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2. 主要会计政策及会计估计

2.1 收入确认原则

	2017	2018
	(RMB'000)	(RMB'000)
Revenue	860,623	745,972
Profit before income tax	55,523	106,910
Income tax expense	(17,255)	(31,941)
Net profit	38,228	74,969

3.1

In 2019, the National Healthcare Security Administration implemented a series of reform measures to control medical insurance expenditure, such as procurement with volume in 4+7 pilot cities and the reform of medical insurance payment methods. The Group actively adjusted its strategy to adapt to medical insurance supervision requirements. While ensuring

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

3.2 信息化建设情况

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

3.3 面临的主要风险

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

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4.1 - - - - -

The Group recorded revenue of RMB860.7 million during the Reporting Period, representing

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

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

	2017	2018
Inpatient bed as at period end	6,073	5,140
Effective inpatient service bed-day capacity	2,216,645	1,876,100
Utilization rate (%)	84.2	80.3
Number of inpatient bed-days	1,865,22	1,506,762
Treatment and general healthcare services revenue attributable to inpatients (RMB'000)	557,4	516,794
Average inpatient spending per bed-day on treatment and general healthcare services (RMB)	2	343
Pharmaceutical sales revenue attributable to inpatients (RMB'000)	110,260	87,609
Average inpatient spending per bed-day on pharmaceutical sales (RMB)	5	58
Total inpatient revenue (RMB'000)	668,254	604,403
Total inpatient revenue (RMB)	358	401
Number of outpatient visits	226,720	188,488
Treatment and general healthcare services revenue attributable to outpatients (RMB'000)	2,880	22,754
Average outpatient spending per visit on treatment and general healthcare services (RMB)	132	121
Pharmaceutical sales revenue attributable to outpatients (RMB'000)	5,356	79,494
Average outpatient spending per visit on pharmaceutical sales		

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

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

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

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

	2019	2018
	(RMB'000)	(RMB'000)
Pharmaceuticals and consumables used	222,516	177,106
Employee benefits and expenses	206,523	158,047
Leasing expenses	2,225	27,938
Depreciation of right-of-use assets	2,860	—
Depreciation and amortization	62,804	45,222
Canteen expenses	35,40	25,331
Testing fees	17,325	14,093
Others	38,1	24,476
	616,184	472,213

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB616.2 million, representing an increase of 30.5% as compared with 2018, which was higher than the increase in revenue from owned hospitals. It was mainly due to: (i) the increase of 25.6% in pharmaceutical and consumables expenses relating to increase in revenue from pharmaceutical sales; (ii) the increase of 30.7% in employee benefits and expenses arising from the increase in beds in operation of owned hospitals; (iii) leasing expenses and depreciation of right-of-use assets increased by 14.8% as compared with that of 2018; and (iv) the depreciation and amortization increased by 38.9% as compared with that of 2018, mainly caused by the expansion of the healthcare facilities' network.

From the cost structure perspective, the proportion of pharmaceuticals and consumables used in the cost of revenue of owned hospitals decreased to 36.1% (2018: 37.5%). The proportion of employee benefits and expenses to cost of revenue of owned hospitals was 33.5%, remaining the same as compared with that in 2018. The proportion of leasing expenses, the depreciation of right-of-use assets together with depreciation and amortization to cost of revenue of owned hospitals slightly decreased to 15.4% (2018: 15.5%).

Revenue from other healthcare related business

The revenue from other healthcare related business of the Group includes revenue from consulting business, revenue from information technology business, etc. During the Reporting Period, revenue from the other healthcare related business of the Group amounted to RMB27.5 million, of which management and consulting business revenue was RMB21.7 million (2018: RMB19.7 million); the revenue from information technology business was RMB0.9 million (2018: nil) generated by the sales of information software developed by Yelimi Company, which was established in December 2018.

Revenue from the property business

The Group's revenue of the property business includes property leasing income, property sales income, etc. During the Reporting Period, revenue of the property business increased to RMB39.7 million (2018: RMB17.0 million), mainly due to the disposition of investment property sales income of RMB32.6 million was recorded by Wenzhou Guoda during the Reporting Period.

4.1.2 Gross Profit Margin by Business Segment

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

	2019	2018
	31,000,000	31,000,000
	201	2018
Treatment and general healthcare services	24. %	38.5%
Pharmaceutical sales	15.2%	16.0%

4.1.5 Administrative expenses

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

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

During the Reporting Period, the administrative expenses of the Group amounted to RMB123.3 million, representing an increase of 25.9% as compared with 2018, mainly due to the increase of 36.0% of our employee benefits and expenses arising from the increase of our management staff. During the Reporting Period, the proportion of the administrative expenses to the revenue from operating owned hospitals of the Group increased to 15.5% (2018: 13.9%).

4.1.6 Research and development expenses

During the Reporting Period, the Group's research and development expenses amounted to RMB6.0 million (2018: RMB5.7 million), representing an increase of 5.0% as compared with 2018. The proportion of research and development expenses to the revenue from operating owned hospitals of the Group was 0.8% (2018: 0.8%).

4.1.7 利息收入及支出

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

	2019	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	(75)	(567)
	<u>(23,488)</u>	<u>(7,171)</u>

During the Reporting Period, the net finance expenses of the Group amounted to RMB23.5 million, representing an increase of RMB16.3 million as compared with 2018, mainly due to: (i) an increase of RMB3.5 million arising from interest expense of bank borrowings during the Reporting Period; and (ii) an increase of RMB12.4 million arising from the interest expenses on lease liabilities caused by adoption of the revised Accounting Standards for Enterprises No. 21 - Leases (the “新租赁准则”) released by Ministry of Finance of China.

4.1.8 Investment Gains/(Losses)

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

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

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

4.1.9 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.

4.1.10 非经常性损益明细表

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

	2017	2018
	(RMB'000)	(RMB'000)
Derecognition of contractual rights of managing Yanjiao Furen Hospital	25,666	—
Government subsidies	2,755	6,714
Other non-operating income	68	468

4.2 主要资产及负债

4.2.1 存货

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

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

4.2.2 应收账款

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

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

4.2.3 其他应收款和预付款项

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

4.2.4 投资性房地产

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

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

Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	11,850.34
Usage	Commercial, office and hotel
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the related properties are freehold properties

4.2.5 其他非流动资产

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

4.2.6 使用权资产

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

4.2.7 应付账款

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

4.2.8 合同负债

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

4.2. 其他应付款

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

4.3 现金流量表 (续)

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

	2017 (RMB'000)	2018 (RMB'000)
Net cash generated from operating activities	111,200	66,521
Net cash used in investing activities	(140,531)	

4.4 金融工具

4.4.1 货币资金

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

4.4.2 或有负债和或有资产

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

4.4.3 资产抵押

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

4.4.4 租赁负债

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

4.4.5 金融资产和金融负债

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

4.4.6 外币金融资产和外币金融负债

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

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

4.4.7 资产减值准备

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

4.4.8 薪酬政策及薪酬水平

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

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

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

After the consideration and approval at the 15th meeting of the second session of the Board of the Company convened on August 26, 2019, incentive Shares were granted to the second phase participants. The second phase participants include core technical personnel of the Company and other persons who, in the opinion of the Board, shall be incentivized. The grant of the second phase grant scheme comprised of 37 persons, and the total number of Shares granted was 273,161 Shares. As 14 persons voluntarily abstained to subscribe, the actual grant comprised of 23 persons, and the actual aggregate number of Shares granted was 180,516 Shares, representing 0.2391% of total issued share capital of the Company at the grant date. The details are shown as the following table. The Participants shall pay the subscription amounts calculated by the amount of grants multiplied by the grant price (RMB10.47 per Share).

	Number of Shares	Number of Shares	Percentage
Core technical personnel	17	142,311	0.1885%
Other persons who, in the opinion of the Board, shall be incentivized	6	38,204	0.0506%
Total	23	180,516	0.2391%

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

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

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

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

5. Dividend Policy

5.1 Dividend Policy

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

6. Purchase and Redemption of the Company's Listed Securities

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

7. Audit Committee

The Audit Committee has reviewed the Group's annual results for the financial year ended December 31, 2019 and opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

The Audit Committee consists of two independent non-executive Directors of the Company, Mr. HUANG Zhi (the chairman of the Audit Committee) and Mr. GOT Chong Key Clevin, and one non-executive Director of the Company, Mr. LIN Lijun. Among them, Mr. HUANG Zhi has the appropriate professional qualification (a Chinese certified public accountant accredited by the Chinese Institute of Certified Public Accountants).

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

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

After the outbreak of Coronavirus Disease 2019 (“COVID-19”) in early 2020, a series of precautionary and control measures have been implemented across the country. The COVID-19 outbreak has certain effects on the operation of macro economy, while to what degree it may be impacted depends on the the situation of prevention and control, the duration of the epidemic and the implementation of the relevant regulation and control policies.

The COVID-19 outbreak has also affected, to a certain extent, the Group's medical service income in the first quarter of 2020. The Group will continue to pay close attention to the development of the COVID-19 outbreak and its impact on the Group, and we will continue to take positive measures and assess its impact on the Group's financial condition, results of operations, etc.

Save as stated above and the events disclosed in paragraph 5 heading “Significant Events” in this announcement, there were no significant events occurred since the end of the Reporting Period to the date of this announcement.

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The consolidated financial statements of the Group for the year ended December 31, 2019, which have been prepared in accordance with China Accounting Standards for Business Enterprises have been audited by PricewaterhouseCoopers Zhong Tian LLP (“PwC”), who has issued a standard audit report with unqualified opinions on the consolidated financial statements.

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated cashflow statement and consolidated statement of changes in shareholders equity and the related notes thereto for the year ended December 31, 2019 as set out in the announcement have been agreed by PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for 2019. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

12 主要會計政策

12.1 金融工具

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 “**《企業會計準則》**” or “**《準則》**”).

The financial statements are prepared on a going concern basis.

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

12.1.1 金融資產及金融負債

The Ministry of Finance released the revised Accounting Standards for Enterprises No. 21 – Leases (hereinafter referred to as “**《租賃》**”) in 2018, and instituted Notice on Revising and Circulating the Format of Financial Statements of General Enterprises for the year 2019 (Cai Kuai [2019] No.6), revised Accounting Standards for Business Enterprises No.7-Exchange of Non-Monetary Assets (hereinafter referred to as “**《非貨幣性資產交換》**”) and Accounting Standards for Business Enterprises No.12-Debt Restructuring (hereinafter referred to as “**《債務重組》**”). The Group has adopted standards and notice above to prepare the financial statements for the year 2019. There are no phenomenal influences brought by revised Standards for Exchange of Non-Monetary Assets and Standards for Debt Restructuring, while influences of other revision on statements of the Group and the Company are listed as follow:

(a) *Leases*

The Group and the Company initially implemented the New Leasing Rules on January 1, 2019. According to relevant regulations, the Group and the Company decided not to re-evaluate contracts signed before the date of initial implementation. The Group adjusted the amount of the related items in 2019 financial statements, and comparative financial statements in 2018 were not restated. The Company has no lease contract on January 1, 2019, so the initial implementation of the New Lease Standard has no phenomenal influence on the Company.

Contents and reasons of the modification of accounting policies	The line items affected	The amounts affected 1 January, 2019 The Group (RMB)
For operating lease contracts that existed prior to the initial implementation of the New Lease Standard, the Group adopts different methods according to the remaining lease period:	Right-of-use assets Lease liabilities Non-current liabilities due within one year	234,963,917 (198,596,521) (26,230,361)
If the remaining lease period is longer than one year, the Group recognises lease liabilities based on the remaining lease payment and incremental borrowing rate on January 1, 2019 (“ 1% f 1% - 1% ”). Right-of-use assets are recognised as the same amount as lease liabilities, and are adjusted according to the prepaid rent.	Prepayment Other non-current assets Other payable	(9,871,004) (4,097,899) 3,831,868
If the remaining lease period is less than one year, the Group adopts a simplified method of not recognising the right-of-use assets and lease liabilities, with no significant impact on the financial statements.		
For operating lease contracts with low value that existed prior to the initial implementation of the New Lease Standard, the Group adopts simplified method of not recognising the right-of-use assets and lease liabilities, with no significant impact on the financial statements.		

On January 1, 2019, when the Group measured the lease liabilities, the same discount

12.2 Annual consolidated financial statements

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

12.2.1 Annual consolidated financial statements

	2017	2018
4. Net profit	38,227,618	74,969,228
Classified by continuity of operations		
Net profit from continuing operations	38,227,618	74,969,228
Net profit from discontinued operations	—	—
Classified by ownership of the equity		
Net profit attributable to shareholders of the company	57,283,344	80,595,677
Non-controlling interests	(1,061,776)	(5,626,449)
5. Net profit attributable to shareholders of the company	38,227,618	74,969,228
Attributable to		
Shareholders of the Parent Company	57,283,344	80,595,677
Non-controlling interests	(1,061,776)	(5,626,449)
6. Basic earnings per share	0.78	1.10
Diluted earnings per share	0.77	1.09

12.2.2 A (All amounts in RMB Yuan unless otherwise stated)

A	31, 201	December 31, 2018
Cash at bank and on hand	176,030,550	187,076,694
Financial assets held for trading	30,000,000	—
Accounts receivable	310,520,612	299,750,063
Other receivables	63,317,366	58,051,581
Prepayment	5,366,020	16,683,839
Inventories	23,568,236	20,813,747
Current portion of non-current assets	12,688,704	12,688,704
	621,4 1,488	595,064,628
Other non-current financial assets	51,281,86	50,974,323
Long-term equity investments	110,856,100	12,688,704
Investment properties	8,43,1 3	100,321,983
Fixed assets	110,856,100	128,568,963
Construction in progress	552,4 0,802	444,322,834
Right-of-use assets	72,180,620	131,187,406
Intangible assets	235,312,14	—
	130,2 8,128	185,257,977

12.2.3 A (All amounts in RMB Yuan unless otherwise stated)

	201	31, 2018
1. Cash received from sales of goods or rendering of services	807,53 ,631	654,660,709
Cash received relating to other operating activities	18,344,424	31,999,794
	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, 52)	(39,374,238)
Cash paid relating to other operating activities	(110,4 8,137)	(120,948,057)
	(714,5 4,281)	(620,139,975)
	111,28 ,774	66,520,528
2. Cash received from disposal of investments	447,0 4	—
Cash received from investment gain	1,526,505	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	32, 24,720	—
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
	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)
	(180,8 ,337)	(519,110,573)
	(140,530,65)	(155,480,608)

	2017	2016
3. 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	11,600,000	—
	244,000,000	225,260,000
Cash repayments of borrowings	(185,000,000)	(169,285,600)

12.2.4 (All amounts in RMB Yuan unless otherwise stated)

	1,201	75,500,000	827,37,886	(21, 10,000)	2, 81,034	210,044,608	84,277,828	1,205,273,356
Total comprehensive income								
Net profit						57,28,34	(1,061,776)	38,227,618
Capital contribution and withdrawal by shareholders								
Capital contribution by Shareholders							12,345,000	12,345,000
Share-based payment included in shareholders' equity			5,20,526					5,20,526
Transactions with non-controlling Shareholders			(3,60,38)				(4,60,611)	(8,660,000)
Capital withdrawal by Shareholders			(188,856)	188,856				
Others			(4,705,722)				(2,152,086)	(6,857,808)
Business combination involving enterprises not under common control							26,585,570	26,585,570
Profit distribution								
Appropriation for surplus reserve					3,208,287	(3,208,287)		
Profit distribution to equity shareholders						(11,325,000)		(11,325,000)
	31,201	75,500,000	824,715,445	(21,721,144)	33,18,321	252,800,715		

		\$	73,040,000	\$	808,244,186	\$	-	\$	23,710,012	\$	146,840,254	\$	58,662,363	\$	1,110,496,815
Add:	change in accounting policies		-		-		-		-		(164,301)		-		(164,301)

12.3 12.3.1 A

12.3.1 A

	31, 2017	December 31, 2018 RMB
Due from related parties	8,250,000	6,749,917
Due from third parties	330,174,215	318,519,503
Subtotal	338,424,215	325,269,420
Less: Provision for bad debts	(27, 03,603)	(25,519,357)
	<u>310,520,612</u>	<u>299,750,063</u>

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

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

	31, 2017	December 31, 2018 RMB
Within 1 year	266, 32, 53	261,000,854
1 - 2 years	57, 88,407	51,396,190
2 - 3 years	13,08 ,001	12,862,881
Over 3 years	413,854	9,495
	<u>338,424,215</u>	<u>325,269,420</u>

12.3.2 A

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

	31, 2017	December 31, 2018 RMB
Within 3 months	65,881,555	43,099,493
3- 6 months	7,47 , 5	3,971,590
6-12 months	1,381,101	836,832
1 - 2 years	506,880	25,470,222
2 - 3 years	4,816	50,357
Over 3 years	210,613	216,223
	<u>75,554, 60</u>	<u>73,644,717</u>

12.3.3 Revenue and cost of sales

		31, 201	Year ended December 31, 2018	
			Revenue	Cost
Main businesses	7 3,48 ,663	616,183,633	706,651,478	472,212,855
Other businesses	67,202,066	40,000, 31	39,320,410	21,516,781
	<u>860,6 1,72</u>	<u>656,184,564</u>	<u>745,971,888</u>	<u>493,729,636</u>

		31, 201	Year ended December 31, 2018	
			Revenue	Cost
Pharmaceutical sales	205,615,871	174,3 7,815	167,103,194	140,329,511
Treatments and general healthcare services	587,873,7 2	441,785,818	539,548,284	331,883,344
	<u>7 3,48 ,663</u>	<u>616,183,633</u>	<u>706,651,478</u>	<u>472,212,855</u>

		31, 201	Year ended December 31, 2018	
			Revenue	Cost
Real estate sales	32,554,016	28, 68,4 8	9,471,045	7,260,685
Management service ⁽ⁱ⁾	21,713, 50	,0 3, 28	19,747,723	12,816,061
Rental income	7,141,5 8		7,568,944	—
Others	5,7 2,502	1, 38,505	2,532,698	1,440,035
	<u>67,202,066</u>	<u>40,000, 31</u>	<u>39,320,410</u>	<u>21,516,781</u>

- (i) In 2019, considering the management service income accounts for a small proportion of the Group's total revenue, the management re-assessed the Group's main business and reclassify the management service from main business to other business, and the 2018 comparative figures were adjusted accordingly.

12.3.5

	2017	2018
Credit impairment losses for accounts receivable	20,356,414	18,541,921
Credit impairment losses for other receivable	8,810	154,059
	<u>2,256,324</u>	<u>18,695,980</u>

12.3.6

	2017	2018
The net profit attributed to the ordinary Shareholders of the Company (RMB) ⁽ⁱ⁾	57,283,344	80,226,677
Weighted average number of outstanding ordinary Shares of the Company (Share) ⁽ⁱ⁾	<u>73,040,000</u>	<u>73,040,000</u>
Basic earning per Share (RMB)	<u>0.78</u>	<u>1.10</u>

(i) Following the approval by the Shareholders at the general meeting of June 13, 2018,

12.3.7

	2019	2018
Current income tax	23,400,066	39,910,885
Deferred income tax	(6,113,877)	(7,969,845)
	<u>17,286,189</u>	<u>31,941,040</u>

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

	2019	2018
Profit before tax	55,522,807	106,910,268
Income tax expenses calculated at the effect tax rate of 25%	13,880,702	26,727,567
Expenses not deductible for income tax purposes	2,741,475	3,898,294
Filing difference for the previous period		2,553,569
Additional deduction of research and development expenses	(1,034,408)	(850,617)
Tax effect of unrecognised tax losses	8,337,400	26,321
Utilization of previous unrecognized tax losses		(414,094)
Temporary difference related to subsidiary investments for which no deferred tax liabilities	(6,624,800)	—
Income tax expenses	<u>17,286,189</u>	<u>31,941,040</u>

12.3.8

On March 30, 2020, the Board did not recommend the payment of a final dividend for the year ended December 31, 2019. The proposal not to declare dividend is subject to approval by the Shareholders at AGM.

On March 25, 2019, the Board proposed a final dividend of RMB11,325,000 for the year ended December 31, 2018. The proposed dividend was approved by the Shareholder at the annual general meeting for the year 2018 of the Company on June 18, 2019 and the Company paid out the dividend on July 18, 2019.

“AGM”	the annual general meeting of the Company for the year 2019 expected to be convened and held on June 18, 2020
“Audit Committee”	the audit committee of the Board
“Beijing Yining Hospital”	Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司), a company established in the PRC with limited liability on August 17, 2015, one of the Company’s indirect non-wholly owned Subsidiaries
“Board of Directors” or “Board”	the board of Directors
“Cangnan Kangning Hospital”	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company’s wholly owned Subsidiaries
“Company” or “Wenzhou Kangning Hospital”	Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 2120)
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Geriatric Hospital”	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the Company’s indirect wholly owned Subsidiaries, whose principal business is to provide medical services for the geriatric, including geriatric psychiatric and psychological treatment
“Group” or “we” or “our”	the Company and its wholly owned Subsidiaries

“H Share(s)”	overseas listed foreign invested ordinary Share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of The Stock Exchange of Hong Kong Limited
“Hangzhou Yining Hospital”	Hangzhou Yining Hospital Co., Ltd. (杭州怡寧醫院有限公司), a company established in the PRC with limited liability on August 25, 2016, one of the Company’s indirect non-wholly owned Subsidiaries
“Heze Yining Hospital”	Heze Yining Psychiatric Hospital Co., Ltd. (荷澤怡寧精神病醫院有限公司, previously known as Heze Yining Hospital Co., Ltd. (荷澤怡寧醫院有限公司)), a company established in the PRC with limited liability on April 6, 2017, one of the Company’s indirect non-wholly owned Subsidiaries
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Huainan Kangning Hospital”	Huainan Kangning Hospital Co., Ltd. (淮南康寧醫院有限公司), a company established in the PRC with limited liability on September 22, 2017, one of the Company’s indirect non-wholly owned Subsidiaries
“Luqiao Cining Hospital”	Taizhou Luqiao Cining Hospital Co., Ltd. (台州市路橋慈寧醫院有限公司, previously known as Taizhou Luqiao Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司))

“PRC” or “China”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Qingtian Kangning Hospital”	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011, one of the Company’s wholly-owned Subsidiaries
“RMB”	the lawful currency of the PRC
“Share(s)”	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the domestic share(s) and the H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Subsidiary” or “Subsidiaries”	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
“Supervisor(s)”	the members of the supervisory committee
“Taizhou Kangning Hospital”	Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company’s indirect non-wholly owned Subsidiaries
“the Reporting Period”	For the year ended December 31, 2019
“Wenling Nanfang Hospital”	Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd. (溫嶺南方精神疾病專科醫院有限公司), a company established in the PRC with limited liability on June 20, 2018, one of the Company’s indirect non-wholly owned Subsidiaries
“Wenzhou Guoda”	

“Yelimi Company”	Hangzhou Yelimi Information Technology Co., Ltd. (杭州耶利米信息科技有限公司), a company established in the PRC with limited liability on December 27, 2018, one of the Company’s indirect wholly-owned Subsidiaries
“Yongjia Kangning Hospital”	Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2012, one of the Company’s wholly owned Subsidiaries
“%”	percentage ratio

By order of the Board
%,
A
Chairman

Zhejiang, the PRC
March 30, 2020

As of the date of this announcement, the Company’s executive Directors are Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue; the non-executive Directors are Mr. YANG Yang and Mr. LIN Lijun; and the independent non-executive Directors are Mr. CHONG Yat Keung, Mr. HUANG Zhi and Mr. GOT Chong Key Clevin.