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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

Corporate Information

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Stock Code

2120

Company's Website

www.knhosp.cn

Investor Relations

Telephone: (86) 577 8878 3798
Fax: (86) 577 8878 9117
Email: ir@knhosp.cn

Financial Highlights

Principal Financial Data and Indicators

	For the year ended December 31,				
	2019	2018	2017	2016	2015
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Revenue	860,692	745,972	666,436	415,408	343,674
Profit before income tax	55,523	106,910	69,863	92,139	70,170
Income tax expense	(17,295)	(31,941)	(22,027)	(26,588)	(18,548)
Net profit	38,228	74,969	47,836	65,551	51,622
Net profit attributable to					
Shareholders of the Company	57,289	80,596	49,071	68,832	55,709
Non-controlling interests	(19,061)	(5,627)	(1,235)	(3,281)	(4,087)

	As of December 31,				
	2019	2018	2017	2016	2015
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Total assets	2,117,352	1,840,724	1,690,401	1,603,382	1,224,434
Total liabilities	855,843	635,451	579,904	562,012	262,205
Total equity	1,261,509	1,205,273	1,110,497	1,041,370	962,229
Equity attributable to					
Shareholders of the Company	1,164,484	1,120,995	1,051,834	1,008,383	959,716
Non-controlling interests	97,025	84,278	58,662	32,987	2,513

Chairman's Statement

Dear Shareholders,

2019 is the last year of the first five-year strategic plan for the Group, and also an important year for our policy of
“

Chairman's Statement

In early 2020, the COVID-19 outbreak pulled at the heartstrings of people in all sectors of society. As a listed company in the medical service industry, the Group actively participated in the fight against the COVID-19 outbreak while doing its own epidemic prevention work. We provided free psychological crisis intervention for the public through the psychological counseling hotline and Internet hospital platforms such as WeDoctor. In addition, we appointed senior psychological experts to go to the front of Wuhan with Zhejiang medical team. During the epidemic period, due to traffic control, the Group provided remote diagnosis and treatment through cloud hospitals and offered door-to-door inspection and drug delivering, so as to ensure the drug supply for patients of long-term medication with chronic mental disorders, then the COVID - 19 will not have any significant impact on the business performance and financial status of the Company.

Looking forward, the National Medical and Health System Reform will be further deepened. While controlling the dramatic rise in overall cost, the medical insurance department will constantly adjust the cost structure and improve the service value of medical personnel. In addition, after the COVID-19 outbreak, China will probably increase investment in public health and gradually open medical insurance payment for remote diagnosis and treatment, which will create opportunities for the development of Internet medical services. In the face of opportunities and challenges, we will continue to plough deep in psychological healthcare and treatment, unwaveringly focusing on the Group's development strategy and core values. We will implement the strategy of "Talent First" and "Rejuvenate the hospital through science and technology", build a social hospita3 -1(t13 -1.5chological nce depart.38ronic mmo as,y)Tjpl valo wril ta newl dap19 o throughleostpWuhgtrategy and c.

Management Discussion and Analysis

Business Review and Outlook

Psychiatric Specialized Medical Service Industry in China

With the economic development and the continuous improvement of the material living standards of the people, they are

Management Discussion and Analysis

Business Review

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

In 2019, the Group's owned hospital business developed steadily. Hangzhou Yining Hospital, Taizhou Kangning Hospital and Luqiao Cining Hospital, which were opened in 2018 as well as Wenling Nanfang Hospital, Nanjing Yining Hospital, Guanxian Yining Hospital and Heze Yining Hospital, which were consolidated by mergers and acquisitions, all have been

Management Discussion and Analysis

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

Business Highlights

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

Management Discussion and Analysis

Business Outlook

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

- (i) Risk relating to high reimbursement amount from public medical insurance. From 2017 to 2019, reimbursement amount from public medical insurance accounted for 53.8%, 56.6% and 58.2% of the total cash received from sales of goods and rendering of service for the respective years. If the Group's healthcare facilities are unable to maintain the qualification of designated medical insurance institutions in the future, or there are adverse changes on the national public medical insurance policy in respect of treatment of mental illness, the Group's operating results will be affected adversely;
- (ii) Risk relating to shortage of professional medical talents. Under the laws and regulations of the PRC, healthcare facilities shall maintain a certain number of medical staff. With the increase in the number of healthcare facilities of the Group, if we are unable to recruit or maintain adequate medical staff, we will face difficulty to provide patients with the desirable medical services, which in return will adversely affect our operating results; and
- (iii) Risk relating to failure to renew qualifications and licenses required for our operations. Healthcare facilities are required to obtain the Medical Practice License before carrying out their businesses, which usually has valid period and requires regular inspection by the regulatory authorities. If the healthcare facilities of the Group are unable to renew their licenses in the future due to poor management or non-compliant operation, our operating results will be affected adversely.

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

Management Discussion and Analysis

Financial Review

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

Revenue and Cost of Revenue

Management Discussion and Analysis

Revenue and cost of revenue from operating the owned hospitals

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

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

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

Management Discussion and Analysis

Management Discussion and Analysis

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

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

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

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

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

Management Discussion and Analysis

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB616.2 million,

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

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

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

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

Tax and Surcharge

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

Selling Expenses

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

Management Discussion and Analysis

Administrative Expenses

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

For the year ended December 31,	
2019	2018
(RMB' 000)	(RMB' 000)

Management Discussion and Analysis

Finance Expenses – Net

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

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

During the Reporting Period, the net finance expenses of the Group amounted to RMB23.5 million, representing an increase of RMB16.3 million as compared with 2018, mainly due to: (i) an increase of RMB3.5 million arising from interest expense of bank borrowings during the Reporting Period; and (ii) an increase of RMB12.4 million arising from the interest expenses

Management Discussion and Analysis

Investment Gains/(Losses)

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

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

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

Assets Impairment Losses and Credit Impairment Losses

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

Management Discussion and Analysis

Non-Operating Income (Expenses) and Other Gains

Our non-operating income mainly consists of government subsidies, and non-operating expenses mainly consist of donation

Management Discussion and Analysis

Financial Position

Inventory

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

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

Accounts Receivables

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

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

Other Receivables and Prepayments

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

Management Discussion and Analysis

Investment Properties

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

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3/F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	2,133.52
Total floor area (Approx.) (Sq. m.)	7,367.61
Usage	Non-residential
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the related properties are freehold properties
Investment property	Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2/F to 11/F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City Zhejiang Province, the PRC
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	11,850.34
Usage	Commercial, office and hotel
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the related properties are freehold properties

Other Non-current Financial Assets

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

Right-of-use Assets

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

Management Discussion and Analysis

Accounts Payables

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

Contract Liability

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

Other Payables

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

Liquidity and Capital Resources

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

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

Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities increased to RMB111.3 million, primarily

(in million) a.mara.m2 5

Management Discussion and Analysis

Net Cash Generated from Financing Activities

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

Significant Investment, Acquisition and Disposal

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

Indebtedness

Bank Borrowings

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

Contingent liability

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

Asset Pledge

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

Lease Liabilities

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

Financial Instruments

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

Management Discussion and Analysis

Exposure to Fluctuation in Exchange Rates

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

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

Gearing Ratio

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

Employees and Remuneration Policy

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

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

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

Management Discussion and Analysis

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.

Report of the Board

The Board is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2019.

Principal Activities

The principal activities of the Group are operating and managing a network of healthcare facilities that primarily focus on providing psychiatric specialty care across various regions in China. Details of the principal activities of the principal subsidiaries of the Company are set out in “Notes to the Financial Statements – Interests in other entities – Interests in subsidiaries – The Group structure” of this annual report.

Descriptions of the relationship between the Group and its employees, clients and suppliers are set out in “Management Discussion and Analysis – Employees and Remuneration Policy” and “Report of the Board – Major Customers and Suppliers” of this annual report, respectively.

Business Review

The business review on the Group is set out in the “Management Discussion and Analysis” of this annual report. The future development of the Group and the major risks and uncertainties that the Group may be exposed to are set out in the “Management Discussion and Analysis – Business Outlook” of this annual report.

Financial Highlights and Results

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Report of the Board

Environmental Policies

The Group is conscious of its environmental protection obligations and actively seeks to implement eco-friendly technologies and solutions where feasible. With respect to medical waste management, the Group has engaged qualified third parties to arrange proper disposal for all of its healthcare facilities in accordance with applicable laws and regulations. Those applicable laws and regulations have no material impact on the business operation of the Group. Details of the environmental policies of the Company are set out in the Environmental, Social and Governance Report. 18

Report of the Board

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 of the Company 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 of the Company 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 from Initial Public Offering of the Company.

Report of the Board

The Company confirmed that, during the Reporting Period, the aforementioned use of raised funds was in line with the use of the proceeds disclosed in the Prospectus and considered and approved by the Board.

Domestically, the Company strictly controlled the raised funds according to the instructions of policy documents of the SAFE and the use of proceeds described in the Prospectus. As of December 31, 2019, the total amount of recycling funds was HK\$688.0 million, the accumulative settlement of exchange with the recycling funds was approximately HK\$688.0 million, the proceeds from the settlement of exchange were approximately RMB588.7 million, and a total of approximately RMB588.7 million of the proceeds from the settlement of exchange were paid. Among them, approximately RMB400.3 million was used to expand and ramp up our healthcare facility network and operating capacity; approximately RMB88.3 million was used to finance renovation and upgrades for Wenzhou Kangning Hospital; approximately RMB41.3 million was used for research, teaching and personnel training purposes; approximately RMB17.5 million was used to develop our mobile and online platform for medical consultation and upgrade our information technology infrastructure; and approximately RMB41.3 million was used for working capital and other general corporate purposes. As of December 31, 2019, HK\$0.0 million of foreign exchange was retained inside Mainland China but had not been settled, and approximately RMB0.8 million of foreign exchange was settled to RMB but had not been paid.

Report of the Board

Dividend

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

Share Capital

Details of the movements in the share capital of the Company during the Reporting Period are set out in “Notes to the Financial Statements – note (32) to the consolidated financial statements” of this annual report.

Reserves

Details of movements in the reserves of the Group during the Reporting Period are set out in the “Consolidated Statement of Changes in Shareholder’s Equity and Notes to the Financial Statements – note (33), (34) and (35) to the consolidated financial statements” of this annual report.

Distributable Reserves

As of December 31, 2019, the Group’s distributable reserves was RMB252.8 million.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in “Notes to the Financial Statements – note 11 to the consolidated financial statements” of this annual report.

Major Customers and Suppliers

For the year ended December 31, 2019, the Group’s largest customer and five largest customers aggregately contributed to 1.2% and 2.7%, respectively, of the Group’s total revenue. For the year ended December 31, 2019, the Group’s five largest customers contributed to less than 30% of the Group’s total revenue for the year. The major customers of the Group are the patients of our owned hospitals. Due to the uniqueness of the business and high liquidity of patients of psychiatric specialty hospitals, our Company has no reliance on large customers.

For the year ended December 31, 2019, the total purchase of the Group’s largest supplier and five largest suppliers aggregately accounted for 60.1% and 75.2%, respectively, of the Group’s total purchases of pharmaceutical products, medical consumables and construction and renovation services.

None of the Directors, the Supervisors or any of their respective close associates (as defined under the Hong Kong Listing Rules), or any Shareholders, which to the knowledge of the Directors, owning more than 5% of the Company’s issued share capital has any interests in the Group’s five largest customers or suppliers for the year ended December 31, 2019.

Report of the Board

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 bid 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 land 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 Opinion on Temporary Change of Property Use 《臨時改變房屋用途意見書》 issued by Housing and Urban-Rural Development Bureau of Cangnan County, and signed a relevant agreement with it, agreeing to temporarily change the Gelevant on of Cangnan Kangning Hospianydhhas complets lancPerclatal successfu

Report of the Board

Directors

The Directors during the Reporting Period and up to the date of this annual report are:

Report of the Board

Business Review and Analysis of Key Indicators of Financial Performance

For business review and analysis of key indicators of financial performance of the Group for the year ended December 31, 2019, please refer to the sections of “Financial Highlights” and “Management Discussion and Analysis” in this annual report.

Directors’ and Supervisors’ Interests in Transaction, Arrangement or Contracts of Significance

Save as disclosed in “Notes to the Financial Statements – Related parties and related party transactions” of this annual report, no transaction, arrangement or contracts of significance to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries, was a party and in which a Director or a Supervisor, or any entity connected with any Director or Supervisor, had a material interest, whether directly or indirectly, subsisted as of December 31, 2019 or at any time during the Reporting Period.

Controlling Shareholders’ Interests in Contracts of Significance

Save as disclosed in “Notes to the Financial Statements – Related parties and related party transactions” of this annual report, neither of the Controlling Shareholders has or had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

Management Contracts

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Report of the Board

Directors' and Chief Executives' Emoluments and Five Individuals with Highest Emoluments

Particulars of the Directors' and the chief executives' emoluments and five highest paid individuals for the year ended December 31, 2019 are set out in "Notes to the Financial Statements – Related parties and related party transactions" of this annual report. The remuneration policy of the Company is set out in the section headed "Corporate Governance Report" of this annual report.

No Director has waived or has agreed to waive any emoluments during the Reporting Period.

Directors' Interests in Competing Business

During the Reporting Period, none of the Directors or their respective associates (as defined under the Hong Kong Listing Rules) had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

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

As of December 31, 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⁾			
	H Shares	Beneficial owner	258,800(L)	258,800 (L)	1.28%	0.34%

Report of the Board

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 at December 31, 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 at December 31, 2019, to the knowledge of the Board, none of the Directors, the Supervisors or 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 chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) or 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 at December 31, 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 persons/entities (other than the Directors, the Supervisors or chief executives of the Company) had an interest or short position 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 or 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. (廣州德福投資諮詢合夥企業 (有限合夥)) ⁽²⁾	Domestic Shares	Interest in a controlled corporation	15,384,541 (L)	27.84%	20.38%
Guangzhou Automobile Group Capital Co., Ltd. (廣汽資本有限公司) ⁽³⁾	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%

Report of the Board

<u>Name</u>	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⁾
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Report of the Board

(S): Short position

Report of the Board

Connected Transaction

The Board confirms that none of the related party transactions set out in “Notes to the Financial Statements – Related parties and related party transactions”

Report of the Board

Closure of the Register of Members

For determining the entitlement to attend and vote at the AGM

The register of members of the Company will be closed from May 19, 2020 to June 18, 2020, both days inclusive, during which period no transfer of the Shares will be effected. In order to determine the identity of Shareholders who are entitled to attend and vote at the AGM, all Share transfer documents accompanied by the relevant Share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on May 18, 2020.

Important Events after the Reporting Period

The important events after the Reporting Period are set out in "Notes to the Financial Statements – Events after the balance sheet date" of this annual report.

Audit Committee

The Audit Committee of the Board of Directors of the Company has reviewed the Company's and the Group's 2019 annual results, and the audited consolidated financial statements for 2019 prepared in accordance with the China Accounting Standards for Business Enterprises.

Auditor

The financial statements for the year ended December 31, 2019 have been audited by PricewaterhouseCoopers Zhong Tian LLP.

The Company has not changed its auditor in the past three years.

For and on behalf of the Board

GUAN Weili

Chairman

Zhejiang, the PRC

April 27, 2020

Report of the Supervisory Committee

To the Shareholders:

In 2019, the Supervisory Committee based on the attitude of being responsible to all Shareholders of the Company, and in compliance with the relevant laws, regulations and the Articles, proceeding from the interests of the Company and its Shareholders, duly performed its supervisory functions, effectively supervised the performance of duties of Directors, chief executives and other senior management members of the Company, which played a positive role in standardized operation and development of the Company.

During the Reporting Period, the Supervisory Committee established a systematic supervision and feedback mechanism to carry out cautious supervision and inspection on the lawful operation, financial condition, actual use of proceeds, related party transactions and other matters of the Company, and provided reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they have complied with the laws, regulations and the Articles and are in the interests of the Shareholders.

In 2019, the Supervisory Committee held two meetings in total, attended two general meetings and seven meetings of the Board. The Supervisory Committee carefully studied various resolutions, objectively and impartially expressed opinions, thus enabling itself to obtain various operation management information more timely and comprehensively, and further strengthen its supervision over performance of duties. The Supervisory Committee consider that the Directors, the chief executives and other senior management members of the Company are able to strictly observe their fiduciary duties, to act diligently, to exercise their authority faithfully in the best interests of the Company and to work in accordance with the Articles. As of the date of approval of this report, none of the Directors and chief executives and other senior management members of the Company had been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of the Shareholders and employees of the Company, or have breached any laws and regulations or the Articles.

In 2020, each member of the Supervisory Committee will continue to satisfy his or her supervision responsibilities, inspect the standardized operation of the Company, constantly pay attention to the implementation of the Company's major strategies, and keep abreast of the major decision-making matters and legitimacy of each decision-making procedure of the Company, so as to better protect the rights and interests of Shareholders.

For and on behalf of the Supervisory Committee

SUN Fangjun

Chairman

Zhejiang, the PRC

April 27, 2020

Corporate Governance Report

The Company recognizes the value and importance of achieving high standard of corporate governance and is committed to doing so. The Company has applied the principles as set out in the CG Code as its own code of corporate governance. The Directors are of the opinion that the Company had complied with all the code provisions set out in the CG Code during the Reporting Period and up to the date of this annual report. The Company will continue to review and enhance its corporate governance practice to ensure compliance with the CG Code.

The Board

Board Composition

The Board currently comprises eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The brief biographical details of the Directors are set out in the section headed “Directors, Supervisors and Senior Management” of this annual report. The overall management and supervision of the Company’s operation and the function of formulating overall business strategies were vested in the Board. The terms of office of the Directors shall be effective from the date of the consideration and approval at the 2016 AGM, and shall expire on the date of the second session of the Board.

During the Reporting Period and up to the date of this annual report, the Board had met the requirements of Rules 3.10 and 3.10A of the Hong Kong Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications of accounting or related financial management expertise and the requirement that the independent non-executive Directors represent at least one-third of the Board.

The Company has received annual confirmation on independence from each independent non-executive Director pursuant to the requirements under the Hong Kong Listing Rules. The Company considers that each independent non-executive Director to be independent in accordance with the independence guidelines as set out in Rule 3.13 of the Hong Kong Listing Rules.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy and Risk Management Committee.

The CG Code requires the Directors to disclose to the Company the number and nature of offices held in public companies or organizations and other significant commitments as well as their identities and the time involved. The Directors have agreed to disclose to the Company their other commitments in a timely manner.

Corporate Governance Report

Role and Function of and Delegation by the Board

The Board is responsible for and has general powers for the management and conduct of the business of the Company. It delegates day-to-day management of the Company to the executive Directors and the senior management of the Company within the monitor and control and the authority framework set by the Board. The delegated functions and responsibilities are periodically reviewed by the Board.

The Board reserves for its decision of all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, recommendation for appointment of Directors and other significant financial and operational matters. For details, please refer to the Articles.

In addition, the Board has also delegated to the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy and Risk Management Committee of the Company various responsibilities as set out in their respective terms of reference. Further details of these committees are set out in this annual report.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interest of the Company and the Shareholders at all times.

The Company has arranged appropriate liability insurance to indemnify its Directors in respect of legal actions against them.

Chairman and Chief Executives

Mr. GUAN Weili is an executive Director and the chairman of the Board, Ms. WANG Lianyue is an executive Director and the general manager of the Company, and Ms. WANG Hongyue is an executive Director and the chief financial officer of the Company. The three of them have separate roles.

Relationship between Directors and Chief Executives

Mr. GUAN Weili is the spouse of Ms. WANG Lianyue, and Ms. WANG Lianyue is the sister of Ms. WANG Hongyue. Save as disclosed above, there are no financial, business, familial or other material relationships among other members of the Board.

Corporate Governance Report

Role and Function of the Senior Management

The senior management is the execution body of the Company and is accountable to the Board. As of the Latest Practicable Date, the senior management of the Company comprises 6 members. For details of its composition and the biography of members, please see “Directors, Supervisors and Senior Management” of this annual report. There is a strict separation of powers between the senior management and the Board. The senior management determines the operation management and relevant decisions within its terms of reference as authorized by the Board. The Company regularly refines such authorization in accordance with its needs. The Board, in turn, conducts performance appraisals on senior management and its members in accordance with the Company’s evaluation requirements, the results of which form the basis of their remuneration and performance arrangements.

Changes in Information of Directors, Supervisors and Chief Executives

On June 18, 2019, at the 2018 annual general meeting, the Company deliberated and approved the resolution of electing Mr. CHEN Jian as an independent Supervisor of the second session of the Supervisory Committee of the Company, whose term of office shall end upon expiry of the term of the second session of Supervisory Committee. The resignation of Mr. MA Jinlong as an independent Supervisor came into effect on the date of the 2018 annual general meeting, the same date as the appointment of Mr. CHEN Jian became effective.

Details please refer to the announcement of the Company dated June 18, 2019.

Induction of and Continuous Professional Development for Directors

During the Reporting Period, the Company focused on the continuing professional development of the Directors by encouraging them to take part in and organizing training programs for them. All members of the n

Corporate Governance Report

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. Having made specific enquiry of all Directors and Supervisors, the Directors and Supervisors have complied with the required standards set out in the Model Code during the Reporting Period. The Company minimizes the scope of insiders before publication of such inside information. Any 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 register 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 punishment decisions or transfer them to judicial organs for handling, in accordance with the seriousness of the case.

Corporate Governance

The Board is of the opinion that the Company has complied with all code provisions and the recommended best practices under the CG Code throughout the Reporting Period.

Service Contracts of the Directors and Supervisors

Each of the Directors and Supervisors has entered into a service contract with our Company.

Corporate Governance Report

The service contracts may be renewed in accordance with the Articles and applicable laws, rules and regulations. None of the Directors or the Supervisors has entered or has proposed to enter into any service contracts with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

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 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 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 the financial statements have been disclosed according to requirements of the Hong Kong Companies Ordinance.

Changes of Significant Accounting Policies

The changes of significant accounting policies are set out in “Notes to the Financial Statements – Significant changes in accounting policies” of this annual report.

Corporate Governance Report

Attendance at Board Meetings and General Meetings

Corporate Governance Report

All Directors are provided with the agenda and relevant information in advance before the meeting. They have access to the senior management members and the joint company secretaries of the Company at all time and, upon reasonable request, can seek independent professional advice at the Company's expense.

Minutes of the meetings are kept by the secretary to the Board with copies circulated to all Directors for reference and record. Minutes of the Board meetings and committee meetings sufficiently record the details of the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are sent to the Directors for comments within a reasonable time after the date when a meeting is held. The minutes of the Board meetings are open to inspection by Directors.

During the Reporting Period, two general meetings were held and the attendance of the Directors at the general meetings was as follows:

Name of Directors	Number of general meetings convened/attended
Executive Directors	
Mr. GUAN Weili (<i>Chairman</i>)	2/2
Ms. WANG Lianyue	2/2
Ms. WANG Hongyue	2/2
Non-executive Directors	
Mr. YANG Yang	2/2
Mr. LIN Lijun	2/0
Independent non-executive Directors	
Mr. CHONG Yat Keung	2/0
Mr. HUANG Zhi	2/2
Mr. GOT Chong Key Clevin	2/2

Board Committees

The Board has established four committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy and Risk Management Committee, to handle particular affairs of the Board and the Company. All Board committees of the Company are established with defined written terms of reference which have been uploaded to the website of the Hong Kong Stock Exchange and that of the Company, and are provided with sufficient resources to discharge their duties.

Corporate Governance Report

Audit Committee

The Company established the Audit Committee in compliance with Rule 3.21 and Rule 3.22 of the Hong Kong Listing Rules, and its written terms of reference complies with the CG Code and the duties and functions delegated to the Audit Committee by the Board. The primary responsibilities of the Audit Committee are reviewing and supervising the Company's financial reporting procedures, including proposing to appoint or change the external auditor; supervising the Company's internal control system and its implementation; the communication between the internal auditor and external auditor; auditing the financial information and its disclosure; reviewing the Company's internal control system and auditing significant connected transactions; nominating the heads of the internal audit department; other matters that the Board has authorized it to deal with.

As at the date of this report, the Audit Committee consists of two independent non-executive Directors, Mr. HUANG Zhi (chairman of the Audit Committee) and Mr. GOT Chong Key Clevin, and one non-executive Director, Mr. LIN Lijun. Five Audit Committee meetings were held during the Reporting Period to, among other matters, review annual results for the year 2018 and interim results for the year 2019 of the Group.

The attendance of the Directors at the Audit Committee meeting held during the Reporting Period was as follows:

Directors	Number of meetings convened/attended
Mr. HUANG Zhi (<i>Chairman</i>)	5/5
Mr. GOT Chong Key Clevin	5/5
Mr. LIN Lijun	5/5

Nomination Committee

The Company has established the Nomination Committee with its written terms of reference in compliance with the requirements of the CG Code and the duties and functions delegated to the Nomination Committee by the Board. The primary responsibilities of the Nomination Committee are preparing the procedures and criteria for determining the candidates for Directors and the senior management of the Company and conducting preliminary reviews of their qualifications and credentials, including offering the Board advice on its size and composition in accordance with the Company's operating results, assets and shareholding structure; reviewing the procedures and criteria for determining the candidates for Directors and the general manager of the Company and making proposals to the Board; looking for qualified candidates for Directors and general manager; reviewing and making proposals on the candidates for the Directors and general manager; reviewing and making proposals on the candidates for other senior management such as the vice general managers, secretary to the Board and chief accountant which needs to be resolved by the Board; other matters that the Board has authorized it to deal with.

Corporate Governance Report

As of the date of this report, the Nomination Committee consists of one independent non-executive Director, Mr. GOT Chong Key Clevin (chairman of the Nomination Committee), one executive Director, Mr. GUAN Weili, and one independent non-executive Director, Mr. CHONG Yat Keung. One Nomination Committee meeting was held during the Reporting Period to, among other matters, review the independence of the independent non-executive Directors and evaluate of the structures of committees under the Board.

The attendance of the Directors at the Nomination Committee meeting held during the Reporting Period was as follows:

Directors	Number of meetings convened/attended
Mr. GOT Chong Key Clevin (<i>Chairman</i>)	1/1
Mr. CHONG Yat Keung	1/1
Mr. GUAN Weili	1/1

The Board adopts a board diversity policy and has discussed all measurable objectives set for its implementation. Please refer to section “Corporate Governance Report – Board Diversity Policy” of this annual report for more details.

Remuneration Committee

The Company established the Remuneration Committee with its written terms of reference in compliance with the CG Code and the duties and functions delegated to the Remuneration Committee by the Board. The primary responsibilities of the Remuneration Committee are formulating the criteria for and conducting assessment on the Directors and senior management as well as determining and reviewing the remuneration policies and plans for the Directors and senior management, including formulating remuneration plans and proposals in accordance with the terms of reference of the Directors and senior management and the importance of their positions as well as the remuneration benchmarks for the relevant positions in other comparable companies; the remuneration plans and proposals include but not limited to criteria, procedures and main assessment system for performance assessment, main proposals and regulations on award and punishment; reviewing the performance of the Directors and senior management and conducting annual assessment on their performance and results; supervising the implementation of the remuneration policies of the Company; other matters that the Board has authorized it to deal with.

As at the date of this report, the Remuneration Committee comprises two independent non-executive Directors, Mr. CHONG Yat Keung (chairman of the Remuneration Committee) and Mr. HUANG Zhi, and one non-executive Director, Mr. YANG Yang. The Remuneration Committee has adopted the second model described in paragraph B.1.2(c) under Appendix 14 to the Hong Kong Listing Rules (i.e. make recommendation to the Board on the remuneration packages of individual executive Directors and senior management). One Remuneration Committee meeting was held during the Reporting Period to, among other matters, review the report of the general manager of the Company for the year 2018 and appraisal programs for the senior management for the year 2019.

Corporate Governance Report

The attendance of the Directors at the Remuneration Committee meeting held during the Reporting Period was as follows:

Directors	Number of meetings convened/attended
Mr. CHONG Yat Keung (<i>Chairman</i>)	1/1
Mr. HUANG Zhi	1/1
Mr. YANG Yang	1/1

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their remuneration with their individual performance. The remuneration package includes basic salary, performance and/or discretionary bonus and other benefits. The remuneration of non-executive Directors and independent non-executive Directors mainly includes the Directors' fee which is 0.05% of the Company's net profit after tax for the reporting period.

Corporate Governance Report

The attendance of the Directors at the Strategy and Risk Management Committee meeting held during the Reporting Period was as follows:

Directors	Number of meetings convened/attended
Mr. GUAN Weili (<i>Chairman</i>)	1/1
Mr. HUANG Zhi	1/1
Mr. YANG Yang	1/1

Board Diversity Policy

The Board has adopted a Board diversity policy and discussed all measurable objectives set for its implementation. The Company recognizes and embraces the benefits of having a diverse Board with a view to enhancing its effectiveness and achieving a high standard of corporate governance. It endeavors to ensure that the Board achieves a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. The election of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision of all Board appointments will be based on the capability of the selected candidate and his or her potential contributions to the Board in the future. A summary is set out in the table below:

Age	Gender	Years of service as Director
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Corporate Governance Report

During the Reporting Period, the Board, through its special committees, performed the following corporate governance functions: (1) modified the Articles in accordance with regulatory requirements; (2) enhanced the training for Directors and senior management and their professional development; (3) reviewed the code of conduct for Directors, Supervisors and employees and (4) continuously assessed and optimized corporate governance and performed their duties in strict compliance with all of the requirements of corporate governance.

Directors' and Auditor's Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended December 31, 2019 which gives a true and fair view of the status of the Company and the Group and of the Group's results and cash flows. The Directors also acknowledge their responsibilities to ensure that the consolidated financial statements of the Group are published in a timely manner. The management of the Company has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's consolidated

Corporate Governance Report

The Board reviews the effectiveness of the Group's risk management and internal control system one time per year and are satisfied with the adequacy of the system of risk management and internal control of the Group for the year ended December 31, 2019. There were no matters of material concerns relating to finance, operation or compliance controls.

In order to protect Shareholders' interests and assets, the Group has developed a risk management and internal control system of comprehensiveness, clear hierarchies and reasonable job allocation to meet its needs and alleviate the risks. The Audit Committee was established under the Board, is responsible for the supervision of internal audit, evaluation and improvement of the internal control system, and risk evaluation of material investment projects operated by the Company. The Strategy and Risk Management Committee is responsible for studying and providing advice on the long term development strategy and material investment decision of the Company and it also performs the evaluation and control of the overall risk of the Company. In addition, the Company has established administrative measures on related party transaction and the Audit Committee monitors the compliance of these measures, in order to regulate the related party transaction and control the risk. The Company has also established administrative measures on inside information disclosure. Different operations inform designated persons of any potential inside information and the designated persons will determine further escalation and disclosure as required. The Supervisory Committee monitors the implementation of internal control by the Board and senior management. All levels of organs complement and reinforce each other, providing support for business development and risk management.

Senior Management's Remuneration

The details of the Company's senior management are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report, whose remuneration band for the year ended December 31, 2019 is as below:

Remuneration band (RMB)	Number of individuals
0-500,000	2
500,001-1,000,000	4

Corporate Governance Report

Auditor's Remuneration

For the year ended December 31, 2019, the Group's statutory auditor, PricewaterhouseCoopers Zhong Tian LLP, provided annual audit services. During the year ended December 31, 2019, the total fee paid/payable in respect of audit and non-audit services provided by the Group's auditors is set out below:

Audit services	RMB2,600,000
Non-audit services	RMB26,500

Joint Company Secretaries

Ms. NG Wing Shan, an employee of an external service provider, SWCS Corporate Services Group (Hong Kong) Limited, has been engaged by the Company as one of the joint company secretaries. Ms. Ng's primary contact person at the Company is Mr. WANG Jian, the secretary to the Board and the other joint company secretary.

During the Reporting Period and up to the date of this annual report, Ms. Ng has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules. Mr. Wang attended relevant training relating to the roles, functions and duties of directors of a listed company in Hong Kong and was from time to time been updated and with training materials provided by the external lawyers during the Reporting Period, he has also undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules. He will continue to attend relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules for the year ended December 31, 2020.

Communication with Shareholders and Investor Relations

The Board believes that effective communication with investors is essential to establish investors' confidence and attract new investors. The Group also recognizes the importance of transparency and timely disclosure of corporate information which enables investors to make the most informed investment decision.

Corporate Governance Report

The general meetings of the Company provide an important channel for communications between the Board and the Shareholders. Chairman of the Board, as well as chairmen of the four Board committees or, in their absence, other members of the respective committees and where applicable, the independent Board committee, will be available to answer questions at the general meetings.

During the Reporting Period, two general meeting were held by the Company. Published documents together with the latest corporate information and news are available on the Company's website at <http://www.knhosp.cn>. Investors can also communicate with the Company through email at ir@knhosp.cn.

Shareholders' Rights

Procedures for Shareholder(s) to Convene an Extraordinary General Meeting ("EGM")

Shareholders requesting the convening of an EGM shall proceed in accordance with the procedures set forth below:

Shareholders, individually or jointly holding over 10% of the Shares with voting rights at the proposed meeting, have the right to request the Board to convene an EGM or a class meeting in writing. According to laws, administrative regulations and the Articles, the Board shall give written feedbacks to agree or disagree to convene an EGM or the class meeting within ten days after receiving such request.

If the Board agrees to convene an EGM or a class meeting, a meeting notice shall be published within five days after the Board makes such a resolution. Changes to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Board disagrees to convene an EGM or a class meeting or fails to give feedbacks within ten days after receiving such request, then Shareholders individually or jointly holding over 10% of the Shares have the right to request the Supervisory Committee to convene an EGM or a class meeting in writing.

If the Supervisory Committee agrees to convene an EGM or a class meeting, a meeting notice shall be published within five days after receiving such request. Changes to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Supervisory Committee fails to publish the notice of an EGM within the specified period, it shall be deemed that the Supervisory Committee does not convene or preside over a general meeting. Shareholders who individually or jointly hold

Corporate Governance Report

Procedures for Shareholder(s) to Put Forward Proposals at a General Meeting

When a general meeting is convened by the Company, the Board, Supervisory Committee or Shareholders who individually or collectively hold more than 3% of the Shares shall be entitled to put forward proposals to the Company.

Shareholders who individually or collectively hold more than 3% of the Shares may submit *ad hoc*

Corporate Governance Report

Dividend Policy

The Company has formulated its dividend policy. Where the Company distributes its after-tax profits of the current year, it shall allocate 10% of the profits as the Company's statutory common reserve. The Company may make no more allocation should the accumulative balance of the Company's statutory common reserve account for more than 50% of the Company's registered capital. Should the accumulative balance of the Company's statutory common reserve be insufficient to make up for the losses of the Company of the previous year, the current year's profits shall first be used for making up such losses before the statutory common reserve is allocated according to the provisions of the preceding paragraph. After the Company has allocated the statutory common reserve from the after-tax profits, it may allocate a discretionary common reserve from the after-tax profits, upon a resolution being made by the general meeting. After the Company has made up for the losses and has allocated statutory common reserve, it shall distribute the remaining profits to the shareholders based on their shareholding ratios, except for distribution made not based on the shareholding ratios as provided herein these Articles of Association. Should the general meeting distribute the profits to the shareholders before the losses has been made up and the statutory common reserves has been allocated, in violation of the provisions of the preceding paragraph, the profits thus distributed in violation of such provisions must be returned to the Company. No profit shall be distributed in respect of the shares of the Company being held by the Company.

The Company may distribute dividends in one of the following forms (or in more than two forms simultaneously):

- (1) cash;
- (2) share;
- (3) other methods permitted by laws, administrative regulations, departmental rules and regulation, and the regulatory rules of the place(s) of listing.

The Company shall pay cash dividends and other payments in RMB to domestic Shareholders. Such payments made by the Company to holders of foreign shares shall be denominated and declared in RMB and paid in HKD. Such HKD required for the Company's payment of cash dividends and other payments to the holders of foreign shares shall be handled pursuant to the relevant provisions of the administration of foreign exchange of the State.

The Board shall be authorized by way of an ordinary resolution passed by the general meeting to implement the dividend distribution of the Company.

Directors, Supervisors and Senior Management

Directors

Executive Directors

Mr. GUAN Weili (管偉立), aged 50, is chairman of the Board and an executive Director. He is primarily responsible for the overall business operation and strategic planning of the Company. He founded the Company in February 1996 and became an executive Director since then. Mr. Guan was appointed as chairman of the Board and an executive Director in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, Mr. Guan served as a clinician at Wenzhou Mental Hospital (溫州市精神病院), a local hospital in Wenzhou, from August 1987 to December 1993, where he was primarily responsible for the medical treatment of psychiatric patients. Mr. Guan graduated from Wenzhou Medical University (溫州醫科大學) (previously known as Wenzhou Health School (溫州醫學院)) in Wenzhou in August 1987, majoring in medical assistance. Mr. Guan obtained his senior business operator certificate from Wenzhou Municipal Bureau of Personnel (溫州市人事局) in December 2007. Mr. Guan is the spouse of Ms. WANG Lianyue and the brother-in-law of Ms. WANG Hongyue and Mr. XU Yi.

Ms. WANG Lianyue (王蓮月), aged 51, is our executive Director and general manager. She is primarily responsible for the overall hospital operation and business development of the Company. She joined the Company in January 1998 and has served as our general manager since September 2011 and our executive Director since April 2013. Ms. Wang was appointed as our executive Director again in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from August 1988 to December 1997, she was a nurse at Wenzhou Mental Hospital (溫州市精神病院), where she was primarily responsible for general patient care. Ms. Wang received two associate degrees from Wenzhou Medical University (溫州醫科大學) (previously known as Wenzhou Medical College (溫州醫學院)) in Wenzhou in June 2004 and the Party School of Wenzhou Municipal Committee of the Communist Party of China (中共溫州市委黨校) in Wenzhou in June 2002, where she majored in nursing and economic administration respectively. She graduated from Online Education College of Xi'an Jiaotong University (西安交通大學網絡教育學院), through long-distance education, with a bachelor's degree in law in July 2007. She also completed part-time hospital management courses at the China Europe International Business School (中歐國際工商學院) in Shanghai in September 2006. She was accredited as

Directors, Supervisors and Senior Management

Ms. WANG Hongyue (王紅月), aged 47, is our executive Director and our chief financial officer. She is primarily responsible for the overall financial management and capital investment of the Company. She joined the Company in January 1996 and worked in our finance department from January 1996 to December 1999. She became the head of our finance department in January 2000. Ms. Wang was appointed as an executive Director in April 2013 and after the Company was converted into a joint stock limited liability company, she was appointed as an executive Director again and as chief financial officer in September 2014. Ms. Wang also served as our Supervisor from September 2011 to April 2013. Prior to joining the Company, from July 1994 to December 1995, she worked in the finance department of Wenzhou City Kangning Medicine Wholesale Company of Longwan District (溫州市龍灣區康寧醫藥批發公司), which engages in the medicine wholesale business, where she was responsible for accounting work. Ms. Wang graduated from Online Education College of Xi'an Jiaotong University (西安交通大學網絡教育學院), through long-distance education, with a bachelor's degree in accounting in July 2007. She graduated from Shanghai University of Finance and Economics with a master's degree in EMBA in May 2017. Ms. Wang is the sister of Ms. WANG Lianyue, the spouse of Mr. XU Yi and the sister-in-law of Mr. GUAN Weili.

Non-executive Directors

Mr. YANG Yang (楊揚), aged 64, is our non-executive Director. He is primarily responsible for overseeing the corporate development and strategic planning of the Company. He joined the Company in April 2015 and has served as our non-executive Director since then. Since January 2010, Mr. Yang has also been serving as an executive director of GL Capital Investments Hong Kong Limited (德福資本投資香港有限公司), a company engaging in private equity services for investment business, where he is primarily responsible for hospital management and investments. Prior to joining the Company, from May 1988 to December 2009, Mr. Yang served as the general manager of Long Nice Industries Ltd. (長立實業有限公司), a company in Hong Kong engaging in the business of trading and the provision of investment services, where he was primarily responsible for businesses involving investment, foreign trade and manufacturing. Mr. Yang graduated from the Naval College of the Chinese People's Liberation Army (中國人民解放軍海軍學院) in Nanjing in March 1982, majoring in operational commanding.

Directors, Supervisors and Senior Management

Mr. LIN Lijun (林利軍), aged 47, is our non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Lin joined the Company in June 2017 and has served as our non-executive Director since then. Since April 2016, Mr. Lin has been a director of Yintech Investment Holdings Limited (銀科投資控股有限公司), a company listed on the NASDAQ Stock Market (ticker symbol: YIN.US) engaging in the provision of spot service for bulk commodity, where he is primary responsible for monitoring the strategic development of company. Since March 2016, he has been a director of TANSH Global Food Group (國際天食集團有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 03666.HK) engaging in the operation of mid- to-high end Chinese cuisine full-service chain restaurants, where he is primary responsible for monitoring the strategic development of company. Since November 2015, he has been a director of Yunfeng Financial Group Limited, a company listed on the Hong Kong Stock Exchange (stock code: 01588.HK) engaging in the provision of financial services, where he is primary responsible for monitoring the strategic development of company. He has been chairman of Loyal Valley Innovation Capital (正心資本) since September 2015. From November 2015 to March 2017, he has been a director of Shanghai Chengtong Water Supply Co., Ltd., (上海城投控股股份有限公司) a company listed on the Shanghai Stock Exchange (stock code: 600649), where he was primarily responsible for provision of raw water to Shanghai Water Supply Shinan Co., Ltd., Shanghai Water Supply Shabei Co., Ltd. and Shanghai Pudong Veolia Water Supply Co., Ltd. He founded China Universal Asset Management (匯添富基金), a fixed-income investment professional institution, in April 2004, and served as president since April 2015. He also successively served as an assistant to office officer and an assistant to director of listing department at Shanghai Stock Exchange from July 1997 to July 2001, during which he also worked in the growth enterprise preparation work unit and the listed company supervision department of the CSRC. Mr. Lin graduated from Fudan University (復旦大學) with a bachelor's degree.

Directors, Supervisors and Senior Management

Mr. HUANG Zhi (黃智), aged 37, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Huang joined the Company in April 2015 and has served as our independent non-executive Director since then. Since June 2019, Mr. Huang has been serving as the vice director of the financial services commission of the Zhejiang Chamber of Commerce (浙江商會金融服務委員會), where he is primarily responsible for aligning resources for the member firms. Since January 2016, he has also been serving as an independent director of Tibet Tianlu Co., Ltd. (西藏天路股份有限公司), a company listed on Shanghai Stock Exchange (stock code: 600326.SH) engaging in highway infrastructure construction. Since November 2014, Mr. Huang has also been serving as an independent director of Wuhan East Lake High-tech Group Co., Ltd. (武漢東湖高新集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600133.SH) engaging in the investment and operation of the high-tech industry, where he is primarily responsible for supervising its internal audit system and its implementation. Since September 2014, Mr. Huang has also been serving as a partner at Shanghai Infaith Consulting Co., Ltd. (上海信公企業管理諮詢有限公司), which is a company engaging in the provision of consultation services for listed companies, where he is primarily responsible for the general management of business. From June 2014 to present, Mr. Huang has been serving as an independent director of Anhui Korrunc Co., Ltd. (安徽開潤股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 300577.SZ) engaging in sales and the research and development of bags, where he is primarily responsible for the supervision of its internal audit system and its implementation. Prior to joining the Company, from August 2013 to July 2014, he served as the general manager of the merger and financing department of Tianfeng Securities Co., Ltd., (天風證券股份有限公司), which is a company engaging in the provision of services including securities brokerage, investment and asset management for futures companies, where he was primarily responsible for the management of the merger and financing department. From July 2011 to July 2013, he served as the manager of the first department of listed companies' regulation at the Shanghai Stock Exchange, where he was primarily responsible for supervising the compliance of listed companies. From July 2004 to June 2011, he served as a manager at PricewaterhouseCoopers Zhong Tian CPAs Limited Company, where he was primarily responsible for risk and quality management. Mr. Huang graduated from Fudan University (復旦大學) with a bachelor's degree in economics in Shanghai in July 2004. He was accredited as a certified public accountant by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in September 2011.

Directors, Supervisors and Senior Management

Mr. GOT Chong Key Clevin (葛創基), aged 61, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Got joined the Company in June 2016 and has served as our independent non-executive Director since then. He has been acting as the chief executive officer of Hong Kong Breast Cancer Foundation (香港乳癌基金會) from March 2016 to October 2016. From September 1980 to June 1984, he was the assistant secretary of the Community Service Division of the Tung Wah Group of Hospitals (東華三院) in Hong Kong, where he was responsible for the management and promotion of the youth and children center. From July 1984 to June 1985, he was the director of the social service center of the Chinese Neighborhood society of Montreal, Canada (加拿大蒙特利爾華人協會社區服務中心) overseeing all service operations. From July 1987 to December 1998, he assumed various roles in administration, strategic planning, marketing, and sales division of the Sime Darby Hong Kong's Wallace Harper &

Directors, Supervisors and Senior Management

Ms. HUANG Jingou (黃靖歐), aged 41, is our Supervisor. She is primarily responsible for supervising our daily operations and management. Ms. Huang joined the Company in April 2013 and has served as our Supervisor since then. She was again appointed as a Supervisor in September 2014 after the Company was converted into a joint stock limited liability company. Since November 2011, Ms. Huang has been serving as the investment director of GL Capital Group (德福資本), which is

Directors, Supervisors and Senior Management

Mr. XIE Tiefan (謝鐵凡), aged 40, is a Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Xie joined the Company in May 2000 and from May 2010 to September 2014, he held a variety of positions in the Company including the deputy director of the information department, the deputy director of the equipment department, the director of the equipment department and material purchasing department manager, where he was primarily responsible for equipment purchase and management. He was appointed as a Supervisor in September 2014 after the Company was converted into a joint stock limited liability company. Mr. Xie graduated from the Open University of China (中央廣播電視大學) with an associate degree in finance in Beijing in December 2004. He graduated from Jingtangshan University in Jiangxi Province (江西省井崗山大學) with a bachelor's degree in biomechanical engineering in January 2016. Mr. Xie was accredited as assistant engineer by the Wenzhou Municipal Bureau of Personnel (溫州市人事局) in December 2007.

SENIOR MANAGEMENT

Mr. ZHOU Chaoyi (周朝毅), aged 58, is our vice general manager. He is primarily responsible for assisting the general manager in managing the infrastructure of our Company. Mr. Zhou joined the Company in February 2005 and has served as our vice general manager since then. He was appointed as our vice general manager in September 2014 again after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from November 1995 to December 2004, Mr. Zhou served as the vice president of Wenzhou Cardiovascular Hospital (溫州心血管醫院) which is a local hospital in Wenzhou, where he was primarily responsible for logistics. From May 1990 to October 1995, Mr. Zhou served as the assistant to president and section chief (科長) of human resources and security section at Wenzhou Traditional Chinese Medicine Hospital (溫州市中醫院) which is a local hospital in Wenzhou, where he was primarily responsible for human resources and security. From January 1986 to April 1990, Mr. Zhou served as the human resource officer and deputy office director-general at Wenzhou Qigong Sanatorium (溫州市氣功療養院) in Wenzhou, where he was primarily responsible for human resources and youth work organization. Mr. Zhou completed the advanced study class (高級研修班) for modern health management at Zhejiang University in Hangzhou, Zhejiang Province in June 2014. Mr. Zhou was accredited as radiologist by Wenzhou Municipal Bureau of Health (溫州市衛生局) in December 1989 and was accredited as clinical assistant medical practitioner by Zhejiang Health Bureau (浙江省衛生廳) in April 2000. Mr. Zhou was accredited as senior business operator by Wenzhou Municipal Human Resources and Social Security Bureau in November 2015.

Mr. YE Minjie (葉敏捷), aged 46, is our vice general manager. He is primarily responsible for assisting the general manager in the management of scientific researching and teaching, and international cooperation of the Company. He joined the Company in October 2013 as the vice president. Mr. Ye was appointed as our vice general manager in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from July 1994 to September 2013, he was the section chief (科長) at Wenzhou Mental Hospital (溫州市精神病院), which is a local hospital in Wenzhou, where he was primarily responsible for scientific research and teaching. Mr. Ye graduated from Xinxiang Medical College (新鄉醫學院) with a masters degree in psychiatry and mental health in Xinxiang, Henan Province in July

007. He was accredited as chief physician in psychiatry by the Human Resources and Social Security Bureau of Zhejiang province (浙江省人力資源和社會保障廳) in January 2014.

Directors, Supervisors and Senior Management

Mr. XU Yi (徐誼), aged 45, is our vice general manager. He is primarily responsible for assisting the general manager in the facility and information technology of the Company. Mr. Xu joined the Company in October 2002 and served as the section chief (科長) in the logistics department from October 2002 to March 2009, where he was primarily responsible for logistics management. From April 2009 to September 2014, he served as our vice president, where he was primarily responsible for assisting the president in the overall management and logistics of the Company. He was appointed as our vice general manager in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from April 1999 to September 2002, he was a teacher at the Party School of Wenzhou Municipal Committee of the Communist Party of China (中共溫州市委黨校), where he was primarily responsible for teaching information technology courses. Mr. Xu graduated from the Beijing Institute of Economics and Management (北京經濟管理職業學院) with a college diploma in art design through long-distance education in July 2005. Mr. Xu is the spouse of Ms. WANG Hongyue and the brother-in-law of MR. GUAN Weili and Ms. WANG Lianyue.

Ms. ZHANG Feixue (章飛雪), aged 50, is our vice general manager. She is primarily responsible for the operation of the hospitals in Taizhou of the Company. Ms. Zhang joined the Company in February 2004 and served as the head of the nursing department from February 2004 to October 2009, where she was primarily responsible for the management of nursing. From November 2009 to September 2010, she served as the head of the education department and the out-patient department, where she was primarily responsible for management. From October 2010 to March 2015, Ms. Zhang served as the vice president of the Company and was primarily responsible for assisting the president in managing nursing affairs. Ms. Zhang has been serving as the vice general manager of the Company since March 2015. Prior to joining the Company, Ms. Zhang held various positions at the Fifth People's Hospital of Yueqing (樂清市第五人民醫院): from October 1995 to January 2004, she served as the head of the nursing department, where she was primarily responsible for hospital nursing management, and from January 1993 to September 1995, she served as an emergency head nurse, where she was primarily responsible for emergency nursing management. Ms. Zhang graduated from Beijing University of Chinese Medicine (北京中醫藥大學) with a bachelor's degree in nursing through long-distance education in July 2005. Ms. Zhang obtained the certificate of advanced study class for modern health management at Zhejiang University (浙江大學現代衛生管理高級研修班) in Hangzhou, Zhejiang Province in November 2014. Ms. Zhang completed the master of public administration courses at Zhejiang Normal University (浙江師範大學) in Jinhua, Zhejiang Province in June 2017. She was accredited as senior nurse by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in November 2013.

Directors, Supervisors and Senior Management

Mr. WANG Jian (王健), aged 35, is our vice general manager and the secretary to our Board. He is primarily responsible for overseeing public affairs and investment relationship, brand building, corporate financing and listing-related matters. Mr. Wang joined the Company in July 2014 and has served as the secretary to our Board since then. Mr. Wang was appointed as the secretary to our Board again in September 2014 after the Company was converted into a joint stock limited liability company. Mr. Wang was appointed as our vice general manager in June 2017. Prior to joining the Company, from June 2009 to July 2014, he served as a staff member (科員) and a senior staff member (副主任科員) in the CSRC Xiamen Regulatory Bureau (中國證監會廈門監管局) where he was primarily responsible for monitoring the corporate governance and information disclosure supervision of listed companies in the Xiamen area. From February 2008 to March 2009, he was a senior auditor at Ernst & Young Hua Ming LLP (安永華明會計師事務所(特殊普通合夥)), where he was primarily responsible for audit work. From August 2005 to February 2008, he served as an auditor and a senior auditor at PricewaterhouseCoopers Zhong Tian CPAs Limited Company, where he was primarily responsible for audit work. Mr. Wang obtained a bachelor's degree in management from Guanghua School of Management at Peking University (北京大學光華管理學院) in Beijing in July 2005, where he majored in business administration. Mr. Wang was recognized as a non-practicing certified public accountant (註冊會計師非執業會員) by the Chinese Institute of Certified Public Accountants in April 2010 and was granted the legal professional qualification certificate by the Ministry of Justice of the PRC in March 2014.

Mr. JIN Weiguang (金偉光), aged 53, is our vice general manager. He is primarily responsible for the Company's foreign investment and administrative management. Mr. Jin joined the Company in May 2015 and served as the vice general manager of Shenzhen Yining Hospital from May 2015 to May 2017, where he was primarily responsible for operation functions. Mr. Jin served as the chief investment officer of the Company since May 2017 and he was appointed as the vice general manager of the Company in November 2018. Prior to joining the Company, from August 1987 to April 2015, he served in Wenzhou Municipal Health Bureau (溫州市衛生局), mainly responsible for planning, finance, infrastructure,

Directors, Supervisors and Senior Management

Save as disclosed in the following table, during the Reporting Period, other Directors, Supervisors or senior management of the Company did not hold any positions in any members of the Group:

Directors/Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
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Directors, Supervisors and Senior Management

Directors/Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
WANG Lianyue	Yiwu Kangning Hospital Management Co., Ltd.	Executive director, Manager	From January 2017 to present
	Qingtian Kangning Hospital	Manager	From December 2018 to present
	Beijing Yining Hospital	Director	From May 2019 to present
	Zhejiang Dening Pharmaceutical Co., Ltd.	Chairman	From June 2019 to September 2019
WANG Hongyue	Cangnan Kangning Hospital	Supervisor	From June 2012 to present
	Quzhou Yining Hospital	Director	From November 2015 to present
	Pingyang Kangning Hospital	Supervisor	From November 2015 to present
	Zhejiang Huangfeng Hospital Management Co., Ltd.	Director	From August 2016 to present
	Wenzhou Guoda	Director	From July 2016 to present
	Hangzhou Cining Hospital	Supervisor	From November 2017 to present
	Zhejiang Yining Health Technology Co., Ltd.	Director	From November 2018 to April 2019
	Zhejiang Yining Health Technology Co., Ltd.	Executive director, general manager	From April 2019 to present
	Zhejiang Dening Pharmaceutical Co., Ltd.	Director	From June 2019 to present
	Huainan Kangning Hospital	Supervisor	From June 2019 to present
Changchun Kanglin Psychological Hospital Co., Ltd.	Chairman	From December 2019 to present	

Directors, Supervisors and Senior Management

Directors/Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
XU Yi	Qingtian Kangning Hospital	Supervisor	From April 2011 to present
	Yueqing Kangning Hospital	Supervisor	From September 2013 to present
	Shenzhen Yining Hospital	Supervisor	From September 2014 to present
	Geriatric Hospital	Supervisor	From November 2015 to present
	Beijing Yining Hospital	Supervisor	From August 2015 to present
	Shenzhen Yining Medical Investment Co., Ltd.	Supervisor	From September 2015 to present
	Quzhou Yining Hospital	Supervisor	From November 2015 to present
	Langfang Yining Hospital	Supervisor	From December 2015 to present
	Zhejiang Huangfeng Hospital Management Co., Ltd.	Chairman	Form August 2016 to present
	Taizhou Kangning Hospital	Executive director	From June 2016 to present
	Wenzhou Guoda	Director	From July 2016 to present
	Zhejiang Kangning Hospital Management (Group) Co., Ltd.	Executive director, General manager	From July 2016 to present
	Hangzhou Yining Hospital	Chairman	From April 2017 to present
	Luqiao Cining Hospital	Executive director, Manager	From December 2016 to present
	Huainan Kangning Hospital	Chairman	From September 2017 to present
	Hangzhou Cining Hospital	Executive director, General manager	From November 2017 to present
	Wenzhou Tianzhentang TCM Clinic Co., Ltd.	Executive director, General manager	From January 2018 to present
	Zhejiang Yining Health Technology Co., Ltd.	Chairman	From November 2018 to April 2019
	Yelimi Company	Executive director, General manager	From December 2018 to present

Directors, Supervisors and Senior Management

Directors/Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
ZHOU Chaoyi	Wenzhou Guoda	Chairman	From July 2016 to present
	Yiwu Kangning Hospital Management Co., Ltd.	Supervisor	From January 2017 to present
	Hangzhou Yining Hospital	General manager	From April 2019 to present
WANG Jian	Quzhou Yining Hospital	Director	From November 2015 to present
	Hangzhou Yining Hospital	Director	From April 2017 to present
	Wenzhou Kangning Hospital Hangzhou Branch	Person in charge	From April 2017 to present
	Heze Yining Hospital	Director	From April 2017 to July 2019
	Zhejiang Yining Health Technology Co., Ltd.	Director	From November 2018 to April 2019
	Nanjing Yining Hospital	Director	From July 2018 to present
	Wenling Nanfang Hospital	Chairman, manager	From January 2019 to present
	Huainan Kangning Hospital	Director	From June 2019 to present
ZHANG Feixue	Heze Yining Hospital	Director	From July 2019 to present
	Lin Hai Kangning Hospital	Executive director, Manager	From January 2018 to present
YE Minjie	Wenling Nanfang Hospital	Director	From January 2019 to present
	Wenzhou Yixin Health Technology Co., Ltd.	Executive director, Manager	From May 2019 to present
JIN Weiguang	Wenzhou Yixin Health Technology Co., Ltd.	Executive director, Manager	From May 2019 to present
	Quzhou Yining Hospital	Director	From November 2015 to present
	Heze Yining Hospital	Director	From April 2017 to present
JIN Weiguang	Nanjing Yining Hospital	Chairman	From July 2018 to present

Auditor's Report



Auditor's Report

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Assessment for goodwill impairment of healthcare service
- Assessment for the impairment of contractual rights to provide management service

Auditor's Report

PwC ZT Shen Zi (2020) No. 15010
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Key Audit Matters (continued)

Key Audit Matter

How our audit addressed the Key Audit Matter

Assessment for goodwill impairment of healthcare service

Refer to Note 2(18) 'Impairment of long-term assets', Note 2(18) 'Critical accounting estimates and key assumptions' (a) (iv), and Note 4(15) 'Goodwill' to the financial statements.

Management is required to test goodwill for impairment on an annual basis as set out in the Accounting Standards for Business Enterprises. Management allocates goodwill arising from business combinations to respective hospitals for impairment test, as every hospital acquired is regarded as an individual asset group. As at 31 December 2019, the carrying amount of goodwill allocated to healthcare service amounted to RMB54,346,633.

Management used value-in-use method to calculate the recoverable amount of asset groups consisting of goodwill, which required forecasts of the present value of future cash flows expected to be derived from earece32s con(fle) .5(ea3le) .5tuwill forhrecovasts of thwill invol0.5(f Tc 0.0w (mment used3.68

Auditor's Report

PwC ZT Shen Zi (2020) No. 15010

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Key Audit Matters (continued)

Key Audit Matter

How our audit addressed the Key Audit Matter

Assessment for the impairment of contractual rights to provide management service

Refer to Note 2(28) 'Critical accounting estimates and key assumptions' (a)(i), and Note 4(14) 'Intangible assets' to the financial statements.

As at 31 December 2019, the carrying amount of contractual rights to provide management service by Wenzhou Kangning Hospital amounted to RMB45,162,735 (31 December 2018: RMB122,858,553). For the year ended 31 December 2019, the actual operating results of hospitals under management did not meet the budgets, which suggested there was an indication that contractual rights to provide management service might be impaired, management was therefore required to perform an impairment assessment.

As the management fee income of Wenzhou Kangning Hospital is linked to these hospitals' performance, management used value-in-use method to calculate the recoverable amount of the contractual rights, which is determined based on the forecasts of cash flows from exercising the contractual rights on a continuous basis. Such forecasts involved management's significant judgements and estimates, comprising average number of beds in operation, average in-patient spending per day per bed, gross margin, discount rate before tax and growth rate in the stable period. Based on management's assessment, contractual rights to provide management service were not impaired as at 31 December 2019.

We paid special attention to this matter because contractual rights to provide management service have significant impact on consolidated financial statements, and their impairment assessment involves significant judgements and estimates on the present value of cash flows from exercising the contractual rights on a continuous basis.

We involved our internal valuation expert to evaluate the appropriateness of Wenzhou Kangning Hospital's using the value-in-use method to determine the recoverable amount of contractual rights to provide management service and the reasonableness of the discount rate before tax and the growth rate in the stable period. We assessed the reasonableness of the discount rate before tax, taking into account the cost of capital of the Wenzhou Kangning Hospital and the comparable organisations. We assessed the reasonableness of the growth rate in the stable period, with reference to the long-term average growth rate of the industry.

We obtained future cash flow forecasts used in calculations for impairment, which were prepared by management of hospitals under management and approved by management of Wenzhou Kangning Hospital.

We assessed the reasonableness of key assumptions adopted for cash flow forecasts, including average number of beds in operation, average in-patient spending per day per bed, and gross margin. We assessed whether key assumptions were reasonable by comparing them with historical data of other similar hospitals in the Group, and with local medical insurance reimbursement policies and per capita consumption levels in areas where these hospitals under management are located.

We also compared the current year budgets of these hospitals with their actual operating results to assess the quality of management's cash flow forecasts.

We performed sensitivity analysis on the above key assumptions to ascertain the extent to which adverse changes, either individually or in aggregate, would result in the contractual rights being impaired.

We checked the calculation accuracy of the present value of future cash flows expected to be derived from contractual rights to provide management service.

Based on results of above work performed, we found management's significant judgements and estimates involved in assessing whether contractual rights to provide management service were impaired are supported by available evidence.

Auditor's Report

PwC ZT Shen Zi (2020) No. 15010

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Other Information

Management of Wenzhou Kangning Hospital is responsible for the other information. The other information comprises all of the information included in 2019 annual report of Wenzhou Kangning Hospital other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Audit Committee for the Financial Statements

Management of Wenzhou Kangning Hospital is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing of Wenzhou Kangning Hospital's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Wenzhou Kangning Hospital or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing Wenzhou Kangning Hospital's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Auditor's Report

PwC ZT Shen Zi (2020) No. 15010

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Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Wenzhou Kangning Hospital's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Wenzhou Kangning Hospital to cease to continue as a going concern.
- Evaluate the overall presentation (including the disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Wenzhou Kangning Hospital to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Auditor's Report

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Consolidated Balance Sheet

As at 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2019	31 December 2018
Current assets			
Cash at bank and on hand	4(1)	176,030,550	187,076,694
Financial assets held for trading	4(2)	30,000,000	–
Accounts receivable	4(3)	310,520,612	299,750,063
Other receivables	4(4)	63,317,366	58,051,581
Advances to suppliers	4(5)	5,366,020	16,683,839
Inventories	4(6)	23,568,236	20,813,747
Current portion of non-current assets	4(7)	12,688,704	12,688,704
Total current assets		621,491,488	595,064,628
Non-current assets			
Other non-current financial assets	4(8)	51,281,869	50,974,323
Long-term equity investments	4(9)	89,943,193	100,321,983
Investment properties	4(10)	110,856,100	128,568,963
Fixed assets	4(11)	552,490,802	444,322,834
Construction in progress	4(12)	72,180,620	131,187,406
Right-of-use assets	4(13)	235,312,149	–
Intangible assets	4(14)	130,298,128	185,257,977
Goodwill	4(15)	54,346,633	19,296,005
Long-term prepaid expenses	4(16)	151,083,314	144,386,669
Deferred tax assets	4(17)	46,275,930	33,825,347
Other non-current assets	4(18)	1,791,629	7,517,900
Total non-current assets		1,495,860,367	1,245,659,407
TOTAL ASSETS		2,117,351,855	1,840,724,035

Consolidated Balance Sheet

As at 31 December 2019

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2019	31 December 2018
Current liabilities			
Short-term borrowings	4(20)	250,000,000	145,000,000
Accounts payable	4(21)	75,554,960	73,644,717
Contract liabilities	4(22)	8,562,126	2,244,706
Employee benefits payable	4(23)		

Company Balance Sheet

As at 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2019	31 December 2018
Current assets			
Cash at bank and on hand		101,280,806	147,680,587
Financial assets held for trading		30,000,000	-
Accounts receivable	16(1)	99,205,315	108,177,162
Advances to suppliers		750,172	3,882,154
Other receivables	16(2)	564,146,603	554,772,707
Inventories		8,901,212	8,404,245
Current portion of non-current assets		12,688,704	12,688,704
Total current assets		816,972,812	835,605,559
Non-current assets			
Other non-current financial assets	4(8)	51,281,869	50,974,323
Long-term equity investments	16(3)	337,636,659	172,804,786
Fixed assets	16(4)	310,260,258	319,978,975
Construction in progress		113,599	4,508,592
Right-of-use assets		800,963	
Intangible assets	16(5)	20,255,734	96,340,865
Long-term prepaid expenses		18,875,432	18,656,548
Other non-current assets		709,800	171,000
Deferred tax assets		8,347,166	7,665,855
Total non-current assets		748,281,480	671,100,944
TOTAL ASSETS		1,565,254,292	1,506,706,503

Company Balance Sheet

As at 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2019	31 December 2018
Current liabilities			
Short-term borrowings		250,000,000	105,000,000
Accounts payable		38,432,798	24,081,460
Contract liabilities		2,806,872	779,733
Employee benefits payable		15,571,352	13,395,856
Taxes payable		5,976,133	10,129,626
Other payables		64,891,712	57,248,249
Current portion of non-current liabilities		52,688,704	63,757,304
Total current liabilities		430,367,571	274,392,228
Non-current liabilities			
Long-term borrowings		-	40,000,000
Lease liabilities		766,159	
Long-term payables		-	86,645,200
Provisions		2,000,000	-
Deferred income		9,949,267	10,253,059
Deferred tax liabilities		76,887	-
Total non-current liabilities		12,792,313	136,898,259
Total liabilities		443,159,884	411,290,487
Shareholders' equity			
Share capital	4(32)	75,500,000	75,500,000
Capital surplus	16(7)	834,663,559	828,931,889
Less: Treasury stock	9(b)(4)	(21,721,144)	(21,910,000)
Surplus reserve	4(34)	33,189,321	29,981,034
Retained earnings	16(8)	200,462,672	182,913,093
Total shareholders' equity		1,122,094,408	1,095,416,016
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,565,254,292	1,506,706,503

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

Consolidated Income Statement

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2019	2018
1. Revenue	4(36)	860,691,729	745,971,888
Less: Cost of sales	4(36), 4(38)	(656,184,564)	(493,729,636)
Taxes and surcharges	4(37)	(5,226,869)	(5,720,201)
Selling and distribution expenses	4(38)	(7,977,677)	(5,141,918)
General and administrative expenses	4(38)	(123,338,942)	(98,001,249)
Research and development expenses	4(38)	(6,018,107)	(5,733,120)
Finance expenses – net	4(39)	(23,488,174)	(7,171,247)
Including: Interest expenses		(26,563,406)	(14,361,002)
Interest income			98,831,077

Consolidated Income Statement

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2019	2018
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Company Income Statement

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2019	2018
1. Revenue	16(9)	384,606,640	354,166,839
Less: Cost of sales	16(9), 16(11)	(273,030,710)	(230,191,852)
Taxes and surcharges		(2,991,699)	(2,957,704)
Selling and distribution expenses	16(11)	(2,488,613)	(1,797,984)
General and administrative expenses	16(11)	(62,554,461)	(51,747,365)
Research and development expenses	16(11)	(3,579,462)	(5,733,120)
Finance expenses – net	16(10)	(7,745,071)	(5,198,109)
Including: Interest expenses		(9,057,076)	(10,806,837)
Interest income		2,427,741	1,955,764
Add: Other gains		7,463,067	4,213,299
Investment gains	16(12)	755,472	17,800,908
Including: Share of losses of associates		(632,938)	(689,990)
Gains from changes in fair value		307,546	–
Credit impairment losses	16(13)	(14,531,928)	(4,921,160)
Losses on disposal of assets		–	(1,479,145)
2. Operating profit		26,210,781	72,154,607
Add: Non-operating income		27,796,894	7,339,091
Less: Non-operating expenses		(11,408,985)	(1,925,819)
3. Total profit		42,598,690	77,567,879
Less: Income tax expenses	16(14)	(10,515,824)	(14,857,659)
4. Net profit		32,082,866	62,710,220
Classified by continuity of operations			
Net profit from continuing operations		32,082,866	62,710,220
Net profit from discontinued operations		–	–
5. Total comprehensive income		32,082,866	62,710,220

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

Consolidated Cash Flow Statement

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2019	2018
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		807,539,631	654,660,709
Cash received relating to other operating activities		18,344,424	31,999,794
Sub-total of cash inflows		825,884,055	686,660,503
Cash paid for goods and services		(285,388,760)	(241,731,386)
Cash paid to and on behalf of employees		(281,555,432)	(218,086,294)
Payments of taxes and surcharges		(37,151,952)	(39,374,238)
Cash paid relating to other operating activities		(110,498,137)	(120,948,057)
Sub-total of cash outflows		(714,594,281)	(620,139,975)
Net cash flows from operating activities	4(49)(a)	111,289,774	66,520,528
2. Cash flows from investing activities			
Cash received from disposal of investments		447,094	–
Cash received from returns on investments		1,526,505	–
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		32,924,720	–
Net cash received from disposal of subsidiaries and other business units		1,860,358	–
Cash received relating to other investing activities		3,610,001	363,629,965
Sub-total of cash inflows		40,368,678	363,629,965
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(127,544,732)	(145,499,984)
Cash paid to acquire investments		(48,455,000)	(25,190,000)
Net cash paid to acquire subsidiaries and other business units		(552,505)	(17,520,196)
Cash paid relating to other investing activities		(4,347,100)	(330,900,393)
Sub-total of cash outflows		(180,899,337)	(519,110,573)
Net cash flows used in investing activities		(140,530,659)	(155,480,608)

Consolidated Cash Flow Statement

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2019	2018
3. Cash flows from financing activities			
Cash received from capital contributions		12,345,000	34,820,000
Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries		12,345,000	12,910,000
Cash received from borrowings		270,000,000	190,440,000
Cash received relating to other financing activities		11,960,000	-
Sub-total of cash inflows		294,305,000	225,260,000
Cash repayments of borrowings		(185,000,000)	(169,285,600)
Cash payments for distribution of dividends or interest expenses		(29,036,189)	(18,600,234)
Cash paid relating to other financing activities		(72,507,242)	-
Sub-total of cash outflows		(286,543,431)	dividends or

Company Cash Flow Statement

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2019	2018
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		388,982,589	330,913,867
Cash received relating to other operating activities		11,809,899	27,567,019
Sub-total of cash inflows		400,792,488	358,480,886
Cash paid for goods and services		(125,886,385)	(129,474,129)
Cash paid to and on behalf of employees		(124,597,846)	(110,056,158)
Payments of taxes and surcharges		(18,265,441)	(14,606,257)
Cash paid relating to other operating activities		(56,689,406)	(157,663,360)
Sub-total of cash outflows		(325,439,078)	(411,799,904)
Net cash flows used in operating activities		75,353,410	(53,319,018)
2. Cash flows from investing activities			
Cash received from disposal of investments		447,095	-
Cash received from returns on investments		1,526,505	36,000,000
Cash received relating to other investing activities		-	365,293,712
Sub-total of cash inflows		1,973,600	401,293,712
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(22,007,144)	(40,477,961)
Cash paid to acquire investments		(210,750,000)	(46,594,921)
Cash paid relating to other investing activities		-	(323,091,850)
Sub-total of cash outflows		(232,757,144)	(410,164,732)
Net cash flows used in investing activities		(230,783,544)	(8,871,020)

Company Cash Flow Statement

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2019	2018
3. Cash flows from financing activities			
Cash received from capital contributions		-	21n5,0,000
Cash received from borrowings			

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

	Note	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		75,500,000	827,379,886	(21,910,000)	29,981,034	210,044,608	84,277,828	1,205,273,356	
Movements for the year 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	9	-	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(33)	-	(4,705,722)	-	-	-	(2,152,086)	(6,857,808)	
Business combination involving enterprise not under common control	5(1)	-	-	-	-	-	26,585,570	26,585,570	
Profit distribution									
Appropriation for surplus reserve		-	-	-	3,208,287	(3,208,287)	-	-	
Profit distribution to shareholders	4(35)	-	-	-	-	(11,325,000)	-	(11,325,000)	
Balance at 31 December 2019		75,500,000	824,715,445	(21,721,144)	33,189,321	252,800,715	97,024,925	1,261,509,262	

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

	Equity attributable to shareholders of the parent company							Total shareholders' equity
	Note	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Non-controlling interests	
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 year ended								
31 December 2018								
Total comprehensive income								
Net profit		-	-	-	-	80,595,677	(5,626,449)	74,969,228
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders		2,460,000	19,450,000	(21,910,000)	-	-	12,910,000	12,910,000
Share-based payment included in shareholders' equity	9	-	2,372,415	-	-	-	-	2,372,415
Transactions with non-controlling shareholders		-	(3,597,311)	-	-	-	(4,157,192)	(7,754,503)
Others	4(33)	-	910,596	-	-	-	-	910,596
Business combination involving enterprise not under common control		-	-	-	-	-	22,489,106	22,489,106
Profit distribution								
Appropriation for surplus reserve		-	-	-	6,271,022	(6,271,022)	-	-
Profit distribution to shareholders	4(35)	-	-	-	-	(10,956,000)	-	(10,956,000)
Balance at 31 December 2018		75,500,000	827,379,886	(21,910,000)	29,981,034	210,044,608	84,277,828	1,205,273,356

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

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

	Note	Share capital	Capital surplus	Less: Treasury stock	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 (Restated)		73,040,000	807,109,474	-	23,710,012	137,429,895	1,041,289,381
Movements for the year ended 31 December 2018							
Total comprehensive income							
Net profit		-	-	-	-	62,710,220	62,710,220
Capital contribution and withdrawal by shareholders							
Capital contribution by shareholders		2,460,000	19,450,000	(21,910,000)	-	-	-
Share-based payment included in shareholders' equity	9	-	2,372,415	-	-	-	2,372,415
Profit distribution							
Appropriation for surplus reserve		-	-	-	6,271,022	(6,271,022)	-
Profit distribution to shareholders	16(8)	-	-	-	-	(10,956,000)	(10,956,000)
Balance at 31 December 2018		75,500,000	828,931,889	(21,910,000)	29,981,034	182,913,093	1,095,416,016

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 year ended 31 December 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 (溫州市康寧精神康復醫院) in the PRC on 7 February 1996. The address of the Company's registered office is at Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, PRC.

On 15 October 2014, the Company was converted into a joint stock limited liability company and renamed as Wenzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司).

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

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

Many affiliated hospitals of the Group (Note 5) entered the stage of full operation. Meanwhile, the Group continues to invest in associates (Note 4(9)) and provide management services to other hospitals (Note 4(14)) to expand its medical network.

The financial statements have been approved for issue by the Company's Board of Directors on 30 March 2020.

2 Summary of significant accounting policies and accounting estimates

(1) Basis of preparation

The financial statements are prepared in accordance with the *Accounting Standards 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 on a going concern basis.

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

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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 year ended 31 December 2019 are in compliance with

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' shareholders' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as non-controlling interests, net profit attributed to non-controlling interests and total comprehensive incomes attributed to non-controlling interests, and presented separately in the consolidated financial statements under shareholders' equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to shareholders of the parent. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to shareholders of the parent and net profit attributed to non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to shareholders of the parent and net profit attributed to non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction is inconsistent in the financial statements at the Group level and at the Company or its subsidiary level, adjustment will be made from the perspective of the Group.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign currency translation

Foreign currency transactions

Foreign currency transactions are translated into recording currency using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into recording currency using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the statement of cash flows.

(9) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument.

(a) *Financial assets*

(i) Classification and measurement

Based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, financial assets are classified as: (1) financial assets at amortised cost; (2) financial assets at fair value through profit or loss.

The financial assets are measured at fair value at initial recognition. Related transaction costs that are attributable to the acquisition of the financial assets are included in the initially recognised amounts, except for the financial assets at fair value through profit or loss, the related transaction costs of which are recognised directly in profit or loss for the current period. Accounts receivable or notes receivable arising from sales of products or rendering of services (excluding or without regard to significant financing components) are initially recognised at the consideration that is entitled to be charged by the Group as expected.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(9) Financial instruments (continued)

(a) Financial assets (continued)

(i) Classification and measurement (continued)

Debt instruments

The debt instruments held by the Group refer to the instruments that meet the definition of financial liabilities from the perspective of the issuer, and are measured in the following two ways:

Measured at amortised cost:

The objective of the Group's business model is to hold the financial assets to collect the contractual cash flows, and the contractual cash flow characteristics are consistent with a basic lending arrangement, which gives rise on specified dates to the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The interest income of such financial assets is recognised using the effective interest method. Such financial assets mainly comprise cash at bank and on hand, notes and accounts receivables, other receivables, debt investments and long-term receivables, etc. Debt investments and long-term receivables that are due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current assets; debt investments with maturities of no more than one year (inclusive) at the time of acquisition are included in other current assets.

Measured at fair value through profit or loss:

Debt instruments held by the Group that are not divided into those at amortised cost, or those measured at fair value through other comprehensive income, are measured at fair value through profit or loss and included in financial assets held for trading. At initial recognition, Group designates a portion of financial assets as at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch. Financial assets that are due within one year (inclusive) as from the balance sheet date and are expected to be held over one year are included in other non-current financial assets.

Equity instruments

Investments in equity instruments, over which the Group has no control, joint control or significant influence, are measured at fair value through profit or loss under financial assets held for trading; investments in equity instruments expected to be held over one year as from the balance sheet date are included in other non-current financial assets.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment

For financial assets measured at amortised cost such as accounts receivable and other receivables, the Group recognises loss provisions on the basis of expected credit losses (“ECL”).

Giving consideration to reasonable and supportable information on past events, current conditions and forecasts of future economic conditions, as well as the default risk weight, the Group recognises the ECL as the probability-weighted amount of the present value of the difference between the cash flows receivable from the contract and the cash flows expected to collect.

As at each balance sheet date, the ECL of financial instruments at different stages are measured respectively. 12-month ECL provision is recognised for financial instruments in Stage 1 that have not had a significant increase in credit risk since initial recognition; lifetime ECL provision is recognised for financial instruments in Stage 2 that have had a significant increase in credit risk yet without credit impairment since initial recognition; and lifetime ECL provision is recognised for financial instruments in Stage 3 that have had credit impairment since initial recognition.

For the financial instruments with lower credit risk on the balance sheet date, the Group assumes there is no significant increase in credit risk since initial recognition and recognises the 12-month ECL provision.

For the financial instruments in Stage 1, Stage 2 and with lower credit risk, the Group calculates the interest income by applying the effective interest rate to the gross carrying amount (before deduction of the impairment provision). For the financial instrument in Stage 3, the interest income is calculated by applying the effective interest rate to the amortised cost (after deduction of the impairment provision from the gross carrying amount).

For accounts receivables, irrespective of whether a significant financing component exists, the Group measures the loss provision according to lifetime ECL.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment (continued)

In case the ECL of an individually assessed financial asset cannot be evaluated with reasonable cost, the Group divides the receivables into certain groupings based on credit risk characteristics, and calculates the ECL for the groupings. Basis for determine groupings is as follows:

Accounts receivable grouping	Medical service receivables derived from patients, social security and other institutions
Other receivables grouping	Loans to third parties
Other receivables grouping	Prepayments
Other receivables grouping	Receivables from related parties
Other receivables grouping	Deposit and guarantee
Other receivables grouping	Others

With consideration to historical credit loss experience, current conditions and forecasts of future economic conditions, the Group prepares the cross-reference between the number of overdue days of accounts receivable and the lifetime ECL rate, and calculates the ECL of accounts receivable that are classified into groupings.

Based on the exposure at default and the 12-month/lifetime ECL rate, the Group calculates the ECL other receivables that are classified into groupings with consideration to historical credit losses experience, the current conditions and forecasts of future economic conditions.

The Group recognises the loss provision made or reversed into profit or loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(9) Financial instruments (continued)

(a) Financial assets (continued)

(iii) Derecognition

A financial asset is derecognised when: (i) the contractual rights to the cash flows from the financial asset expire, (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee, or (iii) the financial asset has

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(9) Financial instruments (continued)

(c) *Determination of fair value of financial instruments*

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. In valuation, the Group adopts valuation techniques applicable in the current situation and supported by adequate available data and other information, selects inputs with the same characteristics as those of assets or liabilities considered in relevant transactions of assets or liabilities by market participants, and gives priority to the use of relevant observable inputs. When relevant observable inputs are not available or feasible, unobservable inputs are adopted.

(10) Inventories

(a) *Classification*

Inventories include pharmaceuticals, turnover materials and properties held for sale, and are measured at the lower of cost and net realisable value.

(b) *Valuation method for inventory issued*

Pharmaceuticals and turnover materials are accounted using the method of first-in first-out when issued.

Inventories are measured initially at cost. The cost of properties held for sale includes the cost of land, construction cost and other costs. Borrowing costs eligible for capitalisation are also included in the cost of properties held for sale.

(c) *Basis for determining net realisable values of inventories and method for making provision for decline in the value of inventories*

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale and related taxes.

(d) *The Group adopts the perpetual inventory system.*

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(11) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its associates.

Subsidiaries are the investees over which the Company is able to exercise control. An associate is the investee over which the Group has significant influence by participating in the financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in associates are accounted for using the equity method.

(a) *Determination of investment costs*

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the portion of carrying amount of acquiree's equity in the consolidated financial statements of the ultimate controlling party at the combination date; for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investment acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

(b) *Subsequent measurement and recognition of profit or loss*

Long-term equity investments accounted for using the cost method are measured at initial investment cost. Cash dividend or profit distribution declared by the investees is recognised as investment income in profit or loss for the current period.

For long-term equity investments that are accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(11) Long-term equity investments (continued)

(b) *Subsequent measurement and recognition of profit or loss (continued)*

Under the equity method, the Group recognises the investment income according to its share of net

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(12) Investment properties

Investment properties, including land use rights that have already been leased out, buildings that are held for the purpose of leasing and buildings that are being constructed or developed for future use for leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss for the period in which they are incurred.

Investment properties are subsequently measured using the fair value model and are not depreciated or amortised. The carrying amount of investment properties is adjusted based on their fair value at the balance sheet date, and the difference between the fair value and the original carrying amount is recognised in profit or loss for the current period.

When an investment property is transferred to owner-occupied property, it is reclassified to fixed asset or intangible asset with the carrying amount determined at the fair value of the investment property at the date of the transfer, and the difference between the fair value and the original carrying amount of the investment property is recognised in profit or loss for the current period. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset or intangible asset is transferred to investment properties with the carrying amount determined at the fair value at the date of the transfer. If the fair value at the date of the transfer is less than the original carrying amount of the fixed asset or the intangible asset, the difference is recognised in profit or loss for the current period; otherwise, it is included in other comprehensive income.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(13) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, medical equipment, motor vehicles, electronic equipment and other equipment.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss for the period in which they are incurred.

(b) Depreciation method for fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated net residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	35 years	5%	2.7%
Medical equipment	3 – 10 years	0% – 5%	9.5% – 33.3%
Motor vehicles	4 – 10 years	5%	9.5% – 23.8%
Electronic equipment and other equipment	3 – 10 years	0% – 5%	9.5% – 33.3%

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(13) Fixed assets (continued)

(b) Depreciation method for fixed assets (continued)

The estimated useful life and the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(15) Borrowing costs (continued)

For the specific borrowings obtained for the acquisition or construction of an asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For general borrowings utilised for the acquisition and construction of an asset qualifying for capitalisation, the capitalised amount of the general borrowings is determined by the weighted average of the excess of accumulated capital expenditure over capital expenditure of the special borrowings multiplied by the weighted average effective interest rate of the utilised general borrowings. The effective interest rate is the interest rate at which the future cash flows of the borrowings over the estimated life or a shorter applicable period are discounted into the initial recognised amount of the borrowings.

(16) Intangible assets

Intangible assets are measured at cost, including land use rights, software use rights, contractual rights to provide management services and licences.

(i) *Land use rights*

Land use rights are amortised on the straight-line basis over their approved use period of 50 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

(ii) *Software use fees*

Software use fees are amortised on a straight-line basis over the estimated useful lives of 5 years.

(iii) *Contractual right to provide management services*

Contractual rights to provide management services are the rights to manage a hospital, which are subsequently measured at costs (the amounts paid to acquire such rights) less accumulated amortisation and any accumulated impairment losses.

Contractual rights to provide management services are amortised on a straight-line basis over the contractual terms as below:

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(16) Intangible assets (continued)

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(16) Intangible assets (continued)

(vi) *Research and development (continued)*

- the research and analysis of preliminary market survey indicate that products manufactured by medical systems and software are marketable;
- adequate technical and financial supports are available for development of medical systems and software and subsequent support operations; and
- expenditure on development of medical systems and software can be reliably collected.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

(vii) *Impairment of intangible assets*

The carrying amount of an intangible asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(18)).

(17) Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets held under operating leases, and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current year and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

(18) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives and long-term equity investments in subsidiaries and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet 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.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(18) Impairment of long-term assets (continued)

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset group or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or a group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset group or group of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(19) Employee benefits

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(19) Employee benefits (continued)

(c) Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to the bases and percentage prescribed by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

(20) Dividend distribution

Cash dividends distribution is recognised as a liability in the period in which the dividends are approved by the shareholders' meeting.

(21) Provisions

Provisions for contingencies such as pending litigation are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The provisions expected to be settled within one year since the balance sheet date are classified as other current liabilities.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(22) Share-based payments

(a) *The types of share-based payments*

A share-based payment is a transaction in which the Group grants equity instruments or assumes liabilities that are determined based on based on equity instruments, in exchange for services rendered by employees or other parties. Equity instruments include the equity instruments linked to the Company, or other accounting entities within the same group. Share-based payments are divided into equity-settled share-based payments and cash-settled share-based payments. For the year ended 31 December 2019, the Group did not hold any cash-settled share-based payments.

The Company's restricted share incentive plan is equity-settled share-based payments for exchange of services rendered by employees, and is measured at the fair value of the restricted shares at the grant date. For share-based payments that are not exercisable until services in the vesting period are completed, at each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the number of vested equity instruments, be included in the relevant costs or expenses at the fair value of the equity instruments at the grant date, with capital reserve increased accordingly.

(b) *Method to determine the fair value of equity instruments*

The fair value of restricted shares is determined based on the difference between the fair value and the grant price of the Group's restricted shares at the grant date.

(c) *Basis for determining the best estimate of exercisable equity instruments*

As at each balance sheet date in the vesting period, the Group makes best estimate in accordance with the newly acquired information such as changes in the number of employees entitled to equity instruments, and amends the number of exercisable equity instruments.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(23) Revenue recognition

The Group recognises revenue at the amount of the consideration to which the Group is expected to receive when the customer obtains control over relevant goods or services.

(a) *Revenue from rendering of services – Treatments, other medical services and expertise services*

Revenue from rendering of services includes revenue from rendering of treatments, other medical services and expertise services. The Group recognises revenue based on the out-patient and in-patient services rendered every day. The amount with unconditional collection right obtained by the Group is recognised as accounts receivable, and loss provision for accounts receivable is recognised on the basis of ECL (Note 2(9)). If the contract price received or receivable exceeds the amount for the completed service, the excess portion will be recognised as contract liabilities. Contract assets and contract liabilities under the same contract are presented on a net basis. Such transactions are settled by payment of social security card, bank card or cash.

(b) *Pharmaceutical sales*

Pharmaceuticals of the Group are sold directly to customers in a retail manner and revenue is recognised when customers purchase the pharmaceuticals.

(c) *Management services*

The Group recognises revenue from management services based on the progress when management services are rendered and related benefits can be reliably measured.

(d) *Revenue from property leasing*

Rental income from property leasing is recognised on a straight-line basis as agreed in the contract or agreement signed with the leasee.

(e) *Revenue from sales of properties*

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet as contract liabilities under current liabilities.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(24) Government grants

Government grants refer to the monetary or non-monetary assets obtained by the Group from the government, including tax return, financial subsidy, etc.

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets are recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets.

Government grants related to income that compensate future costs, expenses or losses are recorded as deferred income and recognised in profit or loss in reporting the related costs, expenses or losses; government grants related to income that compensate incurred costs, expenses or losses are recognised in profit or loss directly in the current period. The Group applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

(25) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(25) Deferred tax assets and deferred tax liabilities (continued)

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(26) Leases (continued)

The Group as the lessee (continued)

For short-term leases with a term of 12 months or less and leases of an individual asset (when new) of low value, the Group may, instead of recognising right-of-use assets and lease liabilities, include the lease payments in the cost of the underlying assets or in the profit or loss for the current period on a straight-line basis over the lease term.

The Group as the lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. An operating lease is a lease other than a finance lease.

(a) Operating leases

Where the Group leases out self-owned buildings and motor vehicles under operating leases, rental income therefrom is recognised on a straight-line basis over the lease term. Variable rental that is linked to a certain percentage of sales is recognised in rental income as incurred.

(b) Finance leases

At the commencement date, the Group recognises the lease payments receivable under a finance lease and derecognises relevant assets. The lease payments receivable under a finance lease are presented as long-term receivables; the lease payments receivable under a finance lease due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current assets.

(27) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. Two or more operating segments that have similar economic characteristics and satisfy certain conditions can be aggregated into one single operating segment.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(28) Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Critical accounting estimates and key assumptions*

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(i) Assessment for the impairment of contractual rights to provide management services

As at 31 December 2019,, the carrying amount of contractual rights to provide management services to Yiwu Health Centre, Pujiang Hospital and Chunan Hospital was RMB45,162,735 (31 December 2018: RMB47,397,506). Management performs review for impairment of such assets whenever events or changes in circumstances indicate that the carrying amounts of contractual rights to provide management services may not be recoverable. The recoverable amount of the contractual rights to provide management services was recognised based on the discounted cash flow method and the calculations of this method required the use of significant estimates and assumptions on the projections of cash flows from the continuous use of contractual rights to provide management services.

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(28) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions (continued)

(i) Assessment for the impairment of contractual rights to provide management services (continued)

Key assumptions adopted to recognise the recoverable amount of the contractual rights to provide management services mainly include:

	Yiwu Health Centre	Pujiang Hospital and Chunan Hospital
Average number of in-patient beds in operation*	373	233
Average in-patient spending per day per bed*	283	204
Gross margin*	6%	33%
Pre-tax discount rate	19.37%	19.94%
Growth rate in the stable period	3%	3%

* It represents the average number in upcoming five years.

The Group determines growth rate and gross margin based on past experience and forecast on future market development, and adopts the pre-tax interest rate that reflects the risks specific to the contractual rights to provide management services as the discount rate. Growth rate in the stable period is the weighted average growth rates applied by the Group to extrapolate cash flows beyond the five-year forecast period, which is consistent with that estimated in the industry reports, and does not exceed the long-term average growth rate of each product. For year ended 31 December 2019 and 31 December 2018, no provision for impairment was made based on management's result of impairment test.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(28) Critical accounting estimates and judgements (continued)

(a) *Critical accounting estimates and key assumptions (continued)*

(ii) Provision for bad debts of accounts receivable and other receivables

The Group calculates the ECL through default risk exposure and ECL rate, and determines the ECL rate based on default probability and default loss rate. In determining the ECL rate, the Group uses data such as internal historical credit loss experience, etc., and adjusts historical data based on current conditions and forward-looking information. When considering forward-looking information, the indicators used by the Group include the risk of economic downturn, the expected increase in unemployment rate, the external market environment, the technological environment and changes in customer conditions. The Group regularly monitors and reviews assumptions related

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(28) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions (continued)

(iii) Determination for the fair value of investment properties

Investment properties (Note 4(10)) are subsequently measured at fair value using the income approach. The inputs mainly include rental, ultimate return rate/capitalisation rate, vacancy rate, etc.

The related information of fair value measurement is as follows:

	Fair value as at		Significant unobservable inputs			
	31 December	Valuation technique	Name	Weighted average	Relationship with fair value	Observable/ Unobservable
Phase I of Business Centre in Higher Education Park	45,679,230	Income approach	Ultimate return rate/ Capitalisation rate	5.50%	(a)	Unobservable
			Monthly rental (RMB/m ² /month)	37.04-47.26		
			Vacancy rate	2.74%		
Phase II of Business Center in Higher Education Park	65,176,870	Income approach	Ultimate return rate/ Capitalisation rate	5.00%	(a)	Unobservable
			Monthly rental (RMB/m ² /month)	30-31.5		
			Vacancy rate i)	-		
	110,856,100					

i) According to the signed leases, the vacancy rate of the property is 0 during the forecast period.

(a) Relationship between the unobservable inputs and the fair value:

- the higher the ultimate return rate/capitalisation rate is, the lower the fair value is;
- the higher the estimated vacancy rate is, the lower the fair value is;
- the higher the monthly rental is, the higher the fair value is;

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(28) Critical accounting estimates and judgements (continued)

(a) *Critical accounting estimates and key assumptions (continued)*

(iv) Accounting estimates on impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of asset groups and groups of asset groups is the present value of the future cash flows expected to be derived from them. These calculations require use of estimates (Note 4(15)).

If management revises the average number of in-patient beds in operation, average in-patient spending per day per bed, gross margin and perpetual growth rate that are used in the calculation of the future cash flows of asset groups and groups of asset groups, and the revised average number of in-patient beds in operation, average in-patient spending per day per bed, gross margin and perpetual growth rate are lower than those currently used, the Group will recognise further impairment against goodwill.

If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group will recognise further impairment against goodwill.

If the actual average number of in-patient beds in operation, average in-patient spending per day per bed, gross margin and perpetual growth rate or pre-tax discount rate in a subsequent period are higher/lower than management's estimates, the impairment loss of goodwill previously provided for is not allowed to be reversed by the Group.

(v) Income tax

The Group is subject to income taxes in numerous jurisdictions. There are some transactions and

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(28) Critical accounting estimates and judgements (continued)

(b) Critical judgments in applying the accounting policies (continued)

(iii) Judgement on the minimum lease term of lease contract

The Group leased several properties from third parties as operating premises. The lease contracts usually contain break clause, where the Group is allowed to terminate the lease agreement by paying certain amount of penalties to the lessor, usually ranging from one to three months rentals.

The Group determined the minimum non-cancellable terms of lease by considering the following factors:

- the amount of penalties to be paid;
- the balance of leasehold improvements to be written off;
- the availability of alternative operating premises and the competitiveness of the rentals comparable to existing leasing contracts;

If any of these factors changes in the future, the minimum non-cancellable lease term will be revised and accordingly impact the Group's accounting for these operating lease.

(29) Significant changes in accounting policies

The Ministry of Finance released the revised *Accounting Standard for Business Enterprises No. 21 – Lease* (hereinafter referred to “new lease standard”) in 2018 and released the *Circular on the Amendment to the Formats of Corporate Financial Statements for the Year of 2019* (Cai Kuai [2019] No. 6) and the revised *Accounting Standard for Business Enterprises No. 7 – Exchange of Non-monetary Assets* (hereinafter referred to as “revised standard for exchange of non-monetary assets”) and *Accounting Standards for Business Enterprise No. 12 – Debt Restructuring* (hereinafter referred to as “revised standard for debt restructuring”) in 2019. The financial statements for the year ended 31 December 2019 were prepared in accordance with the above standards and circular. The revised standards for exchange of non-monetary assets and debt restructuring have no significant impacts on the Group or the Company, and impacts of other revisions on the financial statements of the Group and the Company are as follows:

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(29) Significant changes in accounting policies (continued)

(a) Leases

The Group and the Company initially adopted the new lease standard on 1 January 2019. According to relevant regulations, the Group and the Company would not reassess the contracts that have already existed prior to the date of initial application. The Group recognised the effect of the standard as an adjustment to relevant line items in the financial statements in 2019. The comparatives for the year ended 31 December 2018 were not restated. As at 1 January 2019, the Company had no lease contract, so the initial implementation of the new lease standard has no significant impacts on the Company.

The nature and the reasons of the changes in accounting policies	The line items affected	The amounts affected
		1 January 2019 The Group
For the operating lease that have already existed prior to the initial application of the new lease standard, the Group adopted different transition approaches based on the remaining lease term:	Right-of-use assets	234,963,917
	Lease liabilities	(198,596,521)
	Current portion of non-current liabilities	(26,230,361)
	Prepayment	(9,871,004)
	Other non-current assets	(4,097,899)
If the remaining lease period is longer than 1 year, the Group measures lease liabilities based on the present value of remaining lease payments discounted using the Group's incremental borrowing rate on 1 January 2019 ("initial application date"). Right-of-use assets are measured as the same amount as lease liabilities, and are adjusted according to the prepaid rental.	Other payables	3,831,868

If the remaining lease term is less than 1 year, the Group adopts a simplified method and do not recognise right-of-use assets and lease liabilities, which has no significant impact on the financial statements.

The Group applied the practical expedient for operating leases of low-value assets existing prior to the initial application of the new lease standard, under which the right-of-use assets and lease liabilities were not recognised. There was no significant impact on the financial statements.

The Group applied the practical expedient for operating leases of low-value assets existing prior to the initial application of the new lease standard, under which the right-of-use assets and lease liabilities were not recognised. There was no significant impact on the financial statements.

As at 1 January 2019, the Group adopted the same discount rate for lease contracts with similar characteristics to account for lease liabilities. The weighted average of incremental borrowing rates adopted was 4.53%.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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

(29) Significant changes in accounting policies (continued)

(a) Leases (continued)

As at 1 January 2019, the Group reconciled the outstanding minimum operating lease payments disclosed under the old lease standard to lease liabilities under the new lease standard as follows:

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

Note 1: The Group and the Company did not consider factors such as the extension option when disclosing outstanding minimum operating lease payments as at 31 December 2018. When determining the lease liabilities at the initial application date, the Group and the Company included lease payments for the periods covered by the extension option when it is reasonably certain to exercise that option.

3 Taxation

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

Category

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

3 Taxation (continued)

- (a) Pursuant to 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, the revenue from providing medical services of the Company and its subsidiaries, 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”), Wenzhou Yining Geriatric Hospital Co., Ltd. (“Wenzhou Yining Geriatric Hospital”), Shenzhen Yining Hospital Co., Ltd. (“Shenzhen Yining Hospital”), Pingyang Kangning Hospital Co., Ltd. (“Pingyang Kangning Hospital”), Quzhou Yining Hospital Co., Ltd. (“Quzhou Yining Hospital”), Taizhou Luqiao Cining Hospital Co., Ltd. (“Luqiao Cining Hospital”), Taizhou Kangning Hospital Co., Ltd. (“Taizhou Kangning Hospital”), Wenzhou Tianzhentang Chinese Medicine Clinic Co., Ltd. (“Wenzhou Tianzhentang”), Nanjing Yining Hospital Co., Ltd. (“Nanjing Yining Hospital”), Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd. (“Wenling Nanfang Hospital”), Heze Yining Psychiatric Hospital Co., Ltd. (“Heze Yining Hospital”), Guanxian Yining Hospital Co., Ltd. (“Guanxian Yining Hospital”), Hangzhou Yining Hospital Co., Ltd. (“Hangzhou Yining Hospital”), Hangzhou Cining Hospital Co., Ltd. (“Hangzhou Cining Hospital”), Beijing Yining Hospital Co., Ltd. (“Beijing Yining Hospital”) and Huainan Kangning Hospital Co., Ltd. (“Huainan Kangning Hospital”) were exempted from VAT.

Pursuant to the relevant tax regulations, during the reporting period, revenue from judicial forensic services of the Company’s subsidiary, Wenzhou Kangning Judicial Forensic Centre (“Judicial Forensic Centre”

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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 was exempted from property tax for 3 years since 1 January 2016. Pursuant to Article 10 of the *Circular of the Ministry of Finance and the State Administration of Taxation on Issuing the 'Interpretations and Interim Provisions on Some Specific Issues Concerning Real Estate Tax' and the 'Interpretations and Interim Provisions on Some Specific Issues Concerning Vehicle and Vessel Use Tax'* (Cai Shui Di Zi [1986] No. 8), with regard to owner-occupied properties of various hospitals operated by enterprises, property tax may be exempted with reference to owner-occupied properties financed by the Ministry of Finance. The Company and its subsidiary, Cangnan Kangning Hospital, are exempted from property tax.
- (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* (Wen Di Shui Lu You Pi Tong Zi [2016] No. 173 and Wen Lu Di Shui Tong [2017] No. 45068) issued by Wenzhou Local Taxation Bureau Lucheng Tax Branch on 19 July 2016 and 13 January 2017, the Company enjoyed 100% exemption on urban land use tax for the year of 2019.

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

	31 December 2019	31 December 2018
Cash on hand	459,334	657,361
Cash at bank	175,377,994	186,180,534
Other cash balances	193,222	238,799
	176,030,550	187,076,694

As at 31 December 2019, the term deposits that over three months were RMB10,000 (31 December 2018: RMB10,000).

(2) Financial assets held for trading

	31 December 2019	31 December 2018
Structured deposits	30,000,000	–

As at 31 December 2019, the principal of structured deposits held by the Group was RMB30,000,000, with the term from 6 December 2019 to 10 January 2020. The estimated annual rate of return is 3.35%, and its carrying amount approximates its fair value.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(3) Accounts receivable

	31 December 2019	31 December 2018
Due from related parties (Note 8(5)(a))	8,250,000	6,749,917
Due from third parties	330,174,215	318,519,503
Sub-total	338,424,215	325,269,420
Less: Provision for bad debts	(27,903,603)	(25,519,357)
	310,520,612	299,750,063

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

(a) The ageing analysis of accounts receivable based on the billing date is as follows:

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

(b) *Provision for bad debts*

The Group measures the loss allowance of accounts receivable at an amount equal to the lifetime ECL, regardless of whether they contain any significant financing component.

As at 31 December 2019, the management service fee receivable from Yanjiao Furen Hospital was RMB1,889,254. As the Group and the Company were involved in a lawsuit (Note 4 (14)), the Group believed that it would be difficult to recover such receivable, so the provision for bad debt was fully made.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(3) Accounts receivable (continued)

(b) Provision for bad debts (continued)

- (i) Accounts receivable for which the related provision for bad debts was provided on the grouping basis are analysed as follows:

	31 December 2019			31 December 2018		
	Book value	Provision for bad debts		Book value	Provision for bad debts	
	Amount	Lifetime ECL rate	Amount	Amount	Lifetime ECL rate	Amount
Not overdue - unbilled	23,914,808	1%	239,148	18,132,664	1%	181,327
Overdue - Within 3 months	151,536,144	5%	7,576,807	132,857,728	5%	6,642,886
			5,465,560	110,010,462	6%	6,600,628
			6,337,626	51,396,190	11%	5,653,580
			5,981,354	12,862,881	50%	6,431,441
			413,854	9,495	100%	9,495

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(4) Other receivables

	31 December 2019	31 December 2018
Loans to third parties (i)	21,283,500	20,712,000
Prepayments (ii)	15,572,012	7,461,889
Due from related parties (Note 8(5)(a))	17,519,719	17,970,291
Deposit and guarantee	7,535,390	7,709,142
Others (iii)	13,555,160	8,443,740
	75,465,781	62,297,062
Less: Provision for bad debts	(12,148,415)	(4,245,481)
	63,317,366	58,051,581

- (i) As at 31 December 2019, the amount that the Company lent to Pujiang Hospital and Chunan Hospital were RMB14,023,500 and RMB7,260,000

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(4) Other receivables (continued)

(a) Provision for losses and changes in balance statement

Stage 1		Stage 3		Total
12-month ECL		Lifetime ECL		
(on the grouping basis)		(credit-impaired)		
	Provision		Provision	Provision
Book value	for bad debts	Book value	for bad debts	for bad debts

Notes to the Financial Statements

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(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(4) Other receivables (continued)

(a) *Provision for losses and changes in balance statement (continued)*

- (iii) As at 31 December 2019, for other receivables at Stage 3, the related provision for bad debts was analysed below:

	Book value	Lifetime ECL rate	Provision for bad debts
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Provided on the individual basis:

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(5) Advances to suppliers

The ageing of prepayments is analysed below:

	31 December 2019		31 December 2018	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	5,258,821	98%	16,576,535	10.9 -45.20667 -1.556

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(6) Inventories (continued)

(b) Changes in balances of inventories for the current year are analysed as follows:

	31 December 2018	Business combination involving enterprises not under common control (Note 5(1)(c))	Increase in the current year	Decrease in the current year	31 December 2019
Pharmaceuticals in stock	14,933,448	768,971	176,239,616	(174,552,903)	17,389,132
Consumables	3,305,013	292,465	50,709,712	(50,703,372)	3,603,818
Properties held for sale	2,575,286	-	-	-	2,575,286
	20,813,747	1,061,436	226,949,328	(225,256,275)	23,568,236

(7) Current portion of non-current assets

	31 December 2019	31 December 2018
Deposits receivable (i)	12,688,704	12,688,704

- (i) It represented the deposits paid by the Company to the owner who contracted the reconstruction and expansion project of the Hospital as agreed in the project construction contract signed with the third-party contractor. Such deposits should be recovered after the completion of the project and the settlement of project fees. As at 31 December 2019, the Company and the contractor had not finalised the settlement, but management believed that the above amount had no impairment risk and was expected to be recovered within the next year (Note 4(29)).

Notes to the Financial Statements

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(All amounts in RMB Yuan unless otherwise stated)

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(9) Long-term equity investments (continued)

(a) Associate

	31 December 2018	Increase in investment	Decrease in investment	Share of net profit/(loss) under equity method	Share of other changes in equity	31 December 2019
Shandong Yining Hospital Co., Ltd. ("Shandong Yining") (i)	15,285,189	-	(15,285,189)	-	-	-
Beijing Yining Hospital Co., Ltd. ("Beijing Yining Hospital") (ii)	8,977,487	-	-	(1,170,846)	(7,806,641)	-
Hangzhou Anken Information Technology Co., Ltd. ("Hangzhou Anken Information Technology")	7,381,414	-	-	(423,959)	-	6,957,455
Chongqing Hechuan Kangning Hospital Co., Ltd. ("Hechuan Kangning")	13,750,895	3,200,000	-	(116,055)	-	16,834,840
Shanxi Shanda Hospital Management Co., Ltd. ("Shanxi Shanda")	24,725,191	-	-	402,219	-	25,127,410
Chengdu Yining Hospital Co., Ltd. ("Chengdu Yining")	15,788,251	-	-	(1,705,446)	-	14,082,805
Huainan Kangning Hospital Co., Ltd. ("Huainan Kangning") (iii)	2,413,556	-	-	(74,740)	(2,338,816)	-
Hangzhou Anken Medical Management Consulting Co., Ltd. ("Hangzhou Anken Consulting") (iv)	12,000,000	15,000,000	-	(208,979)	-	26,791,021
Hangzhou Yining Mental Health Management Co., Ltd. ("Hangzhou Yining")	-	255,000	-	(105,338)	-	149,662
	100,321,983	18,455,000	(15,285,189)	(3,403,144)	(10,145,457)	89,943,193

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(9) Long-term equity investments (continued)

(a) Associate (continued)

- (i) Shandong Yining Hospital completed liquidation on 9 May 2019. The Group recovered the investment cost of RMB15,147,094 and suffered an investment loss of RMB138,094.
- (ii) Beijing Yining was set up in August 2015 as an associate of the Group. The capital contribution of RMB14,700,000 by the Group was settled in cash, representing 49% equity. In January 2018, the Company entered into a capital increase agreement with Beijing Yining Hospital, Ningbo Meishan Bonded Port Kuanzhan Investment Management Partnership (Limited Liabilities Partnership) (hereinafter referred to as “Ningbo Meishan Kuanzhan”) and Chongqing Jinpu Medical&Health Service Industry Equity Investment Fund Partnership (Limited Liabilities Partnership) (hereinafter referred to as “Chongqing Jinpu Fund”), to inject capital into Beijing Yining with Chongqing Jinpu

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(11) Fixed assets

	Buildings	Medical equipment	Motor vehicles	Electronic equipment and other equipment	Total
Cost					
31 December 2018	407,261,459	81,455,766	5,454,639	42,933,267	537,105,131
Increase in the current year					

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(11) Fixed assets (continued)

For the year ended at 31 December 2019, the depreciation of fixed assets amounted to RMB34,807,048 (2018: RMB28,914,368), of which the amounts charged to cost of sales, general and administrative expenses, research and development expenses and selling and distribution expenses were RMB26,587,185 (2018: RMB22,064,852), RMB7,767,122 (2018: RMB6,372,812), RMB400,618 (2018: RMB455,074) and RMB52,123 (2018: RMB21,630) respectively.

As at 31 December 2019, The Group's buildings with a carrying amount of RMB27,459,436 (a cost of RMB29,174,349) (31 December 2018: a carrying amount of RMB28,251,311 and a cost of RMB29,174,349) were pledged as collateral for short-term borrowings of RMB0 (31 December 2018: RMB40,000,000) (Note 4(20)).

For the year ended at 31 December 2019, the costs of fixed assets transferred from construction in progress amounted to RMB123,806,509 (2018: RMB332,312).

(12) Construction in progress

(i) Movements in construction in progress

	31 December 2018	Increase in the current year	Transfer to fixed assets/long-term prepaid expenses in current year	Decrease in the current year	31 December 2019	Accumulative amount of capitalised borrowing costs	Including: Borrowing costs capitalised in the current year	Capitalisation rate
The expansion project of Cangnan Kangning Hospital	107,659,467	17,354,042	(123,806,509)	-	1,207,000	7,658,298	3,824,364	4.87%
The project of Wenzhou Kangning Hospital training center	4,394,992	3,630,390	(8,025,382)	-	-	-	-	-
The decoration project of Wenzhou Yining Geriatric Hospital	1,118,652	8,308,765	(9,427,417)	-	-	-	-	-
The decoration project of Langfang Yining Hospital i)	3,730,006	-	-	(3,730,006)	-	-	-	-
The management and decoration project of Zhejiang Huangfeng Hospital	10,343,513	-	(10,343,513)	-	-	-	-	-
The decoration project of Qingtian Kangning Hospital	2,020,684	28,228,661	-	-	30,249,345	537,568	537,568	4.87%
The project of Yongjia Kangning Hospital	-	29,233,177	-	-	29,233,177	563,101	563,101	4.87%

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(13) Right-of-use assets

	Buildings
Cost	
31 December 2018	Not applicable
Changes in accounting policies (Note 2(29)(a))	234,963,917
1 January 2019	234,963,917
Increase in the current year	
New lease contracts	3,704,985
Changes in leases	13,912,894
Business combination involving enterprises not under common control (Note 5(1)(c))	28,037,990
Decrease in the current year	
Changes in leases	(13,269,878)
31 December 2019	267,349,908
Accumulated depreciation	
31 December 2018	Not applicable
Changes in accounting policies	-
1 January 2019	-
Business combination involving enterprises not under common control (Note 5(1)(c))	2,178,238
Provision	29,859,521
31 December 2019	32,037,759
31 December 2019	235,312,149
31 December 2018	Not applicable

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(14) Intangible assets (continued)

In 2019, the amortisation of intangible assets amounted to RMB10,874,756 (2018: RMB9,933,744). For the year ended 31 December 2019, the amounts of depreciation expenses charged to cost of sales and general and administrative expenses were RMB9,009,403 and RMB1,865,353 (2018: RMB8,751,839 and RMB1,181,905) respectively.

As at 31 December 2019 and at 31 December 2018, the Group had no intangible assets pledged.

As at 31 December 2019 and 31 December 2018, management of the Group assessed that no impairment loss should be recognised for intangible assets.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(15) Goodwill

	31 December 2018	Increase in the current year (Note 5)	31 December 2019
Goodwill –			
Wenzhou Guoda Investment	8,533,389	–	8,533,389
Wenling Nanfang Hospital	7,784,850	–	7,784,850
Nanjing Yining Hospital	9,271,800	–	9,271,800
Beijing Yining Hospital	–	22,987,331	22,987,331
Huainan Kangning Hospital	–	5,068,960	5,068,960
Changchun Kanglin Mental Hospital Co., Ltd. ("Changchun Kanglin Hospital")	–	6,843,289	6,843,289
Others	2,239,355	151,048	2,390,403
Sub-total	27,829,394	35,050,628	62,880,022
Less: Provision for impairment	(8,533,389)	–	(8,533,389)
	19,296,005	35,050,628	54,346,633

- (a) All goodwill of the Group has been allocated to the related asset groups or groups of asset groups on the day of purchase, which is summarised by operating segments as follows:

	31 December 2019	31 December 2018
Healthcare service segment		
Nanjing Yining Hospital	9,271,800	9,271,800
Wenling Nanfang Hospital	7,784,850	7,784,850
Beijing Yining Hospital	22,987,331	–
Huainan Kangning Hospital	5,068,960	–
Changchun Kanglin Hospital	6,843,289	–
Others	2,390,403	2,239,355
	54,346,633	19,296,005

In conducting the impairment test of goodwill, the Group compares the carrying amount of the related asset groups or groups of asset groups (including goodwill) with the recoverable amount. If the recoverable amount is lower than the carrying amount, the difference shall be recognised in profit or loss for the current year (Note 4(44)). The Group's goodwill allocation remained unchanged in 2019.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(15) Goodwill (continued)

- (b) The recoverable amounts of asset groups and groups of asset groups of the healthcare segment are calculated using the estimated cash flows determined according to the five-year budget approved by management, together with the constant growth rates thereafter (as described in the table below). The main assumptions are as follows:

	Nanjing Yining Hospital	Wenling Nanfang Hospital	Beijing Yining Hospital	Huainan Kangning Hospital	Changchun Kanglin Hospital	Others
Average number of beds in operation*	237	279	33	252	252	235
Average in-patient spending per day per bed*	211	248	2,194	237	196	205
Perpetual growth rate	3%	3%	3%	3%	3%	3%
Gross margins	12% - 41%	35% - 40%	1% - 23%	32% - 43%	27% - 44%	13% - 31%
Pre-tax discount rate	19.85%	20.34%	19.10%	20.12%	19.57%	21.30%

* It represents the average number in upcoming five years.

The Group determines growth rate and gross margin based on past experience and forecast on future market development, and adopts the pre-tax interest rate that reflects the risks specific to the related asset groups and groups of asset groups as the discount rate. Growth rate in the stable period is the weighted average growth rates applied by the Group to extrapolate cash flows beyond the five-year forecast period, which is consistent with that estimated in the industry reports, and does not exceed the long-term average growth rate of each product.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(16) Long-term prepaid expenses

	31 December 2018	Business combination involving enterprises not under common control (Note 5(1)(c))	Increase in the current year – transferred from construction in progress (Note 4(12))	Amortisation in the current year	Other decrease (i)	31 December 2019
Leasehold improvements	143,890,269	8,295,527	41,118,157	(34,219,465)	(8,418,374)	150,666,114
Others	496,400	–	–	(79,200)	–	417,200
	144,386,669	8,295,527	41,118,157	(34,298,665)	(8,418,374)	151,083,314

- (i) As described in Note 4(14), for the year ended at 31 December 2019, the Group disposed the investment to Yanjiao Furen Hospital's decoration expense balance of RMB8,418,374, which was included in non-operating expenses (Note 4(46)).

(17) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets

	31 December 2019		31 December 2018	
	Deductible temporary differences and deductible losses	Deferred tax assets	Deductible temporary differences and deductible losses	Deferred tax assets
Deductible losses	126,459,168	31,614,792	87,415,699	21,853,925
Provision for assets impairment	40,052,018	10,013,006	29,587,849	7,396,962
Accrued expenses	–	–	6,999,814	1,749,954
Share-based payment expenses	11,119,520	2,779,880	6,245,972	1,561,493
Amortisation of intangible assets	–	–	4,925,394	1,231,349
Advances received from property sales	126,654	31,664	126,654	31,664
Depreciation of right-of-use asset and amortisation of interest expenses on lease liabilities	5,346,351	1,336,588	–	–
Provisions	2,000,000	500,000	–	–
	185,103,711	46,275,930	135,301,382	33,825,347
Including:				
Expected to be recovered within one year (inclusive)		10,520,467		10,697,159
Expected to be recovered after one year		35,755,463		23,128,188
		46,275,930		33,825,347

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(17) Deferred tax assets and deferred tax liabilities (continued)

(b) *Deferred tax liabilities*

	31 December 2019	31 December 2018
Taxable temporary		

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(18) Other non-current assets

	31 December 2019	31 December 2018
Prepayments for fixed assets and projects	1,791,629	3,420,001
Prepaid rental	-	4,097,899
	1,791,629	7,517,900

(19) Provision for assets impairment

	31 December 2018	Business combination involving enterprises not under common control	Increase in the current year	Decrease in the current year		31 December 2019
				Recovery	Written-off	
Provision for bad debts						
in accounts receivable	25,519,357	245,655	20,616,274	(259,860)	(18,217,823)	27,903,603
Other provision for bad						
debts in other receivables	4,245,481	3,024	8,899,910	-	(1,000,000)	12,148,415
Provision for goodwill						
impairment	8,533,389	-	-	-	-	8,533,389
	38,298,227	248,679	29,516,184	(259,860)	(19,217,823)	48,585,407

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(20) Short-term borrowings

	31 December 2019	31 December 2018
Guaranteed borrowings (Note 8(4)(h)) (i)	250,000,000	105,000,000
Pledged borrowings (ii)	-	40,000,000
	250,000,000	145,000,000

- (i) The guaranteed borrowing amounting to RMB250,000,000 (31 December 2018: RMB105,000,000) was guaranteed by Guan Weili, Wang Lianyue and Wang Hongyue, the shareholders of the Company.

As at 31 December 2019, the interest rate of short-term borrowings was 4.35% – 5.22% annually (31 December 2018: 4.83% – 6.50%).

- (ii) As at 31 December 2018, the pledged borrowings amounting to RMB40,000,000 was guaranteed by the investment properties with carrying amount of RMB66,419,452 (Note 4(10)) and fixed assets with carrying amount of RMB28,251,311 (Note 4(11)) of Wenzhou Guoda, a subsidiary of the Group, and jointly secured by Wenzhou Guoda and Guan Weili, the shareholder of the Company.

As at 31 December 2019, Wenzhou Guoda, a subsidiary of the Group, had pledged its investment properties with carrying amount of RMB65,176,870 (Note 4(10)) and fixed assets with carrying amount of RMB27,459,436 (Note 4(11)) to China Zheshang Bank Co., Ltd. Wenzhou Branch (hereinafter “China Zheshang Bank”) for the purpose of providing corresponding credit facilities to the Company. As at 31 December 2019, the Company had not obtained any borrowings from China Zheshang Bank.

(21) Accounts payable

The ageing of accounts payable by recording date is analysed as follows:

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

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(22) Contract liability

	31 December 2019	31 December 2018
Advance from goods and services	8,562,126	2,244,706

As at 31 December 2019, the contract liability of RMB2,244,706 (2018: RMB4,753,447) included in the carrying amount at the beginning of the period was transferred to the operating income, including medical services income of RMB2,014,882 (2018: RMB1,650,081), rental income of RMB229,824 (2018: RMB1,046,820) and income from sales of properties of RMB0 (2018: 2,056,546).

(23) Employee benefits payable

	31 December 2019	31 December 2018
Short-term employee benefits payable (a)	34,470,690	26,998,313
Defined contribution plans payable (b)	1,592,587	1,272,097
	36,063,277	28,270,410

(a) Short-term employee benefits

	31 December 2018	Business combination involving enterprises not under common control (Note 5(1)(c))	Increase in the current year	Decrease in the current year	31 December 2019
Wages and salaries, bonus, allowances and subsidies	26,370,253	600,187	239,788,850	(233,552,801)	33,206,489
Staff welfare	1,800	-	7,802,570	(7,359,320)	445,050
Social security contributions	619,362	25,318	9,543,928	(9,375,072)	813,536
Including: Medical insurance	544,658	22,606	8,364,133	(8,215,073)	716,324
Work injury insurance	18,385	904	343,555	(341,919)	20,925
Maternity insurance	56,319	1,808	836,240	(818,080)	76,287
Housing funds	6,898	-	11,289,537	(11,290,820)	5,615
Labour union funds and employee education funds	-	-	29,523	(29,523)	-
Other short-term employee benefits	-	-	369,925	(369,925)	-
	26,998,313	625,505	268,824,333	(261,977,461)	34,470,690

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(23) Employee benefits payable (continued)

(b) Defined contribution plans

	31 December 2018	Business combination involving enterprises not under common control (Note 5(1)(c))	Increase in the current year	Decrease in the current year	31 December 2019
Basic pensions	1,243,087	34,521	19,387,299	(19,111,896)	1,553,011
Unemployment insurance	29,010	-	476,641	(466,075)	39,576
	1,272,097	34,521	19,863,940	(19,577,971)	1,592,587

(c) Termination benefits payable

For the years ended 31 December 2019 and 2018, the Group had no termination benefits incurred for termination of employment contracts.

(24) Taxes payable

	31 December 2019	31 December 2018
Corporate income tax payable	12,348,649	17,561,884
Property tax payable	623,037	3,475,529
Unpaid VAT	582,610	830,465
Land value-added tax payable	18,420,791	18,455,529
Others	1,454,973	796,269
	33,430,060	41,119,676

Notes to the Financial Statements

For the year ended 31 December 2019

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4 Notes to the consolidated financial statements (continued)

(25) Other payables

	31 December 2019	31 December 2018
Payables for project	55,701,768	55,265,308
Payables to related party (Note 8(5)(b))	28,491,713	26,911,353
Withholding lease expense	–	6,657,029
Borrowings from individuals (i)	4,500,000	6,000,000
Lease deposits	2,492,530	3,743,045
Repurchase payable (ii)	21,721,144	21,910,000
Interest payable	1,075,019	1,554,541
After-sale repurchase payable (iii)	10,000,000	–
Others	9,366,538	7,766,712
	133,348,712	129,807,988

As at 31 December 2019 and 31 December 2018, the Group had no other significant payables aged over one year except Note (i), (ii), (iii).

- (i) It represents the borrowings of Wenzhou Guoda from its employees. The interest rate is 8.04% per annum.
- (ii) It represents the obligation of the Company to repurchase all or part of the shares that have not been granted or unlocked in the equity incentive plan of restricted shares of the Group (Note 9).
- (iii) On 26 August 2019, the Group entered into a fixed asset after-sale repurchase agreement with China Commerce (Zhejiang) Finance Leasing Co., Ltd. Pursuant to the agreement, the Group has the obligation to repurchase, and the excess of the repurchase price over the sale price of the fixed asset shall be deemed as financing transaction, and recognised as financial liabilities when the payment is received.

(26) Current portion of non-current liabilities

	31 December 2019	31 December 2018
Current portion of long-term borrowings (Note 4(27))	40,000,000	40,000,000
Current portion of lease liabilities (Note 4(28))	27,053,218	–
Current portion of long-term payables (Note 4(29))	12,688,704	23,757,304
	79,741,922	63,757,304

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(27) Long-term borrowings

	31 December 2019	31 December 2018
Bank guaranteed borrowings	60,000,000	80,000,000
Less: Current portion of long-term borrowings (Note 4(26))		
Guaranteed borrowings	(40,000,000)	(40,000,000)
	20,000,000	40,000,000

As at 31 December 2019, the bank guaranteed borrowing amounting to RMB40,000,000 (31 December 2018: RMB80,000,000) was guaranteed by Guan Weili, Wang Lianyue and Wang Hongyue, the shareholders of the Company (Note 8(4)(h)). The loan term was from 5 January 2016 to 5 January 2021, and the principal will be repaid in 2020.

As at 31 December 2019, the bank guaranteed borrowing amounting to RMB20,000,000 (31 December 2018: Nil) was guaranteed by Guan Weili, Wang Lianyue and Wang Hongyue, the shareholders of the Company, and Xu Yi, a related individual (Note 8(4)(h)). The loan term was from 20 August 2019 to 20 August 2029, and the principal will be repaid starting from 2021.

As at 31 December 2019, the weighted average interest rate of long-term borrowings was 4.95% (31 December 2018: 4.75%).

(28) Lease liabilities

	31 December 2019	31 December 2018
Lease liabilities	210,861,369	
Less: Current portion of lease liabilities (Note 4(26))	(27,053,218)	
	183,808,151	

As at 31 December 2019, the Group had no items that were not included in lease liabilities but would lead to potential cash outflows in the future.

As at 31 December 2019, the Group had no lease payments of lease contracts that had been signed but had not yet been performed.

Notes to the Financial Statements

For the year ended 31 December 2019

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4 Notes to the consolidated financial statements (continued)

(29) Long-term payables

	31 December 2019	31 December 2018
Guarantee payable (i)	12,688,704	12,688,704
Payables to related party (Note 8(5)(b))	2,260,000	-
Long-term payables to the contractual right to provide management service (Note 4(14))	-	97,713,800
	14,948,704	110,402,504
Less: Current portion of long-term payables	(12,688,704)	(23,757,304)
	2,260,000	86,645,200

- (i) It refers to the performance guarantee and the guarantee for the payment of migrant worker salaries (10% of the total price of the contract) paid by the contractor responsible for the reconstruction and expansion project of the hospital to the Company as stipulated in the construction project contract, which will be returned to the contractor after the project completion and settlement. As at 31 December 2019, the Company and the contractor had not made settlement, but the management believed that it would be settled within the next year. At the same time, the Company and the contractor had legal disputes over the settlement amount. As at the date of issuance of the financial statements, the case was still under trial. The Company considered that the possibility of winning this lawsuit was extremely high, so there was no need to make provisions.

(30) Provisions

	31 December 2018	Increase in the current year	Decrease in the current year	31 December 2019
Pending litigation (i)	-	2,000,000	-	2,000,000

- (i) As at 31 December 2019, the litigation of the Group and Yanjiao Furen Hospital (Note 4(14)) was still under trial. The Group would pay RMB2,000,000 to Yanjiao Furen Hospital based on the best estimate.

Notes to the Financial Statements

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4 Notes to the consolidated financial statements (continued)

(31) Deferred income

	31 December 2019		31 December 2018	
Government grants	9,949,267		10,253,059	
		Amount charged to other incomes		
	31 December	in the	31 December	Asset-related/ income-related
Government grants projects	2018	current year	2019	
Expansion project of the inpatient building (i)	10,253,059	(303,792)	9,949,267	Asset-related

- (i) The deferred income related to assets is the government grants of RMB10,632,800 for the reconstruction and expansion project of the inpatient building received from Wenzhou Financial Bureau in 2013. The Company recognised deferred income when receiving the grants and allocated them over the useful life of the asset on a straight-line basis and recorded into profit or loss for the period after its completion in 2017.

(32) Share capital

	31 December 2019		31 December 2018	
Share capital	75,500,000		75,500,000	

Notes to the Financial Statements

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(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(33) Capital surplus

	31 December 2018	Increase in the current year	Decrease in the current year	31 December 2019
Share premium (i)	778,272,727	1,046,979	(3,690,389)	775,629,317
Other capital surplus				
- Share-based payment (Note 9)	6,245,972	5,920,526	(1,235,835)	10,930,663
- Others (ii)	42,861,187	537,657	(5,243,379)	38,155,465
	827,379,886	7,505,162	(10,169,603)	824,715,445

- (i) The reason for the increase in the share premium of capital surplus is that 159,212 shares had been exercised in the unlocked 2014 restricted share incentive plan I. The relative capital surplus of RMB1,046,979 was transferred from other capital surplus to the share premium.

The reason for the decrease in the share premium of capital surplus is that the Group purchased certain non-controlling interests of subsidiaries. The difference between the newly-acquired long-term equity

Notes to the Financial Statements

For the year ended 31 December 2019

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4 Notes to the consolidated financial statements (continued)

(34) Surplus reserves

	31 December 2018	Appropriation in the current year	Decrease in the current year	31 December 2019
Statutory surplus reserve	29,981,034	3,208,287	-	33,189,321

In accordance with the Company Law of PRC and the Articles of Association of the Company, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the losses or transferred to capital upon approval.

(35) Retained earnings

	2019	2018
Retained earnings at the beginning of the year (before adjustment)	210,044,608	146,840,254
Change in accounting policies	-	(164,301)
Retained earnings at the beginning of the year (after adjustment)	210,044,608	146,675,953
Add: Net profit attributable to shareholders of the parent company	57,289,394	80,595,677
Less: Appropriation to statutory surplus reserve	(3,208,287)	(6,271,022)
Ordinary share dividends payable (i)	(11,325,000)	(10,956,000)
Retained earnings at the end of the year	252,800,715	210,044,608

(i) Pursuant to the resolution of the shareholders' meeting dated 18 June 2019, the Company declared cash dividends totalling RMB11,325,000 with RMB0.15 per share and issued shares of 75,500,000. As at 31 December 2019, the cash dividends were fully paid.

(ii) In accordance with the resolution of the Board of Directors dated 30 March 2020, the Board of Directors proposed not to distribute dividends for the year ended 31 December 2019 to all the shareholders.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(36) Revenue and cost of sales

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

(a) Revenue and cost of sale from main businesses

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

(b) Revenue and cost of sale from other businesses

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

- (i) In 2019, the management reassessed the main businesses of the Group. Considering that the revenue from management service accounted for a very small proportion of the revenue of the whole Group, therefore, the revenue from management service was reclassified from main business to other business. The relative comparative figures in 2018 were reclassified accordingly.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(37) Taxes and surcharges

	2019	2018	Basis
Land value-added tax	716,147	845,222	Refer to Note 3
Property tax	3,688,873	4,139,967	Refer to Note 3
City maintenance and construction tax	206,799	134,982	Refer to Note 3
Educational surcharge	147,523	57,691	Refer to Note 3
Others	467,527	542,339	
	5,226,869	5,720,201	

(38) 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:

2019 2018

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(39) Finance expenses – net

	2019	2018
Borrowing interest expense	17,231,667	12,684,236
Less: Capitalised interest (Note 4(12))	(4,925,033)	(3,833,934)
Add: Interest expenses on lease liabilities	12,415,472	
Amortisation of unrecognised financial charge (i)	1,841,300	5,510,700
Interest expenses	26,563,406	14,361,002
Less: Interest income	(4,477,337)	(3,682,615)
Exchange losses/(gains)	642,578	(4,073,649)
Others	759,527	566,509
	23,488,174	7,171,247

- (i) The expenses represents the amortisation of interest from long-term payables calculated using the effective interest rate method (Note 4(29)).

(40) Other gains

	2019	2018	Asset-related/ income-related
Subsidy for resident doctors standardised training (i)	2,050,000	2,010,000	Income-related
Municipal-level award subsidies of private medical institutions	310,000	3,908,500	Income-related
Income tax and individual income tax subsidies	471,005	2,094,077	Income-related
Talent cultivation subsidy	1,095,000	175,000	Income-related
Social insurance return of troubled enterprise	4,822,461	–	Income-related
Medical insurance related subsidy	716,351	–	Income-related
Others	927,731	350,658	Asset-related
	10,392,548	8,538,235	

- (i) According to the *Notice of General Transferred Payment Subsidy of Health and Family Planning in 2019* issued by Zhejiang Provincial Department of Finance and Health and Family Planning Commission of Zhejiang Province, the Company received subsidies of RMB1,650,000 and RMB400,000 from Wenzhou Financial Bureau in May 2019 and September 2019, respectively.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(40) Other gains (continued)

- (ii) According to the document of *Implementing Opinions on People's Government of Zhejiang Province's Performance on Employment Promotion on a Continuous Basis (Zhezhenfafa (2018) No. 50)*, for those troubled enterprises that have participated in social insurance according to regulation and with layoff rate lower or equal to 5% in 2018, 25% of the social insurance actually paid by the enterprises and their employees in 2018 shall be returned. The Group received a total of RMB4,822,461 of social insurance return in 2019, in which the Company received RMB3,864,404.

(41) Investment (gains)/losses

	2019	2018
Share of net loss of investees under the equity method (Note 4(9))	3,403,144	10,029,269
i)	(26,212,905)	(1,726,776)
	(702,132)	-
	(824,373)	-
	(24,336,266)	8,302,493

- (i) Investment income from disposal of long-term equity investment mainly represents the Group obtained the right to control Beijing Yining Hospital (Note 4(9)(a)(ii)) and Huainan Kangning Hospital (Note 4(9)(a)(iii)) by increasing investment. For 40% equity of Beijing Yining Hospital and 45% equity of Huainan Kangning Hospital that held by the Group before the purchase date, they will be recalculated at the fair value on the purchase date. The differences between the fair value and carrying amount included in the investment income for 40% equity of Beijing Yining Hospital held by the Group before the purchase date, the other equity change under the equity method of RMB5,243,379 was transferred to the investment income (Note 4(33)).

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(42) Gains from changes in fair value

	2019	2018
Investment properties measured at fair value (Note 4(10))	1,609,916	-
Financial assets at fair value through profit or loss for the period		
Investment fund (Note 4(8))	307,546	-
	1,917,462	-

(43) Credit impairment losses

	2019	2018
Credit impairment losses for accounts receivable	20,356,414	18,541,921
Credit impairment losses for other receivables	8,899,910	154,059
Total	29,256,324	18,695,980

(44) Assets impairment losses

	2019	2018
Goodwill impairment	-	4,823,557

(45) Non-operating income

	2019	2018
Government grants	2,755,043	6,713,886
Gains from derecognition of contractual rights of management service provision for Yanjiao Furen Hospital (Note 4(14))	25,666,158	-
Others	967,326	468,186
	29,388,527	7,182,072

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(48) Earnings per share

(a) Basic earning per share

	2019	2018
Consolidated net profit attributed to the ordinary shareholders		
of the parent company (RMB Yuan) (i)	57,289,394	80,226,677
Weighted average number of outstanding ordinary shares of		
the Company (number of shares) (i)	73,040,000	73,040,000
Basic earning per share (RMB per share)	0.78	1.10

- (i) As stated in Note 9, following the approval by the shareholders at the general meeting on 13 June 2018, the Company issued 2,460,000 ordinary shares for a share incentive plan. As these stocks are regarded as treasury stocks, according to *Interpretation of Accounting Standard for Business Enterprises No. 7*, cash dividend of RMB0 has already be deducted from the consolidated net profit attributed to the ordinary shareholders of the parent company when calculate the basic earnings per share in 2019. In the meanwhile, 2,460,000 restricted shares were deducted from the outstanding ordinary shares of the Company.

(b) Diluted earning per share

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

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(49) Supplementary information to the cash flow statements

(a) Supplementary information to the cash flow statements

Reconciliation from net profit to cash flows from operating activities

	2019	2018
Net profit	38,227,618	74,969,228
Add: Assets impairment losses	–	4,823,557
Credit impairment losses	29,256,324	18,695,980
Depreciation of fixed assets	34,807,048	28,914,368
Depreciation of right-of-use assets	29,859,521	
Amortisation of intangible assets	10,874,756	9,933,744
Amortisation of long-term prepaid expenses	34,298,665	24,113,944
(Gains)/Losses on disposal of fixed assets, intangible assets and other long-term assets	(3,585,518)	1,420,551
Gains from changes in fair value	(1,917,462)	–
Gains from derecognition of contractual rights of management service provision for Yanjiao Furen Hospital	(25,666,158)	–
Losses on disposal of long-term prepaid expense and construction in progress	13,240,493	–
Finance expenses	27,198,834	6,604,738
Investment (gains)/losses	(24,336,266)	8,302,493
Share-based payment expenses	5,920,526	2,372,415
Decrease in deferred income	(303,792)	(303,792)
Increase in deferred tax assets	(5,502,876)	(7,104,335)
Decrease in deferred tax liabilities	(611,001)	(865,510)
Decrease in inventories	(1,693,053)	3,284,122
Increase in operating receivables	(24,652,910)	(84,326,090)
Decrease in operating receivables	(24,124,975)	(24,314,885)
Net cash flows from operating activities	111,289,774	66,520,528

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(49) Supplementary information to the cash flow statements (continued)

(a) Supplementary information to the cash flow statements (continued)

Significant non-cash transactions in relation to investing and financing activities.

For the year ended at 31 December 2019, significant non-cash transactions in relation to investing and financing activities are listed as follows:

	2019	2018
Right-of-use assets increased in the current period	209,388,322	

Net movement in cash

	2019	2018
Cash balance at the end of the year	164,951,950	187,066,694
Less: Cash balance at the beginning of the year	(187,066,694)	(237,538,659)
Net decrease in cash	(22,114,744)	(50,471,965)

(b) Acquisition of subsidiaries

	2019
Cash and cash equivalents paid for business combination in the current year	3,200,000
Including: Beijing Yining Hospital	-
Huainan Kangning Hospital	3,200,000
Changchun Kanglin Hospital	-
Less: Cash and cash equivalents held by subsidiaries on the date of purchase	(2,647,495)
Including: Beijing Yining Hospital	(1,732,956)
Huainan Kangning Hospital	(220,695)
Changchun Kanglin Hospital	(693,844)
Net cash paid for acquisition of subsidiaries	552,505

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(49) Supplementary information to the cash flow statements (continued)

(c) *Net assets on the date of purchase of subsidiaries in 2019*

Current assets	54,565,638
Non-current assets	48,097,195
Current liabilities	(34,650,043)
Non-current liabilities	(7,027,500)

(d) *Cash and cash equivalents*

	31 December 2019	31 December 2018
Cash		
Including: Cash on hand	459,334	657,361
Bank deposits that can be readily drawn		
on demand	164,299,394	186,170,534
Other cash balances that can be readily drawn		
on demand	193,222	238,799
Cash at the end of the year	164,951,950	187,066,694

As at 31 December 2019, the term deposits over three months was RMB10,000 (31 December 2018: RMB10,000), and the restricted cash in the bank deposits was RMB11,068,600 (31 December 2018: Nil), which was property preservation applied by Yanjiao Furen Hospital.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

5 Changes in the consolidation scope

The wholly-owned subsidiary Hangzhou Yelimi Information Technology Co., Ltd. was set up on 27 December 2018 with a registered capital of RMB5,000,000.

On 1 May 2019 (delivery date), the subsidiary of the Group Zhejiang Kangning purchased 11% of the shares of Beijing Yining Hospital at a consideration of RMB16,623,300. The Group held 51% of the shares of Beijing Yining Hospital upon the completion of the transaction.

On 30 June 2019, the subsidiary of the Group Zhejiang Kangning entered into an equity transfer agreement with the natural person of Huainan Kangning Hospital to purchase 20% of the shares of Huainan Kangning Hospital at a consideration of RMB3,200,000. The Group held 65% of the shares of Huainan Kangning Hospital upon the completion of the transaction.

On 14 May 2019, the subsidiary of the Group Zhejiang Kangning purchased 100% of the shares of Wenzhou Yixin Health Technology Co., Ltd. from by individual shareholders.

On 9 September 2019, the subsidiary of the Group Zhejiang Kangning entered into an equity transfer agreement with the shareholders of Changchun Kanglin Hospital, Hangzhou Anken Information Technology and Jilin Nuoyazhizhou Investment Co., Ltd. ("Nuoyazhizhou Investment"), to purchase 41% of the shares of Changchun Kanglin Hospital held by Hangzhou Anken Information Technology and 10% of the shares held by Nuoyazhizhou Investment at consideration of RMB11,480,000 and RMB2,800,000 respectively. On 16 September 2019, the Group entered into a supplementary agreement with Hangzhou Anken Information Technology to purchase 13.55% of shares of Changchun Kanglin Hospital at a consideration of RMB3,794,000. The Group held 64.55% of the shares of Changchun Kanglin Hospital upon completion of the transaction.

On 10 May 2019, Shenzhen Yining Medical Investment Co., Ltd., a subsidiary of the Group, withdrew RMB1,836,000 from Sihui Kangning, in which the subsidiary held 51% of shares. After the withdrawal, the Group no longer held shares in Sihui Kangning.

The paid-in capital of the subsidiaries are detailed in Note 16(3).

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

5 Changes in the consolidation scope (continued)

(1) Business combination involving enterprises not under common control

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

Acquiree	Date of acquisition	Purchase consideration	% of equity interest	Date of purchase	Basis for determination of date of acquisition	Cash flows			
						Revenue of the acquiree from the date of purchase to the end of the year	Net profit of the acquiree from the date of purchase to the end of the year	activities of the acquiree from the date of purchase to the end of the year	Net cash flows of the acquiree from the date of purchase to the end of the year
Beijing Yining Hospital	1 May 2019	16,623,300	51%	1 May 2019	transaction was completed	16,044,292	(4,374,733)	(184,041)	(204,379)
Huainan Kangning Hospital	30 June 2019	3,200,000	65%	30 June 2019	transaction was completed	2,238,370	(725,640)	825,540	1,529,314
Changchun Kanglin Hospital	31 December 2019	18,074,000	64.55%	31 December 2019	transaction was completed	-	-	-	-

(b) Combination cost and goodwill are analysed as follows:

	Beijing Yining Hospital	Huainan Kangning Hospital	Changchun Kanglin Hospital
Combination cost –			
Cash	16,623,300	3,200,000	18,074,000
Transfer of fair value of non-cash assets	25,170,000	6,232,000	–
Total combination cost	41,793,300	9,432,000	18,074,000
Less: Share of fair value of the identifiable net assets acquired	(18,805,969)	(4,363,040)	(11,230,711)
Goodwill	22,987,331	5,068,960	6,843,289

The Group determined the fair value of the transferred non-cash assets and liabilities by using valuation techniques.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

5 Changes in the consolidation scope (continued)

(1) Business combination 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

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

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

The valuation approach of intangible assets is income approach. Key assumptions used mainly include average number of in-patient beds in operation, average in-patient spending per day per bed, gross margin, discount rate after tax and perpetuity growth rate.

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(All amounts in RMB Yuan unless otherwise stated)

5 Changes in the consolidation scope (continued)

(1) Business combination 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

	Fair value at the date of purchase	Carrying amount at the date of purchase	Carrying amount as at 31 December 2018
Cash at bank and on hand	220,695	220,695	331,882
Accounts receivable	1,774,517	0,702,569	599,210

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For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

5 Changes in the consolidation scope (continued)

(1) Business combination 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)*

(iii) Changchun Kanglin Hospital

	Fair value at the date of purchase	Carrying amount at the date of purchase	Carrying amount as at 31 December 2018
Cash at bank and on hand	693,844	693,844	900,489
Financial assets held for trading	-	-	1,500,000
Accounts receivable	3,623,956	3,623,956	3,141,811
Inventories	422,630	422,630	611,013
Prepayment	25,000	25,000	48,333
Right-of-use assets	2,516,541	2,516,541	—
Fixed assets	1,367,977	1,367,977	1,622,498
Intangible assets	15,346,454	196,454	177,687
Long-term prepaid expenses	2,542,493	2,542,493	3,587,289
Other receivables	99,376	99,376	2,046,052
Lease liabilities	(2,545,982)	(2,545,982)	—
Other payables	(1,482,551)	(1,482,551)	(202,286)
Accounts payable	(1,332,355)	(1,332,355)	(531,899)
Contract liability	(88,255)	(88,255)	(176,991)
Long-term payable	-	-	

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6 Interests in other entities

(1) Interests in subsidiaries

(a) Structure of the Group

Name of the subsidiaries/units	Type of entity	Major business location	Place of registration	Nature of business	Shareholding (%)		Method of acquisition
					Direct	Indirect	
Qingtian Kangning Hospital	LLC	Qingtian	Qingtian	Medical service	100.00%	-	Incorporation
Cangnan Kangning Hospital	LLC	Cangnan	Cangnan	Medical service	100.00%	-	Incorporation
Yongjia Kangning Hospital	LLC	Yongjia	Yongjia	Medical service	100.00%	-	Incorporation
Yueqing Kangning Hospital	LLC	Yueqing	Yueqing	Medical service	100.00%	-	Incorporation
Linhai Kangning Hospital	Other LLC	Linhai	Linhai	Medical service	80.00%	-	Incorporation
Langfang Yining Hospital ("Langfang Yining")	LLC	Langfang	Langfang	Hospital Management	100.00%	-	Incorporation
Zhejiang Huangfeng Co., Ltd.	LLC	Hangzhou	Hangzhou	Hospital Management	66.00%	-	Asset acquisition
Judicial Forensic Center		Wenzhou	Wenzhou	Forensic authentication	100.00%	-	Incorporation
Shenzhen Yining Medical Investment ("Shenzhen Yining Investment")	LLC	Shenzhen	Shenzhen	Investment	100.00%	-	Incorporation
Shenzhen Yining Hospital	LLC	Shenzhen	Shenzhen	Medical service	-	55.00%	Incorporation
Zhejiang Kangning	LLC	Ningbo	Ningbo	Hospital Management	100.00%	-	Incorporation
Hangzhou Yining Hospital	LLC	Hangzhou	Hangzhou	Medical service	-	60.00%	Incorporation
Quzhou Yining Hospital	LLC	Quzhou	Quzhou	Medical service	-	60.00%	Incorporation
Wenzhou Yining Geriatric Hospital	LLC	Wenzhou	Wenzhou	Medical service	-	100.00%	Incorporation
Pingyang Kangning Hospital	LLC	Pingyang	Pingyang	Medical service	-	100.00%	Incorporation
Taizhou Kangning Hospital	LLC	Taizhou	Taizhou	Medical service	-	51.00%	Incorporation
Wenzhou Guoda Investment	LLC	Wenzhou	Wenzhou	Properties	-	75.00%	Asset acquisition
Luqiao Cining Hospital	Other LLC	Taizhou	Taizhou	Medical service	-	51.00%	Incorporation
Yiwu Kangning Hospital Management	LLC	Yiwu	Yiwu	Hospital management	-	100.00%	Incorporation
Hangzhou Cining Hospital	LLC	Hangzhou	Hangzhou	Medical service	-	100.00%	Incorporation
Wenzhou Tianzhentang LLC	One-person LLC	Wenzhou	Wenzhou	Medical service	-	100.00%	Incorporation

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(All amounts in RMB Yuan unless otherwise stated)

Name of the subsidiaries/units	Type of entity	Major business location	Place of registration	Nature of business	Shareholding (%)	Method of acquisition
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Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities (continued)

(1) Interests in subsidiaries (continued)

(b) Non-controlling interests

	31 December 2019	31 December 2018
Hangzhou Yining Hospital	3,543,339	10,067,491
Quzhou Yining Hospital	8,465,406	8,424,991
Shenzhen Yining Hospital	11,649,006	13,116,462
Wenzhou Guoda Investment	14,224,263	13,612,308
Zhejiang Huangfeng Co., Ltd.	10,980,338	10,533,224
Beijing Yining Hospital	16,055,477	–
Heze Yining Hospital	12,666,064	14,265,074
Others	19,441,032	14,258,278
Total	97,024,925	84,277,828

(c) Subsidiaries with significant non-controlling interests

Name of subsidiaries	Shareholding of non-controlling shareholders (%)	Profit or loss	Dividends	Non-controlling interests as at 31 December 2019
		attributed to non-controlling shareholders as at 31 December 2019	distributed to non-controlling shareholder as at 31 December 2019	

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For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities (continued)

Notes to the Financial Statements

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(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities (continued)

(1) Interests in subsidiaries (continued)

(c) Subsidiaries with significant non-controlling interests (continued)

The summarised financial information of the above significant non-wholly-owned subsidiaries of the Group is listed below: (continued)

	31 December 2018					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Wenzhou Guoda Investment	16,773,329	165,362,467	182,135,796	117,724,378	9,308,166	127,032,544
Shenzhen Yining Hospital	11,562,794	29,341,925	40,904,719	14,349,851	-	14,349,851
Zhejiang Huangfeng Co., Ltd.	37,742,817	31,388,018	69,130,835	16,241,445	-	16,241,445
Hangzhou Yining Hospital	4,054,503	25,625,517	29,680,020	4,511,289	-	4,511,289
	70,133,443	251,717,927	321,851,370	152,826,963	9,308,166	162,135,129

	2018			
	Revenue	Net loss	Total comprehensive income	Cash flows from operating activities
Wenzhou Guoda Investment	16,930,448	(3,993,911)	(3,993,911)	60,098,732
Shenzhen Yining Hospital	22,770,236	(3,031,647)	(3,031,647)	4,676,387
Zhejiang Huangfeng Co., Ltd.	3,887,830	(2,738,363)	(2,738,363)	(978,414)
Hangzhou Yining Hospital	690,744	(9,442,822)	(9,442,822)	(7,169,131)
	44,279,258	(19,206,743)	(19,206,743)	56,627,574

Notes to the Financial Statements

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(All amounts in RMB Yuan unless otherwise stated)

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	Whether strategic to the Group activities	Shareholding (%)	
					Direct	Indirect
Chengdu Yining Hospital	Chengdu	Chengdu	Medical service Hospital	No	–	24%
Shanxi Shanda	Xi'an	Xi'an	Management	No	–	30%

The Group adopted the equity method to account for the above equity investments.

(b) Major financial information of significant associates

	31 December 2019 Chengdu Yining Hospital	31 December 2019 Shanxi Shanda
Current assets	13,322,990	28,029,620
Non-current assets	56,118,972	58,970,409
Total assets	69,441,962	87,000,029
Total liabilities	32,113,504	18,222,949
Equity attributable to shareholders of the parent company	37,328,458	68,777,080
Share of net assets calculated by shareholding ratio (i)	8,958,830	20,633,124
Adjustment		
– Goodwill	5,024,000	4,494,286
– Others	99,975	–
Carrying amount of equity investment in the associates	14,082,805	25,127,410

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities (continued)

(2) Interests in associates (continued)

(b) Major financial information of significant associates (continued)

	2019	2019
	Chengdu Yining Hospital	Shanxi Shanda
Revenue	5,811,859	18,557,156
Net profit and total comprehensive income	(7,106,025)	1,340,730

- (i) The Group calculated share of assets by shareholding ratio based on the amount attributable to the parent company in the associates' consolidated financial statements. The amounts of associates on the consolidated financial statements take into account the fair value of net identifiable assets and liabilities of the associate when acquiring the investment and the effect of unifying accounting policies.

(c) Summarised information of insignificant associates

The names of the associates of the Company are stated as in Note 4(9).

	2019	2018
Aggregated carrying amount	9,000,000	9,000,000

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

7 Segment information (continued)

The Group has two operating segments:

- Medical service segment, which is responsible for provision of medical service;
- property development segment, which is responsible for provision of property development, lease and sale 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

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions

(1) General information of the parent company

The Company does not have a parent company. During 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 of the Company.

(2) The information of the subsidiaries

The basic information of the subsidiaries is stated as in Note 6(1).

(3) The 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
Yiwu Health Centre	Non-profit organisation invested by the Group with council members assigned
Zhejiang Tianqu Environment Construction Co., Ltd. ("Zhejiang Tianqu")	Non-controlling shareholders of subsidiaries of the Group
Shandong Furen Hospital Management Co., Ltd. ("Shandong Furen")	Non-controlling shareholders of subsidiaries of the Group
Jilin Nuoyazhizhou Investment Co., Ltd. ("Nuoyazhizhou Investment")	Non-controlling shareholders of subsidiaries of the Group
Xu Chengfa	Non-controlling shareholders of subsidiaries of the Group
Qu Kaisheng	Non-controlling shareholders of subsidiaries of the Group
Huang Chen	Non-controlling shareholders of subsidiaries of the Group
Jia Chun	Non-controlling shareholders of subsidiaries of the Group
Xu Yi	Spouse of the main shareholder of the Group
Other individuals	Immediate relatives of directors, supervisors and senior management
Yanjiao Furen Hospital	Non-profit organisation invested by the Group with council members assigned, no longer a related party since 30 April 2019.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (continued)

(4) Related party transactions

(a) Pricing policies

The prices of provision of services and payment of rental to related parties are determined based on negotiations.

(b) Provision of medical management service

	2019	2018
Yiwu Health Centre	3,000,000	3,000,000
Yanjiao Furen Hospital	—	373,624
Related individuals	572,743	548,306
	3,572,743	3,921,930

(c) Lease

Right-of-use assets increased in the current period when the Group as a lessee

Name of lessor	Type of leased assets	2019	2018
Zhejiang Tianqu	Buildings	6,659,490	—

The lease liability interest expenses that are taken by the Group as a lessee

	2019	2018
Zhejiang Tianqu	309,372	—

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (continued)

(4) Related party transactions (continued)

(d) Payments on behalf of related parties

	2019	2018
Non-profit organisation established by the Group	–	1,312,205
Beijing Yining Hospital	–	179,057
Chengdu Yining Hospital	930,979	2,665,101
Huainan Kangning Hospital	–	911,600
Yanjiao Furen Hospital	–	9,319,230
Others	50,419	–
	981,398	14,387,193

(e) Advances paid on behalf of related parties

	2019	2018
Hangzhou Anken Information Technology	–	90,226

(f) Equity purchased from related parties

	2019	2018
Hangzhou Anken Information Technology (Note 5)	15,274,000	–
Nuoyazhizhou Investment (Note 5)	2,800,000	–
	18,074,000	–

(g) Key management emolument

	2019	2018
Salaries and bonus	4,530,301	4,163,800
Share-based payment	453,432	459,935
	4,983,733	4,623,735

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (continued)

(4) Related party transactions (continued)

(h) Acceptance of guarantee by the Group

	2019	2018
Guan Weili/Wang Lianyue/Wang Hongyue	290,000,000	185,000,000
The Company/Guan Weili/Wang Lianyue/ Wang Hongyue/Xu Yi	20,000,000	-
	310,000,000	185,000,000

(i) Purchase of assets

	2019	2018
Related individuals	1,201,278	-

(j) Transfer of assets

	2019	2018
Related individuals	-	1,730,715

(k) Borrowings from related parties

	2019	2018
Shandong Furen	1,960,000	2,940,000

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (continued)

(5) Receivables from and payables to related parties

(a) Receivables from related parties

		31 December 2019		31 December 2018	
		Book value	Provision for bad debts	Book value	Provision for bad debts
Accounts receivable	Yiwu Health Centre	8,250,000	(1,605,000)	5,250,000	(420,000)
	Yanjiao Furen Hospital	-	-	1,499,917	(142,573)
		8,250,000	(1,605,000)	6,749,917	(562,573)
Other receivables	Beijing Yining Hospital	-	-	179,057	(8,953)
	Chengdu Yining Hospital	13,075,355	(653,768)	6,183,117	(309,156)
	Huainan Kangning Hospital	-	-	911,600	(45,580)
	Yanjiao Furen Hospital	-	-	7,012,380	(350,619)
	Non-for-profit organisation established by the Company	4,441,736	(222,087)	3,684,137	(184,207)
	Others	2,628	(132)	-	-
		17,519,719	(875,987)	17,970,291	(898,515)

(b) Payables to related parties

		31 December 2019	31 December 2018
Long-term payables	Shandong Furen	1,960,000	-
	Zhejiang Tianqu	300,000	-
	Yanjiao Furen Hospital	-	86,645,200
		2,260,000	86,645,200
Other payables	Hangzhou Anken Information Technology	15,900,219	124,453
	Qu Kaisheng	4,232,754	4,274,945
	Huang Chen	1,501,995	2,159,583
	Shandong Yining Hospital	-	14,700,000
	Shandong Furen	3,412,694	3,015,289
	Xu Chengfa	-	500,000
	Jia Chun	400,000	-
	Nuoyazhizhou Investment (Note 5)	2,800,000	-
	Zhejiang Tianqu	241,185	2,137,083
	Others	2,866	-
		28,491,713	26,911,353
Lease liabilities	Zhejiang Tianqu	6,754,366	-

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (continued)

(6) Equity and interest of directors

(a) Emoluments of directors and chief executives

In 2019, the emoluments of each directors, supervisors and chief executives are shown below:

Name	Emoluments	Salaries and subsidies	Contributions to pension plans	Bonus	Other welfare	Total
Executive directors (i)						
Guan Weili	-	397,177	56,932	85,077	-	539,186
Wang Lianyue	-	325,177	27,212	85,597	-	437,986
Wang Hongyue	-	183,235	63,356	74,077	-	320,668
Non-executive directors (i)						
Lin Lijun	-	-	-	-	-	-
Yang Yang	-	-	-	-	-	-
Independent directors						
Ge Chuangji	70,000	-	-	-	-	70,000
Zhuang Yiqiang	70,000	-	-	-	-	70,000
Huang Zhi	70,000	-	-	-	-	70,000
Supervisors						
Sun Fangjun	-	-	-	-	-	-
Xie Tiefan	-	65,959	27,377	58,945	16,000	168,281
Huang Jinou	-	-	-	-	-	-
Qian Chengliang	-	-	-	-	-	-
Chen Jian	-	-	-	-	-	-
Total	210,000	971,548	174,877	303,699	16,000	Td(-)T1,676,121

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (continued)

(6) Equity and interest of directors (continued)

(a) Emoluments of directors and chief executives (continued)

In 2018, the emoluments of each directors, supervisors and chief executives are shown below:

Name	Emoluments	Contributions			Other welfare	Total
		Salaries and subsidies	to pension plans	Bonus		
Executive directors (i)						
Guan Weili	-	396,000	21,974	74,951	33,784	526,709
Wang Lianyue	-	324,000	21,974	74,951	33,784	454,709
Wang Hongyue	-	166,100	21,974	68,628	33,064	289,766
Non-executive directors (i)						
Lin Lijun	-	-	-	-	-	-
Yang Yang	-	-	-	-	-	-
Independent directors						
Ge Chuangji	70,000	-	-	-	-	70,000
Zhuang Yiqiang	70,000	-	-	-	-	70,000
Huang Zhi	70,000	-	-	-	-	70,000
Supervisors						
Sun Fangjun	-	-	-	-	-	-
Xie Tiefan	-	33,636	9,996	65,460	16,000	125,092
Huang Jinou	-	-	-	-	-	-
Qian Chengliang	-	-	-	-	-	-
Ma Jinlong	-	-	-	-	-	-
Total	210,000	919,736	75,918	283,990	116,632	1,606,276

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (continued)

(6) Equity and interest of directors (continued)

(a) Emoluments of directors and chief executives (continued)

	Provision of director service to the Company or the subsidiaries		Provision of other services to the Company or the subsidiaries		Total	
	2019	2018	2019	2018	2019	2018
	Emoluments of directors	-	-	1,297,840	1,271,184	1,297,840

(i) There was no waiver of emoluments by directors in 2019 (2018: Nil).

Other welfare mainly included housing funds, etc.

(7) The five individuals whose emoluments were the highest

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2019 included 0 director (2018: one) whose emoluments were shown in the table above. The total emoluments of the remaining five individuals (2018: four) are as follows:

	2019	2018
Basic salaries, bonus, housing subsidies and others	3,794,219	2,395,124
Equity incentive plan	152,553	140,795
	3,946,772	2,535,919

	Headcount	
	2019	2018
Range:		
RMB0 – RMB500,000	-	-
RMB500,000 – RMB1,000,000	5	4

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

9 Share-based payment

(a) The restricted share incentive plan I

As at 31 December 2019, the Company had implemented the following share incentive plan for employees: following the deliberations of the 3rd Board of Directors of the Company on 4 July 2014 and the first shareholder meeting in the year of 2014 on 21 July 2014, the Company approved *Equity Incentive Plan of Wenzhou Kangning Hospital Co., Ltd.*

The main terms of the restricted share incentive plan I are set out below:

- (1) Equity incentive method: To furnish the restricted share incentive plan, 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 [(Equity Incentive Pld Tw iAth*ongyue-0.053q5(tifi56 emve plan6 TDicipat56 TD)12nci Kangning)5(380.012 T

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

9 Share-based payment (continued)

(a) The restricted share incentive plan I (continued)

The Group did not have any repurchase arrangement or commitment with the LLPs or the employees.

The above transaction was considered as equity-settled share-based payment to employees. The fair value of the Company's shares granted to employees on grant date, 21 July 2014, as determined by a professional valuation firm, was RMB5,869,000. As at 31 December 2019, the related costs were all amortised (2018: RMB412,805).

(b) The restricted share incentive plan II

On 13 June 2018, Wenzhou Kangning Hospital held its annual shareholders' meeting of 2018 and approved *Wenzhou Kangning Hospital Equity Payment Plan 2018*, which authorised the board of directors to handle the Company's employee share incentive plan. The Board of Directors of the Group reviewed and approved *Proposal on the Granting of Incentive Stocks to Incentive Objects* on 29 June 2018 and 20 August 2018.

The main terms of the restricted share incentive plan II are set out below:

- (1) Equity incentive method: Wenzhou Kangning Hospital prepared to establish five employee share ownership platforms, including Wenzhou Zhenyan Kangning Investment Management Partnership (Limited Liabilities Partnership), Wenzhou Jiamei Kangning Investment Management Partnership (Limited Liabilities Partnership), Wenzhou Enquan Kangning Investment Management Partnership (Limited Liabilities Partnership), Wenzhou Jiate Kangning Investment Management Partnership (Limited Liabilities Partnership) and Wenzhou Shouwang Kangning Investment Management Partnership (Limited Liabilities Partnership) 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 at 31 December 2019, employees contributed RMB21,721,144, of which RMB2,460,000 was recognised in equity and RMB19,261,144 in capital surplus-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.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

9 Share-based payment (continued)

(b) The restricted share incentive plan II (continued)

(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.
- (ii) If the shares involved in this incentive plan are listed within the validity period, the owner may require the partnership to sell the shares of the company corresponding to its property share, in order to gradually realize the income of the property share on the premise of abiding by relevant laws and regulations, the requirements of relevant regulatory bodies and the relevant provisions of the articles of association.

(4) Repurchase clauses

Unlocked share of incentive stock is repurchased by the general partner of the partnership at the price of payment of contribution. The cash dividend received by the motivator during the lock-in period will be deducted from the repurchase price. The Company will repurchase and cancel the unregistered or

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

10 Commitments

(1) Capital expenditure commitments

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

	31 December 2019	31 December 2018
Buildings, machinery and equipment	91,136,989	146,163,230
Intangible assets	577,900	698,000
	91,714,889	146,861,230

(2) External investment commitments

As at 31 December 2019, there were no external investment commitments for the Group.

11 Operating leasing collection after the balance sheet date

As the lessor, the undiscounted lease proceeds receivable after the balance sheet date are as follows:

	31 December 2019	31 December 2018
Within 1 year	4,624,743	11,777,467
1 – 2 years	5,568,766	4,655,515
2 – 3 years	4,244,756	4,711,185
3 – 4 years	3,945,172	3,945,172
4 – 5 years	3,945,172	3,945,172
Over 5 years	10,121,020	10,161,020
	32,449,629	39,195,531

12 Events after the balance sheet date

- (1) After the outbreak of Coronavirus Disease 2019 (“COVID-19 outbreak”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

13 Financial risk

The Group's activities expose it to a variety of financial risks: market risk (primarily foreign exchange risk and 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 denominated in foreign currencies (mainly denominated in Hong Kong dollars). The Group's finance department at its headquarter is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, to reduce foreign exchange risk to the greatest extent.

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

	31 December 2019		Total
	HKD	USD	
Cash at bank and on hand	3,333,874	8,143,081	11,476,955

	31 December 2018		Total
	HKD	USD	
Cash at bank and on hand	34,063,970	15,166,718	49,230,688

As at 31 December 2019, for the Group's various financial assets denominated in HKD and USD, if the RMB strengthened/weakened by 3% against the HKD and USD while all other variables had been held constant, the Group's net profit for the year will be approximately RMB258,231 (31 December 2018: RMB1,107,690) lower/higher.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

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 from banks. 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 31 December 2019, the Group's long-term interest bearing borrowings were mainly RMB-denominated with fixed rates, amounting to RMB40,000,000 (31 December 2018: RMB80,000,000). As at 31 December 2019, the Group had RMB20,000,000 of long-term borrowings measured at floating rate (Note 4(27)) (31 December 2018: Nil).

The Group's finance department at the headquarter continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new interest bearing 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. The Group's management makes adjustments timely with reference to the latest market conditions.

(2) Credit risk

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

The Group expects that there is no significant credit risk associated with bank deposits since they are deposited at state-owned banks and other medium or large size listed banks. Management expects that there will be low risk of significant losses from non-performance by these counterparties.

The accounts receivable of the Group is mainly from sale of medicines to patients, the provision of medical services, and management service. According to the social insurance policies of each hospital's location, the medical expenses of the patients are usually borne by the patients themselves and the social insurance. The Company usually collects part of the advances when the patient goes through the hospitalisation procedures, and settle part of the patient's personal debt when he leaves the hospital. For the patients with outstanding payment after leaving the hospital, the Company will recover the debt by collecting on a regular basis. For the medical expense that borne by the social insurance, the Company will apply for reimbursement to the social insurance institutions after issuing invoices to patients. The reimbursement is usually collected 2 – 9 months after application for reimbursement. The Company believed that there was no material credit risk in this part of payment. There was part of medical expenses of the Group that was paid by government departments such as Civil Affairs and Disabled Persons' Federation where the hospitals are located. The Group would adopt different collection monitoring mechanisms for different payment methods.

Notes to the Financial Statements

For the year ended 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

13 Financial risk (continued)

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

13 Financial risk (continued)

(3) Liquidity risk (continued)

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

	31 December 2019		31 December 2018	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Within 1 year	290,000,000	17,440,000	185,000,000	6,496,800
1 – 2 years	3,000,000	2,260,000	40,000,000	–
2 – 5 years	17,000,000	–	–	5,440,000
	310,000,000	19,700,000	225,000,000	11,936,800

14 Fair value estimates

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Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

14 Fair value estimates (continued)

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

As at 31 December 2019 and 31 December 2018, the financial assets measured at fair value on a recurring basis by the above three levels are analysed below:

	31 December 2019		
	Level 1	Level 2	Level 3
Financial assets –			
Financial assets held for trading	–	30,000,000	–
Other non-current financial assets	–	–	51,281,869
Non-financial assets			
Investment properties	–	–	110,856,100
Total assets	–	30,000,000	162,137,969
	31 December 2018		
	Level 1	Level 2	Level 3
Financial assets –			
Other non-current financial assets	–	–	50,974,323
Non-financial assets			
Investment properties	–	–	128,568,963
Total assets	–	–	179,543,286

The Group engaged Wenzhou Huaxin Assets Valuation Co., Ltd. to determine the fair value of the investment properties. The method of valuation adopted is the income method. The input values adopted were the rental, ultimate return rate/capitalisation rate and vacancy rate. Refer to Note 2(2) for details.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

14 Fair value estimates (continued)

(2) Assets and liabilities not measured at fair value but disclosed

The financial assets and liabilities that measured at amortised cost of the Group include receivables, payables, long-term payables and borrowings, etc.

The difference between the carrying amount of such financial assets and liabilities and their fair value is not material.

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 statement of financial position. The Group is not subject to external mandatory capital requirements, using gearing ratio to monitor capital.

As at 31 December 2019 and 31 December 2018, the Group's gearing ratio is as follows:

	31 December 2019	31 December 2018
Gearing ratio	40.42%	34.52%

16 Notes to the company's financial statements

(1) Accounts receivable

	31 December 2019	31 December 2018
Accounts receivable	109,378,543	118,533,802
Less: Provision for bad debts	(10,173,228)	(10,356,640)
	99,205,315	108,177,162

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

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(1) Accounts receivable (continued)

(a) The ageing analysis of accounts receivable based on the recording date is as follows:

31 December 2019 31 December 2018

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(1) Accounts receivable (continued)

(b) Provision for bad debts (continued)

- (ii) The amount of provision for bad debts during the current year was RMB6,623,037 with no provision for bad debts received/reserved.
- (c) The balance of accounts receivable that were written off in the current year was RMB6,806,449, and the provision for bad debts was RMB6,806,449, mainly including due from patients for over 3 years and medical insurance deduction.

(2) Other receivables

	31 December 2019	31 December 2018
Due from related parties	560,614,238	552,370,656
Prepayments	11,524,615	2,866,522
Deposit and guarantee	954,836	704,200
Others	1,097,403	966,927
	574,191,092	556,908,305
Less: Provision for bad debts	(10,044,489)	(2,135,598)
	564,146,603	554,772,707

(a) Provision for losses and changes in book value

	Stage 1		Stage 3		Total
	12-month ECL (grouping)		Lifetime ECL (credit-impaired)		Provision for bad debts
	Book value	Provision for bad debts	Book value	Provision for bad debts	
31 December 2018	554,752,190	925,568	2,156,115	1,210,030	2,135,598
Increase in the current year	17,282,787	510,680	7,819,170	7,819,170	8,329,850
Reversal of the current year	-	-	-	-	-
Transfer to Stage 3 in the current year	(7,819,170)	(420,959)	-	-	(420,959)
31 December 2019	564,215,807	1,015,289	9,975,285	9,029,200	10,044,489

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(2) Other receivables (continued)

(a) Provision for losses and changes in book value (continued)

- (i) As at 31 December 2019, for other receivables at Stage 1, the related provision for bad debts was analysed below:

	Book value	12-month ECL rate	Provision for bad debts
Provided on the grouping basis:			
Prepayments	1,549,330	7%	108,453
Due from related parties-outside of the Group	17,344,334	5%	867,217
Due from related parties-inside of the Group	543,269,904	0%	-
Deposit and guarantee	954,836	3%	28,645
Others	1,097,403	1%	10,974
	564,215,807		1,015,289

- (ii) As at 31 December 2019, the Group did not have any other receivables at Stage 2.

- (iii) As at 31 December 2019, for other receivables at Stage 3, the related provision for bad debts was analysed below:

	Book value	Lifetime ECL rate	Provision for bad debts
Provided on the individual basis:			
Yanjiao Furen Hospital (Note (4)(a)(iii))	7,819,170	100%	7,819,170
Xiong Guoxiu and Min Honggen (Note (4)(a)(iii))	2,156,115	56%	1,210,030
	9,975,285		9,029,200

- (b) The provision for bad debts accrued for the current year ended 31 December 2019 was RMB7,908,891 and no other receivables at Stage 3 were recovered.

- (c) There was no other receivables actually written off in the current year.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(3) Long-term equity investment (continued)

(b) Associate

	31 December 2018	Initial investment	Decrease in the investment	Share of net profit/(loss) under equity method	31 December 2019	Provision for impairment at the end of the year
Hangzhou Anken Information						
Technology	5,792,165	-	-	(423,959)	5,368,206	-
Shandong Yining Hospital	15,285,189	-	(15,285,189)	-	-	-
Hangzhou Anken Consulting	12,000,000	15,000,000	-	(208,979)	26,791,021	-
	33,077,354	15,000,000	(15,285,189)	(632,938)	32,159,227	-

(4) Fixed assets

	Buildings	Medical equipment	Motor vehicles	Electronic and other equipment	Total
Cost					
31 December 2018	323,763,876	35,170,874	3,076,836	17,925,309	379,936,895
Purchase	2,346,391	3,219,117	73,800	1,920,970	7,560,278
Disposal and retirement	-	(1,022,677)	-	(1,414,750)	(2,437,427)
31 December 2019	326,110,267	37,367,314	3,150,636	18,431,529	385,059,746
Accumulated depreciation					
31 December 2018	27,978,002	19,000,458	2,077,533	10,901,927	59,957,920
Provision	9,075,351	5,305,666	304,975	2,429,498	17,115,490
Disposal and retirement	-	(939,224)	-	(1,334,698)	(2,273,922)
31 December 2019	37,053,353	23,366,900	2,382,508	11,996,727	74,799,488
Carrying amount					
31 December 2019	289,056,914	14,000,414	768,128	6,434,802	310,260,258
31 December 2018	295,785,874	16,170,416	999,303	7,023,382	319,978,975

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(4) Fixed assets (continued)

The depreciation of fixed assets charged during the year ended 31 December 2019 was RMB17,115,490 (for the year ended 31 December 2018: RMB16,032,342), in which the amounts charged to cost of sales, general and administrative and selling and distribution expenses were RMB13,742,443, RMB3,372,064 and RMB983, respectively (for the year ended 31 December 2018: RMB13,301,539, RMB2,730,803 and RMB0).

As at 31 December 2019 and at 31 December 2018, the Company had no fixed assets pledged.

For the year ended 31 December 2019, the Company had no fixed assets transferring from construction in progress (for the year ended 31 December 2018: RMB332,312).

(5) Intangible assets

	Land use rights	Software	Contractual right to provide management service	Total
Cost				
31 December 2018	23,602,729	4,138,090	93,146,600	120,887,419
Increase in the current year	–	481,000	–	481,000
Decrease in the current year (i)	–	–	(93,146,600)	(93,146,600)
31 December 2019	23,602,729	4,619,090	–	28,221,819
Accumulated amortisation				
31 December 2018	4,280,384	2,580,617	17,685,553	24,546,554
Increase in the current year	472,054	633,030	1,572,105	2,677,189
Decrease in the current year (i)	–	–	(19,257,658)	(19,257,658)
31 December 2019	4,752,438	3,213,647	–	7,966,085
Carrying amount				
31 December 2019	18,850,291	1,405,443	–	20,255,734
31 December 2018	19,322,345	1,557,473	75,461,047	96,340,865



Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(7) Capital surplus

	31 December 2018	Increase in the current year	Decrease in the current year	31 December 2019
Share premium	781,870,038	1,046,979	-	782,917,017
Other capital surplus				
- Share-based payment (Note 9)	6,245,972	5,920,526	(1,235,835)	10,930,663
- Others	40,815,879	-	-	40,815,879
	828,931,889	6,967,505	(1,235,835)	834,663,559

(8) Retained earnings

	2019	2018
Retained earnings at the beginning of the year (before adjustment)	182,913,093	137,084,775
Adjustment:	-	345,120
Retained earnings at the beginning of the year (after adjustment)	182,913,093	137,429,895
Add: Net profit attributable to shareholders of the parent company	32,082,866	62,710,220
Less: Appropriation to statutory surplus reserve	(3,208,287)	(6,271,022)
Ordinary share dividends payable	(11,325,000)	(10,956,000)
Retained earnings at the end of the year	200,462,672	182,913,093

Pursuant to the resolution on 30 March 2020, the Board of Directors proposed not to distribute dividends for the year ended 31 December 2019 to all shareholders.

Pursuant to the resolution of the shareholders' meeting on 18 June 2019, the Company declared the cash dividends for the year ended 31 December 2018 with a total amount of RMB11,325,000, being RMB0.15 per share and outstanding shares of 75,500,000. As at 31 December 2019, the dividends had been fully paid.

Pursuant to the resolution of the shareholders' meeting on 13 June 2018, the Company declared the cash dividends for the year ended 31 December 2017 with a total amount of RMB10,956,000, being RMB0.15 per share and outstanding shares of 73,040,000. As at 31 December 2018, the dividends had been fully paid.

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(9) Revenue and cost of sales

	2019		2018	
	Revenue	Cost	Revenue	Cost
Main businesses	371,030,279	266,171,554	340,423,885	219,610,562
Other businesses	13,576,361	6,859,156	13,742,954	10,581,290
	384,606,640	273,030,710	354,166,839	230,191,852

(a) Revenue and cost of sale from main businesses

	2019		2018	
	Revenue	Cost	Revenue	Cost
Pharmaceutical sales	111,310,285	95,419,079	95,855,967	81,667,345
Treatments and general healthcare services	259,719,994	170,752,475	244,567,918	137,943,217
	371,030,279	266,171,554	340,423,885	219,610,562

(b) Revenue and cost of sale from other businesses

	2019		2018	
	Revenue	Cost	Revenue	Cost
Management services	11,946,063	6,859,156	12,947,271	10,581,290
Rental income	240,171	-	97,199	-
Others	1,390,127	-	698,484	-
	13,576,361	6,859,156	13,742,954	10,581,290

(10) Finance expenses – net

	2019	2018
Borrowing interest expense	7,215,776	5,296,137
Less: Capitalised interest	-	-
Amortisation of unrecognised financial charge (i)	1,841,300	5,510,700
Interest expenses	9,057,076	10,806,837
Less: Interest income	(2,427,741)	(1,955,764)
Exchange losses/(gains)	642,578	(4,073,649)
Others	473,158	420,685
	7,745,071	5,198,109

(i) The amount represented the amortisation of interest from long-term payables calculated using effective interest rate method (Note 4(29)).

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(11) 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:

	2019	2018
Employee benefits	126,773,342	109,340,101
Pharmaceutical and turnover materials consumed	122,709,205	103,704,494
Depreciation of fixed assets	17,115,490	16,032,342
Depreciation of right-of-use assets	42,156	—
Amortisation of intangible assets	2,677,189	5,797,361
Amortisation of long-term prepaid expenses	7,619,178	4,709,375
Housing lease and property management expenses	1,397,226	2,245,763
Canteen expenditure	13,641,304	8,733,336
Utilities	7,096,646	5,400,825
Outsourcing expenses	2,690,386	1,107,951
Testing fee	6,182,472	4,479,612
Consulting expense	7,197,929	6,494,091
Auditors' remuneration		
– Audit services	2,600,000	3,000,000
– Non-audit services	26,500	70,096
Promotion expenses	1,554,809	1,419,359
Travelling expenses	4,178,392	3,935,064
Office expenses	3,646,731	3,804,624
Share-based payment (Note 9)	5,920,526	2,372,415
Others	8,583,765	6,823,512
	341,653,246	289,470,321

Notes to the Financial Statements

For the year ended 31 December 2019

(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(12) Investment losses/(gains)

	2019	2018
Dividends of subsidiaries	-	(18,000,000)
Losses of long-term equity investment under the equity method	632,938	689,990
Investment income from disposal of long-term equity investment	138,095	-
Interest from structured deposit	(702,132)	-
Interest income during the holding period of debt investment	-	(490,898)
Dividend income from funds	(824,373)	-
	(755,472)	(17,800,908)

There was no significant restriction on investment income reserved by the Company.

(13) Credit impairment losses

	2019	2018
Losses of bad debts for accounts receivable	6,623,037	5,075,345
Losses of bad debts for other receivables	7,908,891	(154,185)
Total	14,531,928	4,921,160

(14) Income tax expenses

	2019	2018
Current income tax calculated based on tax regulations and relevant regulations	11,120,248	17,267,982
Deferred income tax	(604,424)	(2,410,323)
	10,515,824	14,857,659

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

	2019	2018
Total profit	42,598,690	77,567,879
Income tax expenses calculated at the applicable tax rate of 25%	10,649,672	19,391,970
Cost, expense and loss not deductible for income tax purposes	429,160	584,775
Additional deduction of research and development expenses	(563,008)	(850,617)
Filing difference for the previous period	-	231,531
Income not subject to tax	-	(4,500,000)
Income tax expenses	10,515,824	14,857,659

Definitions

“AGM”

the annual general meeting of the Company for the year 2019 to be convened

Definitions

“Group” or “we” or “our”	the Company and its subsidiaries
“Guanxian Yining Hospital”	Guanxian Yining Hospital Co., Ltd. (冠縣怡寧醫院有限公司), a company

Definitions

“Latest Practicable Date”	April 27, 2020, being the latest practicable date for inclusion of certain information in this annual report prior to its publication
“Linhai Kangning Hospital”	Linhai Kangning Hospital Co., Ltd. (臨海康寧醫院有限公司), a company established in the PRC with limited liability on February 2, 2015, one of the Company’s non-wholly owned subsidiaries
“Luqiao Cining Hospital”	Taizhou Luqiao Cining Hospital Co., Ltd. (台州市路橋慈寧醫院有限公司, previously known as Taizhou Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司)), a company established in the PRC with limited liability on December 12, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“Macau”	the Macau Special Administrative Region of the PRC
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
“Nanjing Yining Hospital”	Nanjing Yining Hospital Co., Ltd. (南京怡寧醫院有限公司), a company established in the PRC with limited liability on June 22, 2018, one of the Company’s indirect non-wholly owned subsidiaries
“Nomination Committee”	the nomination committee of the Board
“Non-Competition Agreement”	the non-competition agreement dated May 11, 2015 entered into by the Company and the controlling shareholders
“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 annual 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 of the PRC 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

Definitions

“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
“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
“The Reporting Period” or “Reporting Period”	the year ended December 31, 2019
“Remuneration Committee”	the remuneration committee of the Board
“RMB”	the lawful currency of the PRC
“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)
“Shenzhen Yining Hospital”	Shenzhen Yining Hospital Co., Ltd. (深圳怡寧醫院, previously known as Shenzhen Yining Hospital Co., Ltd. (深圳市怡寧醫院有限公司)), a company established in the PRC with limited liability on September 22, 2014, one of the Company’s indirect non-wholly owned subsidiaries
“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

Definitions

“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 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., Led (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
“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
“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



寧醫院