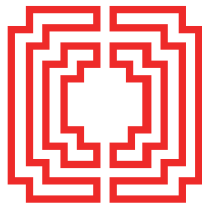


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溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.

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

Stock code: 2120

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2020

1 INTRODUCTION

- 1.1 The Board is pleased to announce the Group's interim results for the Reporting Period, together with comparative figures for the six months ended June 30, 2019.
- 1.2 The financial report (the "**Financial Report**") of the Group for the Reporting Period is prepared in accordance with China Accounting Standards for Business Enterprises.

2 FINANCIAL HIGHLIGHTS

2.1 Principal Financial Data and Indicators

	For the six months ended June 30,	
	2020 <i>(RMB'000)</i> <i>(Unaudited)</i>	2019 <i>(RMB'000)</i> <i>(Unaudited)</i>
Revenue	465,150	378,910
Profit before income tax	39,404	52,661
Income tax expenses	(10,503)	(7,120)
Net profit	28,901	45,541
Net profit attributable to shareholders of the Company	36,410	52,064
Non-controlling interests	(7,509)	(6,523)
	As at June 30, 2020 <i>(RMB'000)</i> <i>(Unaudited)</i>	As at December 31, 2019 <i>(RMB'000)</i> <i>(Audited)</i>
Total assets	2,274,908	2,117,352
Total liabilities	960,485	855,843
Total equity	1,314,423	1,261,509
Equity attributable to shareholders of the Company	1,186,459	1,164,484
Non-controlling interests	127,964	97,025

3 BUSINESS REVIEW AND OUTLOOK

In the first half of 2020, the Coronavirus Disease 2019 (the “**COVID-19 epidemic**”) outbreak has brought a relatively extensive influence on all areas of the society. As a healthcare service institution, while carrying out COVID-19 epidemic prevention and control work scientifically in an orderly manner, the Group has actively taken effective measures to deal with the adverse impact of the COVID-19 epidemic. In the first quarter of 2020, the number of outpatients and inpatient bed-days within the Group’s owned hospitals was less than expected due to the COVID-19 epidemic, while the Group’s healthcare business grew rapidly in the second quarter of 2020 with the COVID-19 epidemic under control gradually in China. On the other hand, the nation continued to deepen the reform of the medical security system and expand the range of pilots for centralized procurement of drug, and gradually introduced medical insurance payment methods including payment by type of disease, payment by diagnoses related groups (DRGs), and payment by bed. The Group followed the trend of the medical insurance reform, adjusted and improved the structure of medical service, to ensure the stable growth of the business. Specifically speaking, it has made the following progress:

In the first half of 2020, the Group’s owned hospitals business grew steadily. The business of Geriatric Hospital, Linhai Kangning Hospital, Quzhou Yining Hospital and Pingyang Kangning Hospital opened in 2016 has gradually matured. The business of the three existing new hospitals, namely Taizhou Kangning Hospital, Luqiao Cining Hospital and Wenling Nanfang Hospital, has increased rapidly. The number of beds of Cangnan Kangning Hospital increased rapidly after it was relocated to the new hospital area. The proportion of patients with mild mental illness to patients with moderate or severe illness in Wenzhou Kangning Hospital increased significantly as compared with that of the same period of last year. Only Beijing Yining Hospital saw a decrease in business volume due to the restrictive measures taken by the local government to fight COVID-19 epidemic. Two hospitals, namely Qingtian Kangning Hospital and Yongjia Kangning Hospital, have implemented new hospital area relocation projects and are expected to add 500 new beds to solve the problems that business development was constrained by space concerns. In addition, the Group acquired the controlling interest in Wenzhou Cining Hospital in the first half of 2020 and terminated its previous management consulting services. As of June 30, 2020, the number of the Group’s owned hospitals increased to 23 (December 31, 2019: 21), including an independently established Internet hospital (Yining Psychological Internet Hospital), and its operating beds increased to 6,853 (December 31, 2019: 6,073).

In the first half of 2020, remote inquiry of psychological health and the need for drugs purchase of the public increased during the epidemic period. The Group has actively explored a new service pattern of “Internet + medical health”, with the aid of the Internet healthcare related policies encouraged by the nation, developed businesses such as drug provision for other Internet hospitals, prescription service provision for drug e-commerce platform and the business of re-diagnosis and prescribing drugs through its own Internet platform. It initially constructed an Internet mental health management platform with Internet hospitals, Medical Group, drug supply chain and medical informatization as its main business.

Looking into the future, with the further implementation of the strategy of a healthy China, the reform of medical insurance payment method will overall accelerate, and the efficiency of medical insurance management will also continue to improve. The Group will succeed to focus on the health of patients with mental illness, strengthen the construction of medical personnel, and improve the quality of medical services. At the same time, the Group will rely on years of accumulation in hospital information technology and advantages in the field of mental health, develop with comprehensive strategy of “Internet + health services”, increase investment in medical informatization construction, “extend service range and optimize the existing services”, thus gradually improving the Group’s operating efficiency, and striving to achieve stable and sustainable development of the Group.

4 MANAGEMENT DISCUSSION AND ANALYSIS

4.1 Financial Review

The Group recorded revenue of RMB465.2 million during the Reporting Period, representing an increase of 22.8% as compared with that of the same period of 2019. Among them, the revenue from operating its owned hospitals amounted to RMB438.9 million, representing an increase of 21.8% as compared with that of the same period of 2019. During the Reporting Period, the average inpatient spending per bed-day of the Group’s owned hospitals has increased, thus the gross profit margin of its owned hospitals increased to 26.3% (for the six months ended June 30, 2019: 22.3%). As such, the overall gross profit of the Group increased to RMB128.3 million, representing an increase of 39.4% as compared with that of the same period of 2019. During the Reporting Period, net profit attributable to shareholders of the Company amounted to RMB36.4 million, representing a decrease of 30.1% as compared with that of the same period of 2019, primarily due to the gain of RMB26.2 million on disposal of equity interests arising from the additional investment in the same period of 2019, the gain of RMB13.3 million from the derecognition of contractual rights of managing Yanjiao Furen Hospital and the loss of RMB4.8 million arising from the renovation work rejection of Langfang Yining Hospital and Sihui Kangning Hospital. If the comparison basis for 2019 does not include the above one-off effects, the net profit attributable to shareholders of the Company during the Reporting Period increased by 109.9%.

4.1.1 Revenue and Cost of Revenue

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

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

	For the six months ended June 30,	
	2020	2019
	(RMB’000)	(RMB’000)
	(Unaudited)	(Unaudited)
Revenue from operating owned hospitals	438,886	360,210
Revenue from other healthcare related business	19,116	15,281
Revenue of the property business	7,148	3,419
	<hr/>	<hr/>
Total revenue	465,150	378,910
	<hr/> <hr/>	<hr/> <hr/>

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 six months ended June 30,	
	2020	2019
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Treatment and general healthcare services		
Revenue	337,751	263,580
Cost of revenue	237,419	197,304
Gross profit	100,332	66,276
Pharmaceutical sales		
Revenue	101,135	96,630
Cost of revenue	86,044	82,629
Gross profit	15,091	14,001
Owned hospitals		
Revenue	438,886	360,210
Cost of revenue	323,463	279,933
Gross profit	115,423	80,277

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB438.9 million, representing an increase of RMB78.7 million as compared with that of the same period of 2019, mainly due to the increase in revenue from operating Wenzhou Kangning Hospital, Cangnan Kangning Hospital, Yueqing Kangning Hospital and Geriatric Hospital and the addition of three owned hospitals, namely, Huainan Kangning Hospital, Changchun Kanglin Psychological Hospital and Wenzhou Cining Hospital as compared with the same period of 2019. During the Reporting Period, the gross profit of the Group's owned hospitals increased by 43.8% as compared with that of the same period of 2019, mainly due to the increase in inpatient bed-days and average inpatient spending per bed-day.

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

	For the six months ended June 30,	
	2020	2019
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Inpatients		
Inpatient bed as at period end	6,853	5,593
Effective inpatient service bed-day capacity	1,240,393	1,012,333
Utilization rate (%)	83.1	84.9
Number of inpatient bed-days	1,030,392	859,061
Treatment and general healthcare services revenue attributable to inpatients (RMB'000)	324,990	251,945
Average inpatient spending per bed-day on treatment and general healthcare services (RMB)	315	293
Pharmaceutical sales revenue attributable to inpatients (RMB'000)	53,841	50,926
Average inpatient spending per bed-day on pharmaceutical sales (RMB)	52	59
Total inpatient revenue (RMB'000)	378,831	302,871
	<u><u>368</u></u>	<u><u>353</u></u>
Total average inpatient spending per bed-day (RMB)		
Outpatients		
Number of outpatient visits	125,852	105,986
Treatment and general healthcare services revenue attributable to outpatients (RMB'000)	12,761	11,635
Average outpatient spending per visit on treatment and general healthcare services (RMB)	101	110
Pharmaceutical sales revenue attributable to outpatients (RMB'000)	47,294	45,704
Average outpatient spending per visit on pharmaceutical sales (RMB)	376	431
Total outpatient revenue (RMB'000)	60,055	57,339
	<u><u>477</u></u>	<u><u>541</u></u>
Total average outpatient spending per visit (RMB)		
Total treatment and general healthcare services revenue (RMB'000)	337,751	263,580
	<u><u>101,135</u></u>	<u><u>96,630</u></u>
Total pharmaceutical sales revenue (RMB'000)		

During the Reporting Period, inpatient revenue amounted to RMB378.8 million, representing an increase of 25.1% as compared with that of the same period of 2019, primarily due to: (i) the number of the Group's inpatient bed-days increased by 19.9% arising from the increase of inpatient bed-days in Cangnan Kangning Hospital, Pingyang Kangning Hospital, Luqiao Cining Hospital and Geriatric Hospital; and (ii) the average inpatient spending per bed-day of the Group's owned hospitals increased by 4.2%. The proportion of inpatient revenue to revenue from operating owned hospitals increased to 86.3% (for the six months ended June 30, 2019: 84.1%).

During the Reporting Period, outpatient revenue amounted to RMB60.1 million, representing an increase of 4.7% as compared with that of the same period of 2019, primarily due to the increase of outpatient visits by 18.7%. The proportion of outpatient revenue to our revenue from operating owned hospitals decreased to 13.7% (for the six months ended June 30, 2019: 15.9%).

During the Reporting Period, due to the increase of both inpatient and outpatient business of owned hospitals, revenue from treatment and general healthcare services increased by 28.1% as compared with that of the same period of 2019, and increased to 77.0% of revenue from operating owned hospitals (for the six months ended June 30, 2019: 73.2%); revenue from pharmaceutical sales increased by 4.7% as compared with that of the same period of 2019, accounting for 23.0% of revenue from operating our owned hospitals (for the six months ended June 30, 2019: 26.8%), of which: the ratio of inpatient pharmaceutical sales to total inpatient revenue decreased to 14.2% (for the six months ended June 30, 2019: 16.8%), the ratio of outpatient pharmaceutical sales to total outpatient revenue decreased to 78.8% (for the six months ended June 30, 2019: 79.7%).

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

	For the six months ended June 30,	
	2020	2019
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Pharmaceuticals and consumables used	112,156	101,813
Employee benefits and expenses	110,048	91,091
Depreciation of right-of-use assets	15,297	14,119
Depreciation and amortization	37,019	30,236
Canteen expenses	18,390	16,577
Testing fees	11,647	7,807
Others	18,906	18,290
	<hr/>	<hr/>
Cost of revenue of owned hospitals	323,463	279,933
	<hr/> <hr/>	<hr/> <hr/>

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB323.5 million, representing an increase of 15.6% as compared with that of the same period of 2019, which was lower than the increase in revenue from owned hospitals. It was mainly due to: (i) the owned hospitals adjusted the service structure, resulting in an increase of 28.1% in revenue from treatment and general healthcare services as compared with that of the same period of 2019; (ii) the decline in pharmaceutical prices resulted in a lower growth rate of pharmaceutical costs in the costs of revenue than revenue growth for the owned hospitals; and (iii) the growth rate of fixed costs such as depreciation of right-of-use assets was lower than revenue growth.

From the cost structure perspective, the proportion of pharmaceuticals and consumables used in the cost of revenue of owned hospitals decreased to 34.7% (for the six months ended June 30, 2019: 36.4%). The proportion of employee benefits and expenses to cost of revenue of owned hospitals increased to 34.0% (for the six months ended June 30, 2019: 32.5%). The proportion of the depreciation of right-of-use assets together with depreciation and amortization to cost of revenue of owned hospitals slightly increased to 16.2% (for the six months ended June 30, 2019: 15.8%).

Revenue from other healthcare related business

The revenue from other healthcare related business of the Group includes revenue from management and consulting business, revenue from sales of pharmaceuticals and medical devices and revenue from information technology business, etc. During the Reporting Period, revenue from the other healthcare related business of the Group amounted to RMB19.1 million, of which management and consulting business revenue was RMB11.3 million (for the six months ended June 30, 2019: RMB12.8 million); revenue from sales of pharmaceuticals and medical devices was RMB5.8 million (for the six months ended June 30, 2019: nil).

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 from the property business increased to RMB7.1 million (for the six months ended June 30, 2019: RMB3.4 million), mainly due to the sales revenue from the disposal of investment property of RMB3.9 million was recorded by Wenzhou Guoda during the Reporting Period.

4.1.2 Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB128.3 million, representing an increase of 39.4% as compared with that of the same period of 2019. The gross profit of the owned hospitals businesses amounted to RMB115.4 million, representing an increase of 43.8% as compared with that of the same period of 2019. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

	For the six months ended June 30,	
	2020	2019
	(Unaudited)	(Unaudited)
Treatment and general healthcare services	29.7%	25.1%
Pharmaceutical sales	14.9%	14.5%
Owned hospitals businesses	26.3%	22.3%
Property and other businesses	47.1%	62.8%
Consolidated gross profit margin	27.6%	24.3%

During the Reporting Period, consolidated gross profit margin of the Group increased to 27.6% (for the six months ended June 30, 2019: 24.3%), of which the gross profit margin of treatment and general healthcare services increased by 4.6 percentage points as compared with that of the same period of 2019, mainly due to the increase in the utilization rate of beds in the new hospitals and the increase in the average inpatient spending per bed-day.

4.1.3 Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB2.0 million (for the six months ended June 30, 2019: RMB0.8 million).

4.1.4 Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB3.7 million (for the six months ended June 30, 2019: RMB4.5 million), which decreased by RMB0.8 million as compared with that of the same period of 2019. The selling expenses accounted for 0.8% of the Group's revenue from operating the owned hospitals (for the six months ended June 30, 2019: 1.2%).

4.1.5 Administrative Expenses

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

	For the six months ended June 30,	
	2020	2019
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Employee benefits and expenses	35,136	33,962
Depreciation and amortization	5,970	5,709
Consultancy expenses	2,406	3,976
Travelling expenses	1,468	2,188
Others	9,659	7,055
	<hr/>	<hr/>
Total administrative expenses	54,639	52,890
	<hr/> <hr/>	<hr/> <hr/>

During the Reporting Period, the administrative expenses of the Group amounted to RMB54.6 million, representing an increase of 3.3% as compared with that of the same period of 2019, mainly due to the increase of 3.5% of our employee benefits and expenses arising from a slight 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 decreased to 12.4% (for the six months ended June 30, 2019: 14.7%).

4.1.6 Research and Development Expenses

During the Reporting Period, the Group's research and development expenses amounted to RMB2.6 million (for the six months ended June 30, 2019: RMB2.3 million), representing an increase of 14.5% as compared with that of the same period of 2019. The proportion of research and development expenses to the revenue from operating owned hospitals of the Group was 0.6% (for the six months ended June 30, 2019: 0.6%).

4.1.7 Finance Expenses – Net

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

	For the six months ended June 30,	
	2020 (RMB'000) (Unaudited)	2019 (RMB'000) (Unaudited)
Interest income	2,454	1,925
Foreign exchange gains/(losses)	125	(759)
Borrowing interest expenses	(9,165)	(3,520)
Interest expense on lease liabilities	(4,921)	(5,706)
The amortization of unrecognized financial charge	–	(1,841)
Others	(339)	(298)
	<u> </u>	<u> </u>
Finance expenses – Net	<u>(11,846)</u>	<u>(10,199)</u>

During the Reporting Period, the net finance expenses of the Group amounted to RMB11.8 million, representing an increase of RMB1.6 million as compared with that of the same period of 2019.

4.1.8 Investment (Losses)/Income

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

	For the six months ended June 30,	
	2020 (RMB'000) (Unaudited)	2019 (RMB'000) (Unaudited)
Share of net loss of investees under the equity method	(1,020)	(2,525)
Gains arising from disposal of long-term equity investment	–	26,074
Interest from structured deposit	96	–
	<u> </u>	<u> </u>
	<u>(924)</u>	<u>23,549</u>

During the Reporting Period, our investment loss amounted to RMB0.9 million, mainly due to RMB1.0 million of the share of investment losses accounted for using the equity method in associates.

4.1.9 Credit Impairment Losses

During the Reporting Period, credit impairment losses increased to RMB16.1 million (for the six months ended June 30, 2019: RMB10.7 million), and increased to 3.5% of total revenue of the Group (for the six months ended June 30, 2019: 2.8%). As of June 30, 2020 and December 31, 2019, the provisions for bad debts of account receivable of the Group's owned hospitals businesses amounted to RMB30.3 million and RMB21.4 million respectively and accounted for 8.6% and 7.1% of total accounts receivables of the owned hospitals businesses at the corresponding time.

4.1.10 Non-Operating Income (Expenses) and Other Gains

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

	For the six months ended June 30,	
	2020	2019
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Derecognition of contractual rights of managing Yanjiao Furen Hospital	–	25,666
Government grants	30	50
Other non-operating income	535	723
	<hr/>	<hr/>
Non-operating income	565	26,439
	<hr/>	<hr/>
Losses on scrapping of non-current assets	–	(13,240)
Donation expenses	(2,627)	(990)
Other non-operating expenses	(408)	(241)
	<hr/>	<hr/>
Non-operating expenses	(3,035)	(14,471)
	<hr/>	<hr/>

During the Reporting Period, the non-operating income of the Group decreased to RMB0.6 million, primarily due to the one-off income generated from the derecognition of the management contract rights of Yanjiao Furen Hospital during the same period of 2019; the non-operating expenses of the Group decreased to RMB3.0 million.

4.1.11 Income Tax Expense

During the Reporting Period, income tax expense increased to RMB10.5 million (for the six months ended June 30, 2019: RMB7.1 million), representing an increase of 47.5% as compared with that of the same period of 2019. For the Reporting Period and the six months ended June 30, 2019, our actual tax rates were 26.7% and 13.5%, respectively. The increase in actual tax rates during the Reporting Period was mainly due to the additional investment in Beijing Yining Hospital and Huainan Kangning Hospital in the same period of 2019, resulting in unrecognised deferred income tax liability for investment income, while no such events occurred during the current period.

4.2 Financial Position

4.2.1 Inventory

As of June 30, 2020, inventory balances amounted to RMB33.9 million (as of December 31, 2019: RMB23.6 million), mainly include: (i) the medical inventory and turnover materials amounted to RMB31.3 million (as of December 31, 2019: RMB21.0 million); and (ii) completed properties amounted to RMB2.6 million (as of December 31, 2019: RMB2.6 million), representing Room 2701, Room 2806, Room 2807 and Room 2808 of Phase II Works of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda. The table below sets forth the details of completed properties held by us during the Reporting Period:

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

4.2.2 Accounts Receivables

As of June 30, 2020, the balance of accounts receivables amounted to RMB352.6 million (as of December 31, 2019: RMB310.5 million), among which the balance of accounts receivables for owned hospitals businesses amounted to RMB322.5 million, representing an increase of 14.5% as compared with that of December 31, 2019, mainly due to the increase of our revenue from operating its owned hospitals during the Reporting Period as compared with that of the same period of 2019, 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 business were 133 days (for the six months ended June 30, 2019: 146 days).

4.2.3 Other Receivables and Prepayments

As of June 30, 2020, other receivables and prepayments increased to RMB88.4 million (as of December 31, 2019: RMB68.7 million).

4.2.4 Investment Properties

As of June 30, 2020, the balance of investment properties amounted to RMB107.1 million (as of December 31, 2019: RMB110.9 million), representing Phase I Works of Business Center of Wenzhou Higher Education Mega Center (Room 302, Room 303 and Room 304) and Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2/F to 11/F) held by Wenzhou Guoda. During the Reporting Period, there was no significant change in the fair value of the investment properties. The table below sets forth the details of investment properties held by us during the Reporting Period:

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (Room 302, Room 303 and Room 304)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	1,959.41
Total floor area (Approx.) (Sq. m.)	6,766,36
Usage	Non-residential

Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 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 Other Non-current Financial Assets

As of June 30, 2020, the balance of the other non-current financial assets amounted to RMB51.3 million (as of December 31, 2019: RMB51.3 million). During the Reporting Period, the fair value of the other non-current financial assets remained unchanged.

4.2.6 Right-of-use Assets

As of June 30, 2020, right-of-use assets were RMB253.4 million (as of December 31, 2019: RMB235.3 million), mainly due to the increase in the right-of-use assets of Wenzhou Cining Hospital.

4.2.7 Accounts Payables

As of June 30, 2020, accounts payables increased to RMB63.6 million (as of December 31, 2019: RMB75.6 million).

4.2.8 Contract Liability

As of June 30, 2020, contract liability increased to RMB10.8 million (as of December 31, 2019: RMB8.6 million).

4.2.9 Other Payables

As of June 30, 2020, other payables decreased to RMB93.5 million (as of December 31, 2019: RMB133.3 million).

4.3 Liquidity and Capital Resources

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

	For the six months ended June 30,	
	2020	2019
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	17,799	4,157
Net cash used in investing activities	(76,436)	(75,880)
Net cash generated from/(used in) financing activities	94,945	(25,941)
Net increase/(decrease) in cash and cash equivalents	36,424	(98,423)

4.3.1 Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB17.8 million, primarily consisting of net profit of RMB28.9 million, adjustments of RMB16.1 million for credit impairment losses and adjustments of RMB60.0 million for depreciation and amortisation of various assets, changes in working capital resulted in cash outflow of RMB90.9 million. We had cash outflow of RMB14.5 million attributable to our various taxes paid.

4.3.2 Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities amounted to RMB76.4 million, primarily due to the amount of RMB67.1 million for purchasing property, plant and equipment, including the amounts paid for the relocation projects of Qingtian Kangning Hospital and Yongjia Kangning Hospital, and prepayments for purchase of land use rights of Lucheng Qidu International Health & Pension Center Project.

4.3.3 Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities amounted to RMB94.9 million, mainly due to a net inflow of RMB163.5 million in bank borrowings and an outflow of approximately RMB39.1 million caused by repayment of leasing liability.

4.3.4 Significant Investment, Acquisition and Disposal

The Group had no significant investment, acquisition and disposal during the six months ended June 30, 2020.

4.4 Indebtedness

4.4.1 Bank Borrowings

As of June 30, 2020, the balance of bank borrowings of the Group amounted to RMB473.5 million (as of December 31, 2019: RMB310.0 million), primarily attributable to repayment of borrowings of RMB201.0 million and an increase in borrowings of RMB364.5 million during the Reporting Period.

4.4.2 Contingent Liability

As of June 30, 2020, the Group had no contingent liability or guarantees that would have a material impact on the financial position or operation of the Group.

4.4.3 Asset Pledge

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 June 30, 2020, no loan has been applied to the China Zheshang Bank.

4.4.4 Lease Liabilities

The lease liabilities of the Group primarily consist of operating lease arrangements. As of June 30, 2020, the present values of unsettled lease payments under non-cancellable lease agreements, after deducting an amount of RMB24.2 million which is due within one year, were RMB186.0 million.

4.4.5 Financial Instruments

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

4.4.6 Exposure to Fluctuation in Exchange Rates

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

For the six months ended June 30, 2020, the Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

4.4.7 Gearing Ratio

As of June 30, 2020, the Group's gearing ratio (total liabilities divided by total assets) was 42.2% (as of December 31, 2019: 40.4%).

4.4.8 Employees and Remuneration Policy

As of June 30, 2020, the Group had a total of 3,136 full-time employees (as of December 31, 2019: 2,845 full-time employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB149.5 million (for the six months ended June 30, 2019: RMB128.1 million). The average employees' remuneration is RMB98.2 thousand per year (including social insurance scheme and housing grant scheme borne by the Group). The remuneration is determined with reference to the salary level in the same industry and the qualifications, experience and performance of an employee.

In order to fully mobilize the enthusiasm of senior management and core technical personnel of the Group, the Company drafted the Equity Incentive Scheme for the Year 2018 of Wenzhou Kangning Hospital Co., Ltd., 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.

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 (<i>person</i>)	Number of Shares granted (<i>Share</i>)	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 this grant 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 PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

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

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

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

6 EVENTS AFTER THE REPORTING PERIOD

From June 30, 2020 to the date of this announcement, no major subsequent events occurred to the Group.

7 REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed this interim results announcement and the Group's financial information for the six months ended June 30, 2020, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made.

The Audit Committee consists of two independent non-executive Directors, Ms. ZHONG Wentang (the chairperson of the Audit Committee), Mr. LIU Ning, and one non-executive Director, Mr. YANG Yang.

8 INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2020 (for the six months ended June 30, 2019: nil).

9 COMPLIANCE WITH CG CODE

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

10 ACCOUNTING STANDARDS

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

11 FINANCIAL REPORT

11.1 Accounting Policies

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

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

The Group's accounting policies applied in preparing the financial statements are consistent with those policies applied in the financial statements for the year ended 2019. The interim financial statements shall be read together with the financial statements for the year ended 2019 of the Group.

The financial statements are prepared on a going concern basis.

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

11.2 Interim Financial Statement

The Interim Financial Statement of the Group prepared in accordance with the China Accounting Standard for Business Enterprises is set out as follows:

11.2.1 Interim Consolidated Income Statement

(All amounts in RMB Yuan unless otherwise stated)

	For the six months ended	
	June 30,	
	2020	2019
	(Unaudited)	(Unaudited)
1. Revenue	465,150,452	378,910,291
Less: Cost of sales	(336,864,754)	(286,882,183)
Taxes and surcharges	(1,999,246)	(831,972)
Selling and distribution expenses	(3,697,157)	(4,476,806)
General and administrative expenses	(54,639,015)	(52,890,346)
Research and development expenses	(2,637,407)	(2,304,024)
Financial expenses – net	(11,846,196)	(10,198,874)
Including: Interest expenses	(14,086,629)	(11,068,131)
Interest income	2,454,371	1,925,426
Add: Other income	5,443,616	6,567,461
Investment (losses)/income	(923,557)	23,549,073
Including: Investment losses	(1,019,927)	(2,525,317)
from associates		
Credit impairment losses	(16,112,650)	(10,730,916)
Losses on disposal of assets	–	(18,587)
2. Operating profit	41,874,086	40,693,117
Add: Non-operating income	564,961	26,438,682
Less: Non-operating expenses	(3,035,064)	(14,470,650)
3. Total profit	39,403,983	52,661,149
Less: Income tax expenses	(10,502,748)	(7,119,918)

	For the six months ended	
	June 30,	
	2020	2019
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
4. Net profit	<u>28,901,235</u>	<u>45,541,231</u>
Classified by continuity of operations		
Net profit from continuing operations	28,901,235	45,541,231
Net profit from discontinued operations	–	–
Classified by ownership of the equity		
Net profit attributable to shareholders of the parent company	36,409,947	52,064,124
Non-controlling interests	(7,508,712)	(6,522,893)
5. Total comprehensive income	<u>28,901,235</u>	<u>45,541,231</u>
Attributable to shareholders of the parent company	36,409,947	52,064,124
Attributable to non-controlling interests	(7,508,712)	(6,522,893)
6. Earnings per share		
– Basic (RMB per share)	0.50	0.71
– Diluted (RMB per share)	<u>0.50</u>	<u>0.70</u>

11.2.2 Interim Consolidated Statement of Financial Position

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Current assets		
Cash at bank and on hand	216,156,858	176,030,550
Financial assets held for trading	–	30,000,000
Accounts receivable	352,645,140	310,520,612
Other receivables	76,843,282	63,317,366
Advances to suppliers	11,516,259	5,366,020
Inventories	33,858,107	23,568,236
Current portion of non-current assets	–	12,688,704
	<hr/>	<hr/>
Total current assets	691,019,646	621,491,488
	<hr/>	<hr/>
Non-current assets		
Other non-current financial assets	51,281,869	51,281,869
Long-term equity investments	94,068,266	89,943,193
Investment properties	107,128,300	110,856,100
Fixed assets	521,884,770	552,490,802
Construction in progress	105,255,073	72,180,620
Right-of-use asset	253,365,561	235,312,149
Intangible assets	158,643,796	130,298,128
Goodwill	63,334,626	54,346,633
Long-term prepaid expenses	140,586,989	151,083,314
Deferred tax assets	55,987,494	46,275,930
Other non-current assets	32,351,523	1,791,629
	<hr/>	<hr/>
Total non-current assets	1,583,888,267	1,495,860,367
	<hr/>	<hr/>
TOTAL ASSETS	2,274,907,913	2,117,351,855
	<hr/> <hr/>	<hr/> <hr/>

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Current liabilities		
Short-term borrowings	332,500,000	250,000,000
Notes payable	576,686	–
Accounts payable	63,565,539	75,554,960
Contract liabilities	10,772,528	8,562,126
Employee benefits payable	23,923,352	36,063,277
Taxes payable	44,736,621	33,430,060
Other payables	93,516,092	133,348,712
Current portion of non-current liabilities	<u>66,053,557</u>	<u>79,741,922</u>
Total current liabilities	<u>635,644,375</u>	<u>616,701,057</u>
Non-current liabilities		
Long-term borrowings	100,500,000	20,000,000
Lease liabilities	186,013,332	183,808,151
Long-term payables	580,000	2,260,000
Provisions	2,000,000	2,000,000
Deferred income	9,797,371	9,949,267
Deferred tax liabilities	<u>25,949,596</u>	<u>21,124,118</u>
Total non-current liabilities	<u>324,840,299</u>	<u>239,141,536</u>
Total liabilities	<u>960,484,674</u>	<u>855,842,593</u>
Shareholders' equity		
Share capital	75,500,000	75,500,000
Capital surplus	826,376,743	824,715,445
Less: Treasury stock	(37,817,508)	(21,721,144)
Surplus reserve	33,189,321	33,189,321
Retained earnings	<u>289,210,662</u>	<u>252,800,715</u>
Total equity attributable to shareholders of the parent company	<u>1,186,459,218</u>	<u>1,164,484,337</u>
Non-controlling interests	<u>127,964,021</u>	<u>97,024,925</u>
Total shareholders' equity	<u>1,314,423,239</u>	<u>1,261,509,262</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>2,274,907,913</u></u>	<u><u>2,117,351,855</u></u>

11.2.3 Interim Consolidated Statements of Cash Flow

(All amounts in RMB Yuan unless otherwise stated)

	For the six months ended	
	June 30,	
	2020	2019
	(Unaudited)	(Unaudited)
1. Cash flows from operating activities		
Cash received from sales of goods or rendering of services	411,405,749	337,771,543
Cash received relating to other operating activities	8,311,056	7,188,089
Sub-total of cash inflows	419,716,805	344,959,632
Cash paid for goods and services	(174,912,876)	(153,687,796)
Cash paid to and on behalf of employees	(162,022,960)	(137,201,128)
Payments of taxes and surcharges	(14,474,391)	(20,832,826)
Cash paid relating to other operating activities	(50,507,831)	(29,080,692)
Sub-total of cash outflows	(401,918,058)	(340,802,442)
Net cash flows from operating activities	17,798,747	4,157,190
2. Cash flows from investing activities		
Cash received from disposal of investments	30,010,000	447,095
Cash received from returns on investments	96,370	–
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	3,870,905	–
Net cash received from disposal of subsidiaries and other business units	–	1,833,758
Cash received relating to other investing activities	–	2,555,426
Sub-total of cash inflows	33,977,275	4,836,279
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(67,075,009)	(63,099,075)
Cash paid to acquire investments	(15,145,000)	(13,020,000)
Net cash paid to acquire subsidiaries and other business units	(25,593,510)	(1,246,349)
Cash paid relating to other investing activities	(2,600,000)	(3,351,048)
Sub-total of cash outflows	(110,413,519)	(80,716,472)
Net cash flows used in investing activities	(76,436,244)	(75,880,193)

	For the six months ended	
	June 30,	
	2020	2019
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
3. Cash flows from financing activities		
Cash received from capital contributions	23,361,500	4,245,000
Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries	21,771,500	4,245,000
Cash received from borrowings	367,285,789	170,000,000
Cash received relating to other financing activities	<u>—</u>	<u>—</u>
Sub-total of cash inflows	<u>390,647,289</u>	<u>174,245,000</u>
Cash repayments of borrowings	(201,900,000)	(146,000,000)
Cash payments for distribution of dividends or interest expenses	(8,241,036)	(6,647,896)
Cash paid relating to other financing activities	<u>(85,561,157)</u>	<u>(47,538,263)</u>
Sub-total of cash outflows	<u>(295,702,193)</u>	<u>(200,186,159)</u>
Net cash flows generated from/(used in) financing activities	<u>94,945,096</u>	<u>(25,941,159)</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents	<u>116,743</u>	<u>(758,597)</u>
5. Net increase/(decrease) in cash and cash equivalents	36,424,342	(98,422,759)
Add: Cash and cash equivalents at the beginning of the period	<u>164,951,950</u>	<u>187,066,694</u>
6. Cash and cash equivalents at the end of the period	<u><u>201,376,292</u></u>	<u><u>88,643,935</u></u>

11.2.4 Interim Consolidated Statement of Changes in Shareholders' Equity

(All amounts in RMB Yuan unless otherwise stated)

	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 January 1, 2020	<u>75,500,000</u>	<u>824,715,445</u>	<u>(21,721,144)</u>	<u>33,189,321</u>	<u>252,800,715</u>	<u>97,024,925</u>	<u>1,261,509,262</u>
Net profit	-	-	-	-	36,409,947	(7,508,712)	28,901,235
Capital contribution by shareholders	-	-	-	-	-	21,771,500	21,771,500
Share-based payment included in shareholders' equity	-	3,914,851	(1,590,000)	-	-	-	2,324,851
Transactions with non-controlling shareholders	-	(2,253,553)	-	-	-	(1,709,223)	(3,962,776)
Others	-	-	(14,506,364)	-	-	-	(14,506,364)
Business combination involving enterprises not under common control	-	-	-	-	-	18,385,531	18,385,531
Balance at June 30, 2020 (Unaudited)	<u><u>75,500,000</u></u>	<u><u>826,376,743</u></u>	<u><u>(37,817,508)</u></u>	<u><u>33,189,321</u></u>	<u><u>289,210,662</u></u>	<u><u>127,964,021</u></u>	<u><u>1,314,423,239</u></u>
	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 January 1, 2019	<u>75,500,000</u>	<u>827,379,886</u>	<u>(21,910,000)</u>	<u>29,981,034</u>	<u>210,044,608</u>	<u>84,277,828</u>	<u>1,205,273,356</u>
Net profit	-	-	-	-	52,064,124	(6,522,893)	45,541,231
Capital contribution by shareholders	-	-	-	-	-	4,245,000	4,245,000
Share-based payment included in shareholders' equity	-	2,688,937	-	-	-	-	2,688,937
Transactions with non-controlling shareholders	-	(12,255)	-	-	(1,452,916)	245,168	(1,220,003)
Capital withdrawal by shareholders	-	(130,000)	130,000	-	-	(2,040,163)	(2,040,163)
Others	-	(4,705,722)	-	-	-	-	(4,705,722)
Business combination involving enterprises not under common control	-	-	-	-	-	20,417,809	20,417,809
Profit distribution	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	(11,325,000)	-	(11,325,000)
Balance at June 30, 2019 (Unaudited)	<u><u>75,500,000</u></u>	<u><u>825,220,846</u></u>	<u><u>(21,780,000)</u></u>	<u><u>29,981,034</u></u>	<u><u>249,330,816</u></u>	<u><u>100,622,749</u></u>	<u><u>1,258,875,445</u></u>

11.3 Notes to the Interim Financial Statement prepared in accordance with the China Accounting Standard for Business Enterprises

11.3.1 Accounts Receivable

(All amounts in RMB Yuan unless otherwise stated)

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Receivables from related parties	6,750,000	8,250,000
Receivables from non-related parties	384,779,056	330,174,215
Sub-total	391,529,056	338,424,215
Less: Provision for bad debts	(38,883,916)	(27,903,603)
	<u>352,645,140</u>	<u>310,520,612</u>

The ageing of accounts receivable by recording dates as at June 30, 2020 and December 31, 2019 is analysed as follows:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Within 1 year	307,256,118	266,932,953
1 – 2 years	54,328,309	57,988,407
2 – 3 years	24,130,088	13,089,001
Over 3 years	5,814,541	413,854
	<u>391,529,056</u>	<u>338,424,215</u>

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

11.3.2 Accounts Payable

(All amounts in RMB Yuan unless otherwise stated)

The ageing of accounts payable as at June 30, 2020 and December 31, 2019 is analysed as follows:

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Within 3 months	54,973,453	65,881,555
3 – 6 months	5,224,098	7,479,995
6 months – 1 year	2,277,029	1,381,101
1 – 2 years	578,371	506,880
2 – 3 years	276,874	94,816
Over 3 years	235,714	210,613
	<u>63,565,539</u>	<u>75,554,960</u>

11.3.3 Revenue and Cost of Sales

(All amounts in RMB Yuan unless otherwise stated)

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Revenue from main operations	438,885,748	360,209,402
Revenue from other operations	26,264,704	18,700,889
	<u>465,150,452</u>	<u>378,910,291</u>
Cost of sales from main operations	323,463,045	279,933,288
Cost of sales from other operations	13,401,709	6,948,895
	<u>336,864,754</u>	<u>286,882,183</u>

Revenue and cost of sales from main operations

(All amounts in RMB Yuan unless otherwise stated)

	For the six months ended June 30, 2020	
	(Unaudited) Revenue from main operations	(Unaudited) Cost of sales from main operations
Pharmaceutical sales	101,134,489	86,044,257
Treatments and other healthcare services	337,751,259	237,418,788
	<u>438,885,748</u>	<u>323,463,045</u>
	For the six months ended June 30, 2019	
	(Unaudited) Revenue from main operations	(Unaudited) Cost of sales from main operations
Pharmaceutical sales	96,629,883	82,628,810
Treatments and other healthcare services	263,579,519	197,304,478
	<u>360,209,402</u>	<u>279,933,288</u>

11.3.4 Earnings Per Share

(All amounts in RMB Yuan unless otherwise stated)

(a) Basic earnings per share

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
The consolidated net profit attributable to the ordinary shareholders of the parent company (RMB) ⁽ⁱ⁾	36,409,947	52,064,124
Weighted average number of outstanding ordinary shares (share) ⁽ⁱ⁾	<u>72,769,749</u>	<u>73,040,000</u>
Basic earnings per share (RMB)	<u><u>0.50</u></u>	<u><u>0.71</u></u>

- (i) Following the approval by the shareholders at the annual general meeting held on June 13, 2018, the Company issued 2,460,000 Domestic Shares for a share incentive scheme. As these Domestic Shares are regarded as treasury stocks, according to the *Interpretation of Accounting Standard for Business Enterprises No. 7*, 2,460,000 restricted Domestic Shares were deducted from the outstanding ordinary shares of the Company when calculating the basic earnings per share for the six months ended June 30, 2020.

For the six months ended June 30, 2020, the Company has repurchased a total of 899,700 H Shares from the trading market, with ordinary shares held as treasury stocks for the above repurchasing purpose deducted from the outstanding ordinary shares of the Company.

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the consolidated net profit attributable to ordinary shareholders of the parent company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of outstanding ordinary shares of the Company. For the six months ended June 30, 2020, the consolidated net profit attributable to the ordinary shareholders of the parent company adjusted based on the dilutive potential ordinary shares was RMB36,409,947. The adjusted weighted average number of outstanding ordinary shares was 73,034,363. The diluted earnings per share was RMB0.50. For the six months ended June 30, 2019, the consolidated net profit attributable to the ordinary shareholders of the parent company adjusted based on the diluted potential ordinary shares was RMB52,064,124. The adjusted weighted average number of outstanding ordinary shares was 73,915,743. The diluted earnings per share was RMB0.70.

11.3.5 Income Tax Expense

(All amounts in RMB Yuan unless otherwise stated)

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Current income tax calculated based on tax law and related regulations	23,778,834	14,824,769
Deferred income tax	(13,276,086)	(7,704,851)
	<u>10,502,748</u>	<u>7,119,918</u>

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:

	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Total profit	<u>39,403,983</u>	<u>52,661,149</u>
Income tax expenses calculated at the applicable tax rate of 25%	9,850,996	13,165,287
Costs, expenses and losses not deductible for tax purpose	579,650	1,158,271
Filing difference for the prior period	121,674	119,184
Additional deduction of research and development expenses	(490,212)	(431,227)
Income not subject to tax	–	(318,561)
Deductible losses for which no deferred tax asset was recognised	440,640	51,944
Temporary differences related to investments in subsidiary for which no deferred tax liability was recognised	–	(6,624,980)
Income tax expenses	<u>10,502,748</u>	<u>7,119,918</u>

11.3.6 Dividends

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 was approved by the Shareholders at the annual general meeting for the year 2019 of the Company on June 18, 2020.

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 Shareholders 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.

12 DEFINITIONS

“Audit Committee”	the audit committee of the Board
“Beijing Yining Hospital”	Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司), a company established in the PRC with limited liability on August 17, 2015, one of the Company’s indirect non-wholly owned subsidiaries
“Board”	the board of directors of the Company
“Cangnan Kangning Hospital”	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company’s wholly-owned subsidiaries
“Changchun Kanglin Psychological Hospital”	Changchun Kanglin Psychological Hospital Co., Ltd.(長春康林心理醫院有限公司), a company established in the PRC with limited liability on February 16, 2016, one of the Company’s indirect non-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 Hong Kong Stock Exchange (Stock Code: 2120)
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted shares which are currently not listed or traded on any stock exchange
“Geriatric Hospital”	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the wholly-owned subsidiaries indirectly held by the Company, is principally engaged in providing medical services for the geriatric, including geriatric psychiatric and psychological treatment
“Group” or “we” or “our”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Hong Kong Stock Exchange

“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huainan Kangning Hospital”	Huainan Kangning Hospital Co., Ltd. (淮南康寧醫院有限公司), a company established in the PRC with limited liability on September 22, 2017, one of the Company’s indirect non-wholly owned subsidiaries
“Langfang Yining Hospital”	Langfang Yining Hospital Co., Ltd. (廊坊怡寧醫院有限公司, previously known as Langfang Yining Hospital Management Co., Ltd. (廊坊市怡寧醫院管理有限公司)), a company established in the PRC with limited liability on December 2, 2015, one of the Company’s wholly owned subsidiaries, and has completed cancellation and liquidation on August 2, 2020
“Luqiao Cining Hospital”	Taizhou Luqiao Cining Hospital Co., Ltd. (台州市路橋慈寧醫院有限公司, previously known as Taizhou Luqiao Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司)), a company established in the PRC with limited liability on December 12, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“Macau”	the Macau Special Administrative Region of the PRC
“PRC” or “China”	the People’s Republic of China which, for the purpose of this interim results announcement, excludes Hong Kong, Macau 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
“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
“Reporting Period” or “the Reporting Period”	the six months ended June 30, 2020

“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)
“Sihui Kangning Hospital”	Sihui Kangning Hospital Co., Ltd. (四會康寧醫院有限公司), a company established in the PRC with limited liability on August 19, 2016, which used to be one of the Company’s indirect non-wholly owned subsidiaries. The Company transferred all the indirect equity of Sihui Kangning Hospital to Guangdong Zhaokang Medical Investment Co., Ltd. (廣東肇康醫療投資有限公司) on May 10, 2019
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
“Taizhou Kangning Hospital”	Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“Wenling Nanfang Hospital”	Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd. (溫嶺南方精神疾病專科醫院有限公司), a company established in the PRC with limited liability on June 20, 2018, one of the Company’s indirect non-wholly owned subsidiaries
“Wenzhou Cining Hospital”	Wenzhou Cining Hospital Co., Ltd. (溫州慈寧醫院有限公司), a company established in the PRC with limited liability on January 25, 2006, one of the Company’s 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

“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
Wenzhou Kangning Hospital Co., Ltd.
GUAN Weili
Chairman

Zhejiang, the PRC
August 28, 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. ZHAO Xudong, Ms. ZHONG Wentang and Mr. LIU Ning.