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

(A joint

company incorporated in the People's Republic of China)

Stock code: 2120

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2020

1 INTRODUCTION

- 1.1 The board of directors (the “**Board**”) of Wenzhou Kangning Hospital Co., Ltd. (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”, “**we**” or “**our**”) for the financial year ended December 31, 2020 (the “**Reporting Period**”) with comparative figures for the preceding financial year ended December 31, 2019.
- 1.2 The financial statements (the “**Financial Statements**”) of the Group for the Reporting Period are prepared in accordance with China Accounting Standards for Business Enterprises.

2 FINANCIAL HIGHLIGHTS

2.1 Principal Financial Data and Indicators

	For the year ended December 31,	
	2020	2019
	(RMB' 000)	(RMB' 000)
Revenue	1,031,284	860,692
Profit before income tax	87,904	55,523
Income tax expenses	(28,949)	(17,295)
Net profit	58,955	38,228
Net profit attributable to shareholders of the Company	70,000	57,289
Non-controlling interests	(11,045)	(19,061)
	As of	As of
	December 31,	December 31,
	2020	2019
	(RMB' 000)	(RMB' 000)
Total assets	2,248,947	2,117,352
Total liabilities	934,523	855,843
Total equity	1,314,424	1,261,509
Equity attributable to shareholders of the Company	1,211,846	1,164,484
Non-controlling interests	102,578	97,025

3 BUSINESS REVIEW AND OUTLOOK

3.1 Business Review

In 2020, facing the challenges of downward economic growth caused by the global Coronavirus Disease 2019 (the “**COVID-19 epidemic**”) outbreak and stricter government regulation over healthcare and medical insurance, the Group has gone all out to implement the COVID-19 epidemic prevention and control and actively fulfilled its social responsibilities. Meanwhile, the Group consistently adhered to the core of “standardizing hospital management and improving medical quality”, made more investments in research and innovation and continued to explore the transformation and upgrade of its business model. Specifically speaking, it has made the following progress:

In 2020, the Group’s owned hospitals business grew healthily and steadily. The business of Geriatric Hospital, Quzhou Yining Hospital and Pingyang Kangning Hospital opened in 2016 has gradually matured. The four existing hospitals in Taizhou area, namely Linhai Kangning Hospital, Taizhou Kangning Hospital, Luqiao Cining Hospital and Wenling Nanfang Hospital, have been on the right track in their business development, and their service volume has increased fast as compared with that of the same period of last year. The number of beds of Cangnan Kangning Hospital increased after it was relocated to the new hospital area, resulting in a swift expansion in its business scale. Mental health center of children and adolescents and sleep medicine center were newly established in Wenzhou Kangning Hospital, and its treatment proportion of patients with moderate or severe illness increased significantly as compared with that of the same period of last year. Two hospitals, namely Qingtian Kangning Hospital and Yongjia Kangning Hospital, have implemented new hospital area relocation projects to solve the problems that business development was constrained by space concerns and are expected to add 500 new beds. Only Beijing Yining Hospital saw a decrease in business volume due to the restrictive measures taken by the local government to facilitate the COVID-19 epidemic prevention and control. In addition, the Group acquired Wenzhou Cining Hospital and Chun’an Hospital during the Reporting Period and terminated their previous management consulting services. As of December 31, 2020, the number of the Group’s owned hospitals increased to 24 (December 31, 2019: 21), including an independently established Internet hospital (Yining Psychology Internet Hospital), and its operating beds increased to 7,483 (December 31, 2019: 6,073).

In 2020, the Group actively expanded its business and explored a new model for service integration. On one hand, remote inquiry of psychological health and the need for drugs purchase of the public increased during the COVID-19 epidemic period. The Group has actively explored a new service pattern of “Internet + medical health”, with the aid of the Internet healthcare related policies encouraged by the nation, developed businesses such as drug provision for other Internet hospitals, prescription service provision for drug e-commerce platform and the business of re-diagnosis and prescribing drugs through its own Internet platform. It initially constructed an Internet mental health management platform with Internet hospitals, Medical Group, drug supply chain and medical informatization as its main business. On the other hand, leveraging on the opportunities arising from the construction of social mental service system encouraged by the nation, the Group created a new model for mental services with Wenzhou area as the hub and close collaboration between online and offline channels, so as to cultivate a market targeting patients with moderate illness by using social mental services as the breakthrough point.

In 2020, while developing its business, the Group continued to strengthen the connotation construction and improve its overall competitiveness. First, the Group promoted its brand through the sub-specialty construction. Second, it continued to increase its investments in science and education as well as innovation to facilitate the upgrade of its research capabilities. Third, it optimized its human resources to provide a strong support for the development of the Group.

During the early stage of COVID-19 epidemic in 2020, the governments of various cities have implemented emergency prevention and control measures to restrict the travelling of public, which, to a certain extent, affected the healthcare services revenue of the Group in the first quarter of 2020. In addition, the Group made a provision for goodwill impairment losses of RMB8.0 million as the business volume of Beijing Yining Hospital was lower than expected due to the COVID-19 epidemic prevention and control measures.

As the COVID-19 epidemic was under effective control in China and the Group continued to take proactive measures such as facilitating the resumption of work and production and conducting Internet healthcare business, the business of the Group started to recover in the second quarter of 2020, and achieved significant growth as a whole during the Reporting Period. In light of its robust cash flows from operating activities, the Group does not expect any liquidity pressures under the current COVID-19 epidemic.

3.2 Business Highlights

In 2020, Yelimi Company was qualified as a high-tech enterprise and established a mechanism of industry-education integration and school-enterprise cooperation by entering into contracts with universities, thus robustly empowering the sustainable development of the Group. In addition, the approval of a post-doctorate work station in Zhejiang Province and the key laboratory in Wenzhou City (child psychiatry) has further enhanced the advanced research level of the Group in the specialized fields.

3.3 Business Outlook

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

- (i) Risk relating to high reimbursement amount from public medical insurance. From 2018 to 2020, reimbursement amount from public medical insurance accounted for 56.6%, 58.2% and 61.4% of the cash received from sales of goods and rendering of service for the respective years. If the Group's healthcare facilities are unable to maintain the qualification of designated medical insurance institutions in the future, or there are adverse changes on the national public medical insurance policy in respect of treatment of mental illness, the Group's operating results will be affected adversely;
- (ii) Risk relating to shortage of professional medical talents. Under the laws and regulations of the PRC, healthcare facilities shall maintain a certain number of medical staff. With the increase in the number of healthcare facilities of the Group, if we are unable to recruit or maintain adequate medical staff, we will face difficulties to provide patients with the desirable medical services, which in return will adversely affect our operating results; and
- (iii) Risk relating to failure to renew qualifications and licenses required for our operations. Healthcare facilities are required to obtain the medical practice license before carrying out their businesses, which usually has a valid period and requires regular inspections by the regulatory authorities. If the healthcare facilities of the Group are unable to renew their licenses in the future due to poor management or non-compliant operation, our operating results will be affected adversely.

Looking into the future, with the further implementation of the strategy of a healthy China and people's increasing needs for mental health, the Group will continue to optimize its operation and management models, made more investments in research and strengthen the construction of a talent team and improve the service capabilities. At the same time, the Group will intensify the construction of information software and Internet application to create a modernized and intelligent hospital group.

4 MANAGEMENT DISCUSSION AND ANALYSIS

4.1 Financial Review

The Group recorded revenue of RMB1,031.3 million during the Reporting Period, representing an increase of 19.8% as compared with 2019. Among them, the revenue from operating its owned hospitals amounted to RMB978.5 million, representing an increase of 23.3% as compared with 2019. During the Reporting Period, the average inpatient spending per bed-day of the Group's owned hospitals has increased, thus the gross profit margin of its owned hospitals increased to 28.4% (2019: 22.3%). As such, the overall gross profit of the Group increased to RMB302.6 million, representing an increase of 48.0% as compared with 2019. During the Reporting Period, net profit attributable to shareholders of the Company amounted to RMB70.0 million, representing an increase of 22.2% as compared with 2019.

4.1.1 Revenue and Cost of Revenue

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

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

	For the year ended	
	December 31,	
	2020	2019
	(RMB'000)	(RMB'000)
Revenue from operating owned hospitals	978,466	793,490
Revenue from other healthcare related business	38,145	27,506
Revenue of the property business	14,673	39,696
Total revenue	<u>1,031,284</u>	<u>860,692</u>

Revenue and cost of revenue from operating the owned hospitals

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

	For the year ended	
	December 31,	
	2020	2019
	(RMB'000)	(RMB'000)
Treatment and general healthcare services		
Revenue	755,879	587,874
Cost of revenue	506,496	441,786
Gross profit	249,383	146,088
Pharmaceutical sales		
Revenue	222,587	205,616
Cost of revenue	194,544	174,398
Gross profit	28,043	31,218
Owened hospitals		
Revenue	978,466	793,490
Cost of revenue	701,040	616,184
Gross profit	277,426	177,306

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB978.5 million, representing an increase of RMB185.0 million as compared with 2019, mainly due to the increase in revenue from operating Wenzhou Kangning Hospital, Cangnan Kangning Hospital, Yueqing Kangning Hospital, Linhai Kangning Hospital, Pingyang Kangning Hospital, Changchun Kanglin Psychological Hospital and Geriatric Hospital and the addition of two owned hospitals, namely, Wenzhou Cining Hospital and Chun'an Hospital as compared with that of 2019. During the Reporting Period, the gross profit of the Group's owned hospitals increased by 56.5% as compared with 2019, mainly due to the increase in inpatient bed-days and average inpatient spending per bed-day.

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 year ended December 31,	
	2020	2019
Inpatients		
Inpatient bed as at period end	7,483	6,073
Effective inpatient service bed-day capacity	2,738,778	2,216,645
Utilization rate (%)	82.8	84.2
Number of inpatient bed-days	2,268,032	1,865,922
Treatment and general healthcare services revenue attributable to inpatients (<i>RMB'000</i>)	721,487	557,994
Average inpatient spending per bed-day on treatment and general healthcare services (<i>RMB</i>)	318	299
Pharmaceutical sales revenue attributable to inpatients (<i>RMB'000</i>)	123,061	110,260
Average inpatient spending per bed-day on pharmaceutical sales (<i>RMB</i>)	54	59
Total inpatient revenue (<i>RMB'000</i>)	844,548	668,254
Total average inpatient spending per bed-day (<i>RMB</i>)	372	358
Outpatients		
Number of outpatient visits	277,215	226,720
Treatment and general healthcare services revenue attributable to outpatients (<i>RMB'000</i>)	34,392	29,880
Average outpatient spending per visit on treatment and general healthcare services (<i>RMB</i>)	124	132
Pharmaceutical sales revenue attributable to outpatients (<i>RMB'000</i>)	99,526	95,356
Average outpatient spending per visit on pharmaceutical sales (<i>RMB</i>)	359	420
Total outpatient revenue (<i>RMB'000</i>)	133,918	125,236
Total average outpatient spending per visit (<i>RMB</i>)	483	552
Total treatment and general healthcare services revenue (<i>RMB'000</i>)	755,879	587,874
Total pharmaceutical sales revenue (<i>RMB'000</i>)	222,587	205,616

During the Reporting Period, inpatient revenue amounted to RMB844.5 million, representing an increase of 26.4% as compared with 2019, primarily due to: (i) the number of the Group's inpatient bed-days increased by 21.6% arising from the increase of inpatient bed-days in Wenzhou Kangning Hospital, Cangnan Kangning Hospital, Yueqing Kangning Hospital, Linhai Kangning Hospital, Pingyang Kangning Hospital, Changchun Kanglin Psychological Hospital and Geriatric Hospital as well as the acquisition of Wenzhou Cining Hospital and Chun'an Hospital; and (ii) the average inpatient spending per bed-day of the Group's owned hospitals increased by 3.9%. The proportion of inpatient revenue to revenue from operating owned hospitals increased to 86.3% (2019: 84.2%).

During the Reporting Period, outpatient revenue amounted to RMB133.9 million, representing an increase of 6.9% as compared with 2019, primarily due to the increase of outpatient visits by 22.3% and the decrease in average outpatient spending per visit by 12.5%. The proportion of outpatient revenue to our revenue from operating owned hospitals decreased to 13.7% (2019: 15.8%).

During the Reporting Period, due to the increase of both inpatient and outpatient business, revenue from treatment and general healthcare services increased by 28.6% as compared with 2019, and increased to 77.3% of revenue from operating owned hospitals (2019: 74.1%); revenue from pharmaceutical sales increased by 8.3% as compared with 2019, accounting for 22.7% of revenue from operating owned hospitals (2019: 25.9%), of which: the ratio of inpatient pharmaceutical sales to total inpatient revenue decreased to 14.6% (2019: 16.5%), the ratio of outpatient pharmaceutical sales to total outpatient revenue decreased to 74.3% (2019: 76.1%).

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

	For the year ended	
	December 31,	
	2020	2019
	(RMB'000)	(RMB'000)
Pharmaceuticals and consumables used	247,235	222,516
Employee benefits and expenses	240,185	206,523
Depreciation of right-of-use assets	31,203	29,860
Depreciation and amortization	75,906	62,804
Canteen expenses	42,653	35,940
Testing fees	24,081	17,325
Others	39,777	41,216
Cost of revenue of owned hospitals	701,040	616,184

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB701.0 million, representing an increase of 13.8% as compared with 2019, which was lower than the increase in revenue from owned hospitals. It was mainly due to: (i) the increase of 11.1% in pharmaceuticals and consumables expenses relating to the increase of pharmaceutical sales revenue; (ii) the increase of 16.3% in employee benefits and expenses arising from the increase in beds in operation of owned hospitals; (iii) depreciation of right-of-use assets increased by 4.5% as compared with that of 2019; and (iv) the depreciation and amortization increased by 20.9% as compared with that of 2019, mainly caused by the expansion of the healthcare facilities' network.

From the cost structure perspective, the proportion of pharmaceuticals and consumables used in the cost of revenue of owned hospitals decreased to 35.3% (2019: 36.1%). The proportion of employee benefits and expenses to cost of revenue of owned hospitals increased to 34.3% (2019: 33.5%). The proportion of the depreciation of right-of-use assets together with depreciation and amortization to cost of revenue of owned hospitals was 15.3% (2019: 15.0%). During the Reporting Period, the change of the cost structure was immaterial as compared with that of 2019.

Revenue from other healthcare related business

The revenue from other healthcare related business of the Group mainly includes revenue from management and consulting business, revenue from sales of pharmaceuticals and medical devices and revenue from information technology business, etc. During the Reporting Period, revenue from the other healthcare related business of the Group amounted to RMB38.1 million, of which management and consulting business revenue was RMB16.8 million (2019: RMB21.7 million); revenue from sales of pharmaceuticals and medical devices was RMB12.0 million.

Revenue from the property business

The Group's revenue of the property business includes property leasing income, property sales income, etc. During the Reporting Period, revenue of the property business decreased to RMB14.7 million (2019: RMB39.7 million), mainly due to the sales income of RMB3.9 million from disposal of investment property by Wenzhou Guoda during the Reporting Period (2019: RMB32.6 million).

4.1.2 Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB302.6 million, representing an increase of 48.0% as compared with 2019. The gross profit of the owned hospitals businesses amounted to RMB277.4 million, representing an increase of 56.5% as compared with 2019. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

	For the year ended December 31,	
	2020	2019
Treatment and general healthcare services	33.0%	24.9%
Pharmaceutical sales	12.6%	15.2%
Owled hospitals businesses	28.4%	22.3%
Property and other businesses	47.6%	40.5%
Consolidated gross profit margin	29.3%	23.8%

During the Reporting Period, consolidated gross profit margin of the Group increased to 29.3% (2019: 23.8%), of which the gross profit margin of treatment and general healthcare services increased by 8.1 percentage points as compared with that of 2019. The gross profit margin of pharmaceutical sales decreased by 2.6 percentage points as compared with that of 2019.

4.1.3 Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB5.4 million (2019: RMB5.2 million).

4.1.4 Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB8.1 million (2019: RMB8.0 million). The selling expenses accounted for 0.8% of the revenue from operating owned hospitals of the Group (2019: 1.0%).

4.1.5 Administrative Expenses

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

	For the year ended	
	December 31,	
	2020	2019
	(RMB'000)	(RMB'000)
Employee benefits and expenses	75,496	75,186
Depreciation and amortization	12,439	12,198
Consultancy expenses	6,070	11,121
Travelling expenses	3,202	4,509
Others	27,855	20,325
Total administrative expenses	<u>125,062</u>	<u>123,339</u>

During the Reporting Period, the administrative expenses of the Group amounted to RMB125.1 million, representing a slight increase of 1.4% as compared with that of 2019. The proportion of the administrative expenses to the revenue from operating owned hospitals of the Group decreased to 12.8% (2019: 15.5%).

4.1.6 Research and Development Expenses

During the Reporting Period, the Group's research and development expenses amounted to RMB21.0 million (2019: RMB6.0 million), representing an increase of 248.5% as compared with 2019. The proportion of research and development expenses to the revenue from operating owned hospitals of the Group was 2.1% (2019: 0.8%), which was mainly due to: (i) the increase in investments in the development of information software, social mental service system and Internet hospital applications by the Group; and (ii) the implementation of an incentive policy to encourage doctors to engage in clinical research and the improvement on management of clinical research projects and accounting of research and development expenses by Wenzhou Kangning Hospital.

4.1.7 Finance Expenses – Net

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

	For the year ended	
	December 31,	
	2020	2019
	(RMB'000)	(RMB'000)
Interest income	4,677	4,477
Foreign exchange losses	(259)	(643)
Borrowing interest expense	(15,910)	(12,307)
Interest expenses on lease liabilities	(10,648)	(12,415)
Amortization of unrecognized financial charge	–	(1,841)
Others	(682)	(759)
Finance expenses – net	<u>(22,822)</u>	<u>(23,488)</u>

During the Reporting Period, the net finance expenses of the Group amounted to RMB22.8 million, representing a decrease of RMB0.7 million as compared with that of 2019, of which, borrowing interest expense increased by 29.3% as compared with that of 2019, mainly due to the increase in bank loans of the Group.

4.1.8 Investment (Losses)/Income

Our investment (losses)/income consist of share of net loss of investees under the equity method, gains arising from disposal of long-term equity investment and interest from structured deposit. The table below sets forth a breakdown of our investment (losses)/income for the periods indicated:

	For the year ended	
	December 31,	
	2020	2019
	(RMB'000)	(RMB'000)
Share of losses of investments accounted for using the equity method	(7,727)	(3,403)
(Losses)/gains arising from disposal of long-term equity investment	(34)	26,213
Interest from structured deposit	96	702
Dividend income from funds	—	824
	<u>(7,665)</u>	<u>24,336</u>

During the Reporting Period, our investment losses amounted to RMB7.7 million, which is mainly the share of losses of investments accounted for using the equity method.

4.1.9 Gains from Change in Fair Value

During the Reporting Period, gains from change in fair value increased to RMB6.6 million, mainly due to the increase in the fair value of other non-current financial assets.

4.1.10 Credit Impairment Losses

During the Reporting Period, credit impairment losses decreased to RMB23.1 million (2019: RMB29.3 million). Credit impairment losses for accounts receivable amounted to RMB23.3 million (2019: RMB20.4 million), accounting for 2.3% of the Group's total revenue (2019: 2.4%). As at December 31, 2020 and 2019, the provisions for bad debts of accounts receivables of the Group's owned hospitals businesses amounted to RMB30.3 million and RMB21.4 million respectively and accounted for 9.3% and 7.1% of total accounts receivables of the owned hospitals businesses at the corresponding time.

4.1.11 Asset Impairment Losses

During the Reporting Period, asset impairment losses amounted to RMB8.0 million, which was due to the impairment of goodwill arising from the acquisition of Beijing Yining Hospital by the Group as a result of the COVID-19 epidemic.

4.1.12 Non-Operating Income (Expenses)

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

	For the year ended	
	December 31,	
	2020	2019
	(RMB'000)	(RMB'000)
Derecognition of contractual rights of managing Yanjiao Furen Hospital	–	25,666
Government grants	59	2,755
Other non-operating income	850	968
Non-operating income	909	29,389
Losses on scrapping of non-current assets	436	13,240
Donation expenses	8,537	2,987
Other non-operating expenses	1,928	3,486
Non-operating expenses	10,902	19,713

During the Reporting Period, the non-operating income of the Group decreased to RMB0.9 million, primarily due to the one-off income generated from the derecognition of the management contract rights of Yanjiao Furen Hospital during 2019; during the Reporting Period, the non-operating expenses of the Group decreased to RMB10.9 million, primarily due to the decrease of losses on scrapping of non-current assets.

4.1.13 Income Tax Expense

During the Reporting Period, income tax expense increased to RMB28.9 million (2019: RMB17.3 million), representing an increase of 67.4% as compared with 2019. As for the years of 2020 and 2019, our actual tax rates were 32.9% and 31.1%, respectively.

4.2 Financial Position

4.2.1 Inventory

As of December 31, 2020, inventory balances amounted to RMB37.5 million (as of December 31, 2019: RMB23.6 million), mainly include: (i) the medical inventory and turnover materials of RMB34.9 million (as of December 31, 2019: RMB21.0 million); and (ii) completed development properties of RMB2.6 million (as of December 31, 2019: RMB2.6 million), representing Room 2701, Room 2806, Room 2807 and Room 2808 of 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 development properties held by us during the Reporting Period:

Completed property	Room 2701, Room 2806, Room 2807 and Room 2808 of 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
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	19.3
Total floor area (Approx.) (Sq. m.)	325.73
Usage	Commercial, financial and office land
Stage	Completed and accepted
Completion date	June 30, 2017

4.2.2 Accounts Receivables

As of December 31, 2020, the balance of accounts receivables amounted to RMB321.4 million (as of December 31, 2019: RMB310.5 million), representing an increase of 3.5% as compared with that of December 31, 2019, which was lower than the increase in revenue, mainly due to the shortened payment cycle of medical insurance.

During the Reporting Period, the accounts receivables turnover days of the Group's owned hospitals businesses were 107 days (2019: 128 days).

4.2.3 Other Receivables and Prepayments

As of December 31, 2020, other receivables and prepayments increased to RMB75.4 million (as of December 31, 2019: RMB68.7 million).

4.2.4 Investment Properties

As of December 31, 2020, the balance of investment properties amounted to RMB107.8 million (as of December 31, 2019: RMB110.9 million), representing Phase I Works of Business Center of Wenzhou Higher Education Mega Center (Room 302, Room 303 and Room 304) and Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2/F to 11/F) held by Wenzhou Guoda. During the Reporting Period, there was no significant change in the fair value of the investment properties. Set out in the following table are the details of the investment properties held by us at the end of the Reporting Period:

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (Room 302, Room 303 and Room 304)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	1,959.41
Total floor area (Approx.) (Sq. m.)	6,766.36
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, 2053, and the related properties are freehold properties
Investment property	Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2/F to 11/F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC

Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	11,850.34
Usage	Commercial, office and hotel
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2053, and the related properties are freehold properties

4.2.5 Other Non-current Financial Assets

As of December 31, 2020, the balance of other non-current financial assets amounted to RMB57.4 million (as of December 31, 2019: RMB51.3 million). During the Reporting Period, the fair value of other non-current financial assets increased by RMB6.1 million, mainly due to the increase in fair value of Jinpu Fund invested by the Group.

4.2.6 Right-of-use Assets

As of December 31, 2020, right-of-use assets amounted to RMB227.6 million (as of December 31, 2019: RMB235.3 million).

4.2.7 Accounts Payables

As of December 31, 2020, accounts payables decreased to RMB69.6 million (as of December 31, 2019: RMB75.6 million).

4.2.8 Contract Liability

As of December 31, 2020, contract liability increased to RMB13.0 million (as of December 31, 2019: RMB8.6 million).

4.2.9 Other Payables

As of December 31, 2020, other payables decreased to RMB76.6 million (as of December 31, 2019: RMB133.3 million).

4.3 Liquidity and Capital Resources

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

	For the year ended	
	December 31,	
	2020	2019
	(RMB'000)	(RMB'000)
Net cash generated from operating activities	199,656	111,290
Net cash used in investing activities	(186,320)	(140,531)
Net cash generated from financing activities	22,052	7,762
Net increase/(decrease) in cash and cash equivalents	35,141	(22,115)

4.3.1 Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB199.7 million, primarily consisting of net profit of RMB59.0 million, adjustments of RMB31.1 million for asset impairment losses and credit impairment losses and adjustments of RMB123.8 million for depreciation and amortisation of various assets.

4.4 Indebtedness

4.4.1 Bank Borrowings

As of December 31, 2020, the balance of bank borrowings of the Group amounted to RMB426.5 million (as of December 31, 2019: RMB310.0 million), primarily attributable to repayment of borrowings of RMB290.0 million and an increase in borrowings of RMB406.5 million during the Reporting Period.

4.4.2 Contingent Liability

As of December 31, 2020, the Group had no contingent liability or guarantees that would have a material impact on the financial position or operation of the Group.

4.4.3 Asset Pledge

The Group did not have any asset pledge during the Reporting Period.

4.4.4 Lease Liabilities

The lease liabilities of the Group primarily consist of operating lease arrangements. As of December 31, 2020, the present values of unsettled lease payments under non-cancellable lease agreements, after deducting an amount of RMB32.5 million which is due within one year, were RMB189.8 million.

4.4.5 Financial Instruments

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

4.4.6 Exposure to Fluctuation in Exchange Rates

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

As of December 31, 2020, the Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

4.4.7 Gearing Ratio

As of December 31, 2020, the Group's gearing ratio (total liabilities divided by total assets) slightly increased to 41.6% (as of December 31, 2019: 40.4%), mainly due to an increase of bank borrowings.

4.4.8 Employees and Remuneration Policy

As of December 31, 2020, the Group had a total of 3,338 full-time employees (as of December 31, 2019: 2,845 full-time employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB339.10 million (2019: RMB288.7 million). The average employees' remuneration is RMB105.6 thousand per year (including social medical insurance scheme and housing grant scheme borne by the Group). The remuneration is determined with reference to the salary level in the same industry and the qualifications, experience and performance of an employee.

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

After the consideration and approval at the 2017 AGM, and confirmation at the 8th meeting of the second session of the Board of the Company held on August 20, 2018, the actual first grant comprised of 165 persons, 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 the Board of the Company convened on August 26, 2019, incentive Shares were granted to the second phase participants. The second phase participants include core technical personnel of the Company and other persons who, in the opinion of the Board, shall be incentivized. The grant of the second phase grant scheme comprised of 37 persons, and the total number of Shares granted was 273,161 Shares. As 14 persons voluntarily abstained to subscribe, the actual grant comprised of 23 persons, and the actual aggregate number of Shares granted was 180,516 Shares, representing 0.2391% of total issued share capital of the Company at the grant date. The details are shown as the following table. The participants shall pay the subscription amounts calculated by the amount of grants multiplied by the grant price (RMB10.47 per Share).

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

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

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

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

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

5 SIGNIFICANT EVENTS

5.1 Dividend

The Board does not recommend the payment of a final dividend to the Shareholders for the year ended December 31, 2020.

6 PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, the Company repurchased a total of 899,700 H Shares on the Hong Kong Stock Exchange, with an aggregate cash consideration (excluding expenses) of HK\$15,888,990. Details of the repurchase are as follows:

Repurchase period	Total number of H Shares repurchased	Price paid per share		Total consideration (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
March 2020	35,000	17.90	17.80	624,200
April 2020	715,200	18.56	17.70	12,993,510
May 2020	9,400	16.00	15.80	148,540
June 2020	140,100	15.30	14.70	2,122,740
	899,700			15,888,990

The above repurchased H Shares were cancelled on July 13, 2020.

Save as disclosed above, during the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

7 REVIEW OF ANNUAL RESULTS

The Audit Committee consists of two independent non-executive Directors, Ms. ZHONG Wentang (the chairman of the Audit Committee) and Mr. LIU Ning, and one non-executive Director, Mr. YANG Yang. Among them, Ms. ZHONG Wentang has the appropriate professional qualification (a Chinese certified public accountant accredited by the Chinese Institute of Certified Public Accountants).

The Audit Committee has reviewed the Group's annual results for the financial year ended December 31, 2020 and opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

8 COMPLIANCE WITH CG CODE

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

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

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

10 EVENTS AFTER THE REPORTING PERIOD

There were no significant subsequent events in the Group occurred since the end of the Reporting Period to the date of this announcement.

11 AUDITORS AND WORKING SCOPE

The consolidated financial statements of the Group for the year ended December 31, 2020, which have been prepared in accordance with China Accounting Standards for Business Enterprises have been audited by PricewaterhouseCoopers Zhong Tian LLP (“**PricewaterhouseCoopers**”), who has issued a standard audit report with unqualified opinions on the consolidated financial statements.

The figures in respect of the Group’s consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in shareholders’ equity and the related notes thereto for the year ended December 31, 2020 as set out in the announcement have been agreed by PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for 2020. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

12 FINANCIAL REPORT

12.1 Accounting Policies

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

The financial statements are prepared on a going concern basis.

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

12.1.1 Changes of Significant Accounting Policies

The Ministry of Finance released the *Circular on Issuing the ‘Regulations on Accounting Treatment of COVID-19-Related Rent Concessions’* (Cai Kuai [2020] No. 10) and the *Questions and Answers on the Implementation of Accounting Standards for Business Enterprises* (issued on December 11, 2020) in 2020. The financial statements for the year ended December 31, 2020 were prepared in accordance with the above circular and the questions and answers on the implementation, and had no significant impacts on the financial statements of the Group and the Company.

12.2 Annual Consolidated Financial Information

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

12.2.1 Annual Consolidated Income Statement

(All amounts in RMB unless otherwise stated)

Items	Year ended December 31,	
	2020	2019
1. Revenue	1,031,283,760	860,691,729
Less: Cost of sales	(728,701,852)	(656,184,564)
Taxes and surcharges	(5,413,866)	(5,226,869)
Selling and distribution expenses	(8,072,345)	(7,977,677)
General and administrative expenses	(125,062,445)	(123,338,942)
Research and development expenses	(20,972,502)	(6,018,107)
Finance expenses-net	(22,821,708)	(23,488,174)
Including: Interest expenses	(26,557,119)	(26,563,406)
Interest income	4,677,222	4,477,337
Add: Other gains	9,264,825	10,392,548
Investment (losses)/gains	(7,665,311)	24,336,266
Including: Share of losses of associates	(7,727,019)	(3,403,144)
Gains from change in fair value	6,599,223	1,917,462
Credit impairment losses	(23,125,756)	(29,256,324)
Asset impairment losses	(8,011,603)	—
Gains on disposal of assets	596,700	—
2. Operating profit	97,897,120	45,847,348
Add: Non-operating income	909,040	29,388,527
Less: Non-operating expenses	(10,901,945)	(19,713,068)
3. Total profit	87,904,215	55,522,807
Less: Income tax expenses	(28,948,671)	(17,295,189)

Items	Year ended December 31,	
	2020	2019
4. Net profit	<u>58,955,544</u>	<u>38,227,618</u>
Classified by continuity of operations		
Net profit from continuing operations	58,955,544	38,227,618
Net profit from discontinued operations	–	–
Classified by ownership of the equity		
Net profit attributable to shareholders of the company	70,000,134	57,289,394
Non-controlling interests	(11,044,590)	(19,061,776)
5. Total comprehensive income	<u>58,955,544</u>	<u>38,227,618</u>
Attributable to		
Shareholders of the Parent Company	70,000,134	57,289,394
Non-controlling interests	(11,044,590)	(19,061,776)
6. Earnings per share		
– Basic (<i>RMB per share</i>)	0.97	0.78
– Diluted (<i>RMB per share</i>)	<u>0.96</u>	<u>0.77</u>

12.2.2 Annual Consolidated Balance Sheets

(All amounts in RMB Yuan unless otherwise stated)

	December 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash at bank and on hand	206,499,564	176,030,550
Financial assets held for trading	–	30,000,000
Accounts receivable	321,407,965	310,520,612
Other receivables	63,435,813	63,317,366
Advances to suppliers	11,927,882	5,366,020
Inventories	37,508,471	23,568,236
Current portion of non-current assets	–	12,688,704
Total current assets	640,779,695	621,491,488
Non-current assets		
Long-term equity investments	93,726,511	89,943,193
Other non-current financial assets	57,404,918	51,281,869
Investment properties	107,804,936	110,856,100
Fixed assets	533,743,384	552,490,802
Construction in progress	134,941,286	72,180,620
Right-of-use assets	227,568,279	235,312,149
Intangible assets	162,536,728	130,298,128
Goodwill	71,605,598	54,346,633
Long-term prepaid expenses	153,550,840	151,083,314
Deferred tax assets	46,576,821	46,275,930
Other non-current assets	18,708,451	1,791,629
Total non-current assets	1,608,167,752	1,495,860,367
TOTAL ASSETS	2,248,947,447	2,117,351,855

LIABILITIES AND OWNERS' EQUITY	December 31, 2020	December 31, 2019
Current liabilities		
Short-term borrowings	312,500,000	250,000,000
Notes Payable	36,080	—
Accounts payable	69,573,927	75,554,960
Contract liability	12,965,170	8,562,126
Employee benefits payable	42,785,133	36,063,277
Taxes payable	49,046,555	33,430,060
Other payables	76,603,400	133,348,712
Current portion of non-current liabilities	35,540,617	79,741,922
Total current liabilities	599,050,882	616,701,057
Non-current liabilities		
Long-term borrowings	110,992,970	20,000,000
Lease liabilities	189,801,284	183,808,151
Long-term payables	—	2,260,000
Provisions	—	2,000,000
Deferred income	9,645,475	9,949,267
Deferred tax liabilities	25,032,439	21,124,118
Total non-current liabilities	335,472,168	239,141,536
Total liabilities	934,523,050	855,842,593
Shareholders' equity		
Share capital	74,600,300	75,500,000
Capital surplus	804,566,529	824,715,445
Less: Treasury Share	(23,311,144)	(21,721,144)
Surplus reserve	36,593,229	33,189,321
Retained earnings	319,396,941	252,800,715
Total equity attributable to shareholders of the parent company	1,211,845,855	1,164,484,337
Non-controlling interests	102,578,542	97,024,925
Total shareholders' equity	1,314,424,397	1,261,509,262
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,248,947,447	2,117,351,855

Item	Year ended December 31,	
	2020	2019
3. Cash flows generated from financing activities		
Cash received from capital contributions	23,361,500	12,345,000
Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries	21,771,500	12,345,000
Cash received from borrowings	406,492,970	270,000,000
Cash received relating to other financing activities	–	11,960,000
Sub-total of cash inflows	429,854,470	294,305,000
Cash repayments of borrowings	(290,000,000)	(185,000,000)
Cash payments for interest expenses and distribution of dividends or profits	(17,109,612)	(29,036,189)
Cash payments relating to other financing activities	(100,692,478)	(72,507,242)
Sub-total of cash outflows	(407,802,090)	(286,543,431)
Net cash flows from financing activities	22,052,380	7,761,569
4. Effect of foreign exchange rate changes on cash and cash equivalents	(248,021)	(635,428)
5. Net increase/(decrease) in cash and cash equivalents	35,140,715	(22,114,744)
Add: Cash and cash equivalents at beginning of the year	164,951,950	187,066,694
6. Cash and cash equivalents at end of the year	200,092,665	164,951,950

12.2.4 Consolidated Statement of Changes In Equity

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

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

12.3.1 Accounts receivable

	December 31, 2020 RMB	December 31, 2019 RMB
Due from related parties	7,250,000	8,250,000
Due from third parties	348,065,571	330,174,215
Subtotal	355,315,571	338,424,215
Less: Provision for bad debts	(33,907,606)	(27,903,603)
	<u>321,407,965</u>	<u>310,520,612</u>

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

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

	December 31, 2020 RMB	December 31, 2019 RMB
Within 1 year	276,029,265	266,932,953
1 – 2 years	59,715,117	57,988,407
2 – 3 years	19,442,357	13,089,001
Over 3 years	128,832	413,854
	<u>355,315,571</u>	<u>338,424,215</u>

12.3.2 Accounts payable

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

	December 31, 2020 RMB	December 31, 2019 RMB
Within 3 months	54,689,668	65,881,555
3 – 6 months	9,659,122	7,479,995
6 – 12 months	4,105,307	1,381,101
1 – 2 years	571,326	506,880
2 – 3 years	252,094	94,816
Over 3 years	296,410	210,613
	<u>69,573,927</u>	<u>75,554,960</u>

12.3.3 Revenue and cost of sales

	Year ended December 31, 2020		Year ended December 31, 2019	
	Revenue	Cost	Revenue	Cost
Main businesses	978,466,160	701,039,798	793,489,663	616,183,633
Other businesses	52,817,600	27,662,054	67,202,066	40,000,931
	<u>1,031,283,760</u>	<u>728,701,852</u>	<u>860,691,729</u>	<u>656,184,564</u>

Revenue and cost of sale from main businesses

	Year ended December 31, 2020		Year ended December 31, 2019	
	Revenue	Cost	Revenue	Cost
Pharmaceutical sales	222,586,930	194,543,819	205,615,871	174,397,815
Treatments and general healthcare services	755,879,230	506,495,979	587,873,792	441,785,818
	<u>978,466,160</u>	<u>701,039,798</u>	<u>793,489,663</u>	<u>616,183,633</u>

Revenue and cost of sale from other businesses

	Year ended December 31, 2020		Year ended December 31, 2019	
	Revenue	Cost	Revenue	Cost
Real estate sales	3,870,905	3,339,117	32,554,016	28,968,498
Management service	16,761,130	6,157,541	21,713,950	9,093,928
Wholesale and retail revenue of pharmaceutical and equipment	12,031,746	11,095,298	–	–
Rental income	10,801,695	1,657,231	7,141,598	–
Others	9,352,124	5,412,867	5,792,502	1,938,505
	<u>52,817,600</u>	<u>27,662,054</u>	<u>67,202,066</u>	<u>40,000,931</u>

12.3.4 Expenses by nature

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

	Year ended December 31,	
	2020	2019
Employee and welfare benefits	339,081,062	288,688,273
Pharmaceutical and medical consumables used	260,283,959	225,091,256
Costs of real estate sold	3,339,117	28,968,498
Depreciation of fixed assets	41,037,075	34,807,048
Depreciation of right-of-use assets	33,116,519	29,859,521
Amortisation of intangible assets	14,101,748	10,874,756
Amortisation of long-term prepaid expenses	35,549,405	34,298,665
Housing lease and property management expenses	4,382,432	2,293,590
Canteen expenditure	44,513,962	35,940,416
Utilities	19,138,805	18,589,005
Outsourcing expenses	14,146,526	16,108,041
Testing fee	24,081,462	17,325,409
Consulting expense	6,622,267	9,442,693
Auditors' remuneration		
– Audit services	800,000	2,600,000
– Non-audit services	24,500	26,500
Promotion expenses	2,914,695	3,933,565
Travelling expenses	4,170,744	6,242,376
Office expenses	5,256,718	5,821,043
Share-based payment	5,887,603	5,920,526
Others	24,360,545	16,688,109
	<u>882,809,144</u>	<u>793,519,290</u>

12.3.5 Credit impairment losses

	Year ended December 31,	
	2020	2019
Credit impairment losses for accounts receivable	23,341,488	20,356,414
Credit impairment losses for other receivable	(215,732)	8,899,910
	<u>23,125,756</u>	<u>29,256,324</u>

12.3.6 Earning per Share

Basic earning per Share

	Year ended December 31,	
	2020	2019
The net profit attributed to the ordinary Shareholders of the Company (RMB)	70,000,134	57,289,394
Weighted average number of outstanding ordinary Shares of the Company (Share) ⁽ⁱ⁾	<u>72,452,438</u>	<u>73,040,000</u>
Basic earning per Share (RMB)	<u>0.97</u>	<u>0.78</u>

- (i) Following the approval by the Shareholders at the general meeting on June 13, 2018, the Company issued 2,460,000 Shares to adopt an Equity Incentive Scheme. As these stocks are regarded as treasury stocks, according to *Interpretation of Accounting Standard for Business Enterprises No. 7* issued by the Ministry of Finance, 2,460,000 restricted Shares were deducted from the outstanding Shares of the Company when calculating the basic earnings per Share in 2020 and 2019. In 2020, the Company has repurchased a total of 899,700 Shares from the trading market, with ordinary Shares held as treasury stocks for the above repurchasing purpose deducted from the outstanding ordinary Shares of the Company.

Diluted earning per Share

Diluted earning per Share is calculated by the profit attributed to the ordinary Shareholders of the Company adjusted by the dilutive potential ordinary Shares divided by the adjusted weighted average number of outstanding ordinary Shares. Throughout the year ended December 31, 2020, net profit attributed to the ordinary Shareholders of parent company is RMB70,000,134 adjusted by the dilutive potential ordinary Shares, the adjusted weighted average number of outstanding ordinary Shares is 72,824,553. The diluted earnings per Share of the Company is RMB0.96. Throughout the year ended December 31, 2019, the net profit attributed to the ordinary Shareholders of the Company is RMB57,289,394 adjusted by the dilutive potential ordinary Shares, the adjusted weighted average number of outstanding ordinary Shares is 73,927,066. The diluted earnings per Share of the Company is RMB0.77.

12.3.7 Income tax expenses

	Year ended December 31,	
	2020	2019
Current income tax	31,485,064	23,409,066
Deferred income tax	(2,536,393)	(6,113,877)
	<u>28,948,671</u>	<u>17,295,189</u>

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

	Year ended December 31,	
	2020	2019
Profit before tax	<u>87,904,215</u>	<u>55,522,807</u>
Income tax expenses calculated at the effect tax rate of 25%	21,976,054	13,880,702
Preferential income tax rates applicable to subsidiaries	(391,588)	—
Expenses not deductible for income tax purposes	4,889,834	2,741,475
Filing difference for the previous period	(1,722,889)	—
Additional deduction of research and development expenses	(2,071,323)	(1,039,408)
Tax effect of unrecognised tax losses	10,127,644	8,337,400
Utilization of previous unrecognized tax losses	(3,859,061)	—
Temporary difference related to subsidiary investments for which no deferred tax liabilities	<u>—</u>	<u>(6,624,980)</u>
Income tax expenses	<u>28,948,671</u>	<u>17,295,189</u>

12.3.8 Dividend

On March 26, 2021 the Board did not recommend the payment of a final dividend to the Shareholders for the year ended December 31, 2020. The proposal not to declare dividend is subject to approval by the Shareholders at AGM.

On March 30, 2020, the Board did not recommend the payment of a final dividend to the Shareholders for the year ended December 31, 2019. The proposal not to declare dividend was approved by the Shareholder at the annual general meeting for the year 2019 of the Company on June 18, 2020.

13 DEFINITIONS

“AGM”	the annual general meeting of the Company for the year 2020 to be convened and held on June 18, 2021
“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”	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
“Changchun Kanglin Psychological Hospital”	Changchun Kanglin Psychological Hospital Co., Ltd.(長春康林心理醫院有限公司)

“H Share(s)”	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of The Stock Exchange of Hong Kong Limited
“HK\$” or “HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Jinpu Fund”	

“Quzhou Yining Hospital”	Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司), a company established in the PRC with limited liability on November 20, 2015, one of the Company’s indirect non-wholly owned subsidiaries
“RMB”	the lawful currency of the PRC
“Share(s)”	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
“Taizhou Kangning Hospital”	Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“the Reporting Period”	the year ended December 31, 2020
“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), a company established in the PRC with limited liability on January 25, 2006, one of the Company’s wholly-owned subsidiaries
“Wenzhou Guoda”	Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司), a company established in the PRC with limited liability on February 9, 2002, one of the Company’s indirect non-wholly owned subsidiaries
“Yanjiao Furen Hospital”	Yanjiao Furen Hospital of Traditional Chinese and Western Medicine (燕郊輔仁中西醫結合醫院) under the Company’s operation and management in accordance with an entrustment management agreement dated March 26, 2015 entered into between 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, the management and consultancy business under which has been suspended as of the end of the Reporting Period

“Yelimi Company”	Hangzhou Yelimi Information Technology Co., Ltd. (杭州耶利米信息科技有限公司), a company established in the PRC with limited liability on December 27, 2018, one of the Company’s indirect wholly-owned subsidiaries
“Yining Psychology Internet Hospital”	Yining Psychology Internet Hospital (Wenzhou) Co., Ltd. (怡寧心理互聯網醫院(溫州)有限公司), a company established in the PRC with limited liability on March 10, 2020, 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
“Yueqing Kangning Hospital”	Yueqing Kangning Hospital Co., Ltd. (樂清康寧醫院有限公司), a company established in the PRC with limited liability on September 3, 2013, one of the Company’s wholly-owned subsidiaries
“%”	percentage ratio

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

Zhejiang, the PRC
March 26, 2021

As of the date of this announcement, the Company’s executive Directors are Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue; the non-executive Directors are Mr. YANG Yang and Mr. LIN Lijun; and the independent non-executive Directors are Mr. ZHAO Xudong, Ms. ZHONG Wentang and Mr. LIU Ning.