"	Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司), a company established in the PRC with limited liability on February 9, 2002, one of the Company's indirect non-wholly owned subsidiaries

Definitions

"Yanjiao Furen Hospital"	a hospital under the Company's operation and management in accordance with an entrustment management agreement dated March 26, 2015 entered into between Langfang Sanhe Yanjiao Furen Hospital (廊坊三河燕郊輔仁醫院, previously known as Yanjiao Furen Hospital of Traditional Chinese and Western Medicine 燕郊輔仁中西醫結合醫院) and the Company
"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