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

2018 ANNUAL REPORT

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Corporate Information

Board of Directors

Executive Directors

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

Non-executive Directors

Mr. YANG Yang
Mr. LIN Lijun

Independent Non-executive Directors

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

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Strategy and Risk Management Committee

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

Supervisory Committee

Mr. SUN Fangjun *(Chairman)*
Ms. HUANG Jingou
Mr. XIE Tiefan
Mr. QIAN Chengliang
Mr. MA Jinlong

Joint Company Secretaries

Mr. WANG Jian
Ms. NG Wing Shan

Authorized Representatives

Ms. WANG Hongyue
Ms. NG Wing Shan

Auditor

PricewaterhouseCoopers Zhong Tian LLP

Legal Advisors as to Hong Kong Laws

Clifford Chance LLP

Registered Office and Head Office in the PRC

Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
the PRC

Corporate Information

Principal Place of Business in Hong Kong

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

H Share Registrar

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

Stock Code

2120

Company's Website

www.knhosp.cn

Investor Relations

Telephone:	(86) 577 8877 1689
Fax:	(86) 577 8878 9117
Email:	ir@knhosp.cn

Financial Highlights

Principal Financial Data and Indicators

	For the year ended December 31,				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**745,972**	666,436	415,408	343,674	296,296
Profit before income tax	**106,910**	69,863	92,139	70,170	68,567
Income tax expense	**(31,941)**	(22,027)	(26,588)	(18,548)	(17,369)
Net profit	**74,969**	47,836	65,551	51,622	51,198
Net profit attributable to					
Shareholders of the Company	**80,596**	49,071	68,832	55,709	51,198
Non-controlling interests	**(5,627)**	(1,235)	(3,281)	(4,087)	—

	As of December 31,				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,840,724**	1,690,401	1,603,382	1,224,434	372,339
Total liabilities	**635,451**	579,904	562,012	262,205	111,249
Total equity	**1,205,273**	1,110,497	1,041,370	962,229	261,090
Equity attributable to					
Shareholders of the Company	**1,120,995**	1,051,834	1,008,383	959,716	261,090
Non-controlling interests	**84,278**	58,662	32,987	2,513	—

Chairman's Statement

GUAN Weili
Chairman

Dear Shareholders,

2018 is the 40th anniversary of China's reform and opening-up. With the deepening of health care reform, the Group is also ushering in a crucial year for the implementation of the five-year strategic plan. During the Reporting Period, with the goal of consolidating the foundation and strengthening the management as the starting point, we made new progress in medical business, service quality and scientific research cooperation through the trinity management strategy of "lean operation, optimization of the investment layout of mergers and acquisitions and extension of business sector".

This year, the Group's efficiency has steadily improved and its operating results have reached a new level. The Group recorded revenue of healthcare business amounted to RMB726.4 million during the Reporting Period, representing an increase of 32.9% as compared with 2017. The net profit attributable to the Shareholders of the parent Company (excluding non-recurrent items) was RMB80.5 million, representing an increase of 36.4% as compared with 2017. Among them, the businesses of four hospitals which were opened after 2016, namely, the Geriatric Hospital, Linhai Kangning Hospital, Pingyang Kangning Hospital and Quzhou Yining Hospital developed rapidly. While Hangzhou Cining Hospital, Hangzhou Yining Hospital, Luqiao Cining Hospital and Taizhou Kangning Hospital, have been put into operation in succession and entered the right track. With the further expansion of the Group's network layout of healthcare institutions, the number of healthcare institutions under operation and management increased from 18 at the end of 2017 to 24 at the end of 2018, and the number of beds under operation and management by healthcare institutions increased from 4,550 at the end of 2017 to 6,300 at the end of 2018. In order to further improve the service quality, we have carried out in-depth renovation and upgrade of the existing healthcare institutions: The inpatient buildings of Yiwu City Psychiatric Health Center and

Chairman's Statement (Continued)

Pujiang Hospital have been renovated and put into use. The renovation project of the new building of Cangnan Kangning Hospital has been completed, and the new sites of Qingtian Kangning Hospital and Yongjia Kangning Hospital have been implemented. In addition, Wenzhou Kangning Hospital has successfully passed the acceptance of the national key clinical specialties. The construction of special specialties in clinical psychology and behavioral medicine has achieved remarkable results. The number of scientific research projects and SCI articles at all levels has repeatedly reached new heights, which has promoted Wenzhou Kangning Hospital to rank 31 in the scientific and technological influence of psychiatry specialty of the Chinese Academy of Medical Sciences (ranked 55 in 2017).

While making some achievements, the Group has also continued to focus on and address the challenges posed by the rapid development, especially regarding Group management and talent team building. Therefore, in 2019, the Group will focus on the following tasks: the first is scientific positioning, adhere to the direction of differentiated development, focus on developing mild medical services and expanding the mid-to-high end medical service market, and constantly cultivate new business growth points; The second is to deepen the management, through the fine management of various medical institutions to promote the Group to increase income and reduce expenditure; The third is to recruit talents and flexibly introduce high-end talents through multi-point practice, remote consultation, regular ward rounds, etc.; The fourth is to continue to increase investment in information technology development, develop software systems and management tools with psychiatric characteristics, implement the construction and operation of Internet hospitals, and explore the application of artificial intelligence technology in the field of auxiliary diagnosis of mental diseases.

Looking forward, the medical and health industry is gradually entering the golden age of development. The Group will adapt to the growing demand for mental health of the people and the medical needs of geriatrics brought about by the aging population and seize the great opportunity that the government encourages social capital to invest in medical institutions, the Group will plow deep in the psychiatric specialty healthcare field, cultivate the business sector of geriatric hospitals and expand and strengthen itself. The Group will adhere to the core values of " respecting life and serving humbly" and uphold its rock-solid confidence and perseverance to provide better healthcare services for the patients and contribute our efforts to the realization of the strategic goal of healthy China.

GUAN Weili
Chairman

Zhejiang, the PRC
March 25, 2019

Management Discussion and Analysis

Business Review and Outlook

Psychiatric Specialized Medical Service Industry in China

With the continuous improvement of the material living standards of the Chinese people, people are paying more and more attention to their mental health. Chinese government departments have also issued relevant encouragement policies and increased financial investment. The Outline of the "Healthy China 2030" Plan proposes to strengthen the construction and standardized management of mental health service system, strengthen the intervention of common mental disorders and psychological and behavioral problems such as depression and anxiety disorders, comprehensively promote community rehabilitation services for mental disorders, and gradually establish and improve the mental health service system. By the end of 2018, there were 40,400 psychiatric practitioners (assistants) and 101,300 registered nurses in China, and the number of undergraduate students enrolled in psychiatry increased to 1,600 per year. In 2018, China's financial investment in mental health increased to RMB3.42 billion.

Although China continues to increase investment, there are still great challenges in the field of psychiatric medical services, mainly including: first, the supply of psychiatric medical services is seriously inadequate, 493 districts and counties in the country do not have psychiatric medical institutions, the existing county-level psychiatric medical institutions have poor equipments; Second, the shortage of psychiatric talents in the short term is serious, and it will take some time for the existing professionals to improve their abilities.

In addition, China set up the National Healthcare Security Administration in 2018, thus a new background of medical reform which combining " Medicine, Medical Care, Medical Insurance" has been formed. The supervision of the medical industry is becoming more and more strict. The policies brought about by the continuous promotion of the new medical reform, such as medical insurance fee control, proportion of hospital drugs, price reduction of drug bidding, two invoice policy, to replace the business tax with a value-added tax, adjuvant drug restrictions etc., have a great impact on the development of the medical service industry.

Management Discussion and Analysis

Business Review

In 2018, with further deepened reform of China's medical and health system, the Group fine-tuned several development strategies based on the latest policy guidance which mainly included the concentration of strengths on the development of owned hospital business while controlling and gradually reducing the scale of hospital management business. Specific progress has been made as follows:

In 2018, the Group's owned hospital business developed rapidly. Four new hospitals, namely Hangzhou Cining Hospital, Hangzhou Yining Hospital, Luqiao Cining Hospital and Taizhou Kangning Hospital, have been put into operation in succession. The business of those second new hospitals, such as Linhai Kangning Hospital, Geriatric Hospital, Quzhou Yining Hospital, Pingyang Kangning Hospital and Shenzhen Yining Hospital, which were opened after 2016, entered into a phase of rapid growth. Except for Shenzhen Yining Hospital, all other four hospitals have realized profits in 2018. After the new building of Wenzhou Kangning Hospital was put into use, the proportion of middle and high-end patients as well as nonlocal patients gradually increased, driving the growth in the Group's average inpatient spending per bed-day. The service volume of Qingtian Kangning Hospital and Yueqing Kangning Hospital has also increased steadily as compared with the same period of last year. However, Yongjia Kangning Hospital and Cangnan Kangning Hospital have slowed down in business growth due to limited space for expansion, while Cangnan Kangning Hospital is carrying out a relocation project which is expected to add 300 new beds. As of December 31, 2018, the number of the Group's owned hospitals increased to 18 (December 31, 2017: 10) and the number of beds under operation increased to 5,140 (December 31, 2017: 3,420).

In 2018, in order to concentrate our strength and energy on the development of owned hospitals, the Group reduced the scale of business of healthcare facilities management, terminated the business of management of Chengdu Yining Ward and Beijing Yining Hospital, and reduced the business scale of management services for Pingyang Changgeng Ward. However, for agreed management services, the Group continued to strive to provide high-quality management services, including the completion of the renovation and upgrading of Yiwu Psychiatric Health Center, and strive to maintain stable development of the business of Wenzhou Cining Hospital, Yanjiao Furen Hospital, Pujiang Hospital and Chun'an Hospital. Due to the adjustment of the Group's business strategy, as of December 31, 2018, the healthcare facilities managed by the Group decreased to 6 (December 31, 2017: 8), and the number of beds under management slightly increased to 1,160 (December 31, 2017: 1,130).

In 2018, while steadily developing our existing hospitals, the Group strengthened the efforts to accelerate the healthcare facilities's network layout through merger and acquisition, and acquired 51% equity interest in Wenling Nanfang Hospital, 51% equity interest in Nanjing Yining Hospital, 51% equity interest in Heze Yining Hospital and 88% equity interest in Guanxian Yining Hospital.

Management Discussion and Analysis

In 2018, the Group achieved remarkable results in healthcare quality, discipline construction and group management. On the one hand, the Group has always taken healthcare quality as its lifeline and discipline construction as its breakthrough point. The Group has increased investment in standardizing diagnosis and treatment behavior, building characteristic specialties, scientific research and teaching reserves and increasing brand influence and other aspects. On the other hand, through the implementation of a new round of equity incentive scheme and reserve cadres management plan, the Group has gradually explored the new supervision mode of its subordinate branches on the basis of giving full play to the advantages of talents.

Highlights of business

In 2018, the Group achieved new development in informatization construction. The Group independently developed the inpatient electronic medical record system with the characteristics of psychiatric specialty and a series of other management software systems with independent copyright, which provided strong technical support to strengthen the sharing of resources, reduce operating costs and improve decision-making and management level of the Group, and also provided an effective carrier for the output of group management mode.

Management Discussion and Analysis

Business Outlook

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

(i) Risk relating to high reimbursement amount from public medical insurance. From 2016 to 2018, reimbursement amount from public medical insurance accounted for 52.6%, 53.8% and 56.6% of the total cash received from sales of goods and rendering of service for the respective years. If the Group's healthcare facilities are unable to maintain the qualification of designated medical insurance institutions in the future, or there are adverse changes on the national public medical insurance policy in respect of treatment of mental illness, the Group's operating results will be affected adversely;

(ii) Risk relating to shortage of professional medical talents. Under the laws and regulations of the PRC, healthcare facilities shall maintain a certain number of medical staff. With the increase in the number of healthcare facilities of the Group, if we are unable to recruit or maintain adequate medical staff, we will face difficulty to provide patients with the desirable medical services, which in return will adversely affect our operating results; and

(iii) Risk relating to failure to renew qualifications and licenses required for our operations. Healthcare facilities are required to obtain the Medical Practice License before carrying out their businesses, which usually has valid period and requires regular inspection by the regulatory authorities. If the healthcare facilities of the Group are unable to renew their licenses in the future due to poor management or non-compliant operation, our operating results will be affected adversely.

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

Management Discussion and Analysis

Financial Review

The Group recorded revenue of RMB746.0 million for the Reporting Period, representing an increase of 11.9% as compared with 2017. After excluding the revenue of RMB19.6 million for real estate and other business, the revenue of healthcare business amounted to RMB726.4 million, representing an increase of 32.9% as compared with 2017, primarily because the revenue from operating the Group's owned hospitals increased by 35.8% as compared with 2017. As eight new hospitals were put into operation in 2018 and the bed utilization rate of the Group's owned hospitals decreased, the gross profit margin of owned hospitals decreased to 33.2% (2017: 34.0%). As such, the overall gross profit margin of healthcare business of the Group during the Reporting Period decreased to 33.2% (2017: 35.1%) and the gross profit of healthcare business increased to RMB241.4 million, representing an increase of 26.0% as compared with 2017. During the Reporting Period, net profit attributable to equity holders of the Company amounted to RMB80.6 million, representing an increase of 64.2% as compared with 2017, primarily because the Geriatric Hospital, Quzhou Yining Hospital and Pingyang Kangning Hospital realized profit during the Reporting Period. During the Reporting Period, net profit attributable to equity holders of the Company after excluding non-recurring items was RMB80.5 million, representing an increase of 36.4% as compared with 2017.

Revenue and Cost of Revenue

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

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

	For the year ended December 31,	
	2018	2017
	(RMB'000)	(RMB'000)
Revenue from operating owned hospitals	**706,651**	520,175
Management service fee income	**19,748**	26,386
Total revenue of healthcare business	**726,399**	546,561
Revenue from other healthcare related business	**2,533**	2,318
Revenue of the property business	**17,040**	117,557
Total revenue	**745,972**	666,436

Management Discussion and Analysis

During the Reporting Period, total revenue of the Group amounted to RMB746.0 million, representing an increase of 11.9% as compared with 2017, of which healthcare business revenue was RMB726.4 million, representing an increase of 32.9% as compared with 2017, primarily due to revenue from operating the Group's owned hospitals increased by 35.8%. The proportion of revenue from operating the Group's owned hospitals to healthcare business revenue increased to 97.3% (2017: 95.2%), while the proportion of management service fee income to healthcare business revenue decreased to 2.7% (2017: 4.8%).

Revenue and cost of revenue from operating the owned hospitals

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

	For the year ended December 31,	
	2018	2017
	(RMB'000)	(RMB'000)
Treatment and general healthcare services		
Revenue	**539,548**	389,494
Cost of revenue	**331,883**	235,839
Gross profit	**207,665**	153,655
Pharmaceutical sales		
Revenue	**167,103**	130,681
Cost of revenue	**140,330**	107,405
Gross profit	**26,773**	23,276
Owned hospitals		
Revenue	**706,651**	520,175
Cost of revenue	**472,213**	343,244
Gross profit	**234,438**	176,931

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB706.7 million, representing an increase of RMB186.5 million as compared with 2017, mainly due to the fast business growth of Linhai Kangning Hospital, Geriatric Hospital, Pingyang Kangning Hospital, Quzhou Yining Hospital and Shenzhen Yining Hospital. Revenue of the aforementioned five hospitals during the Reporting Period amounted to RMB204.4 million (2017: RMB88.4 million). During the Reporting Period, the gross profit of the Group's owned hospitals increased by 32.5% as compared with 2017.

Management Discussion and Analysis

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:

	For the year ended December 31,	
	2018	2017
Inpatients		
Inpatient bed as at period end	**5,140**	3,420
Effective inpatient service bed-day capacity	**1,876,100**	1,248,300
Utilization rate (%)	**80.3**	87.8
Number of inpatient bed-days	**1,506,762**	1,095,389
Treatment and general healthcare services revenue attributable to inpatients (RMB'000)	**516,794**	371,663
Average inpatient spending per bed-day on treatment and general healthcare services (RMB)	**343**	339
Pharmaceutical sales revenue attributable to inpatients (RMB'000)	**87,609**	64,896
Average inpatient spending per bed-day on pharmaceutical sales (RMB)	**58**	59
Total inpatient revenue (RMB'000)	**604,403**	436,559
Total average inpatient spending per bed-day (RMB)	**401**	398
Outpatients		
Number of outpatient visits	**188,488**	160,015
Treatment and general healthcare services revenue attributable to outpatients (RMB'000)	**22,754**	17,831
Average outpatient spending per visit on treatment and general healthcare services (RMB)	**121**	111
Pharmaceutical sales revenue attributable to outpatients (RMB'000)	**79,494**	65,785
Average outpatient spending per visit on pharmaceutical sales (RMB)	**422**	411
Total outpatient revenue (RMB'000)	**102,248**	83,616
Total average outpatient spending per visit (RMB)	**543**	522
Total treatment and general healthcare services revenue (RMB'000)	**539,548**	389,494
Total pharmaceutical sales revenue (RMB'000)	**167,103**	130,681

During the Reporting Period, inpatient revenue amounted to RMB604.4 million, representing an increase of 38.4% as compared with 2017, primarily due to: (i) the increase of 37.6% in the number of the Group's inpatient bed-days arising from the considerable increase of inpatient beds of Linhai Kangning Hospital, Geriatric Hospital, Quzhou Yining Hospital, Pingyang Kangning Hospital and Shenzhen Yining Hospital, and (ii) the increase of 0.8% in average inpatient spending per bed-day. The proportion of inpatient revenue to revenue from operating owned hospitals increased to 85.5% (2017: 83.9%).

Management Discussion and Analysis

During the Reporting Period, outpatient revenue amounted to RMB102.2 million, representing an increase of 22.3% as compared with 2017, primarily due to: (i) the increase of outpatient visits by 17.8%; and (ii) the average outpatient spending per visit increased by 4.0%. The proportion of outpatient revenue to revenue from operating owned hospitals decreased to 14.5% (2017: 16.1%), mainly due to outpatient revenue of Geriatric Hospital, Pingyang Kangning Hospital and Shenzhen Yining Hospital accounted for low proportion of their operating revenue.

During the Reporting Period, due to the increase of both inpatient and outpatient business, revenue from treatment and general healthcare services increased by 38.5% as compared with 2017, accounting for 76.4% of revenue from operating owned hospitals (2017: 74.9%); and revenue from pharmaceutical sales increased by 27.9% as compared with 2017, accounting for 23.6% of revenue from operating owned hospitals (2017: 25.1%), of which: the ratio of revenue from inpatient pharmaceutical sales to total inpatient revenue slightly reduced to 14.5% (2017: 14.9%), the ratio of revenue from outpatient pharmaceutical sales to total outpatient revenue reduced to 77.7% (2017: 78.7%).

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

	For the year ended December 31,	
	2018	2017
	(RMB'000)	(RMB'000)
Pharmaceuticals and consumables used	**177,106**	131,949
Employee benefits and expenses	**158,047**	116,085
Leasing expenses	**27,938**	20,358
Depreciation and amortization	**45,222**	29,331
Canteen expenses	**25,331**	17,401
Testing fees	**14,093**	9,975
Others	**24,476**	18,145
Cost of revenue of owned hospitals	**472,213**	343,244

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB472.2 million, representing an increase of 37.6% as compared with 2017, which was higher than the increase in revenue from owned hospitals. It was mainly due to: (i) the increase of 34.2% in pharmaceutical expenses relating to increase in revenue from pharmaceutical sales; (ii) the increase of 36.1% in employee benefits and expenses arising from the increase in beds in operation of owned hospitals; (iii) the operation of Hangzhou Yining Hospital and other new hospitals has increased the leasing expenses by approximately RMB7.6 million; and (iv) the depreciation and amortization increased by 54.2% as compared with 2017 mainly caused by the usage of the new building of Wenzhou Kangning Hospital.

Management Discussion and Analysis

From the cost structure perspective, the proportion of pharmaceuticals and consumables used in the cost of revenue of owned hospitals decreased to 37.5% (2017: 38.4%), mainly due to the decrease in the proportion of outpatient business revenue accounted for revenue of owned hospitals. The proportion of employee benefits and expenses to cost of revenue of owned hospitals slightly decreased to 33.5% (2017: 33.8%). The proportion of leasing expenses, together with depreciation and amortization to cost of revenue of owned hospitals increased to 15.5% (2017: 14.5%). During the Reporting Period, the change of the cost structure was mainly due to the fact that more new hospitals were put into operation, which resulted in an increase in fixed costs that do not vary with business volume, such as depreciation and amortization as compared with 2017.

Management service fee income

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

	For the year ended December 31,	
	2018	2017
	(RMB'000)	(RMB'000)
Revenue	**19,748**	26,386
Cost of revenue	**12,816**	11,690
Gross profit	**6,932**	14,696

During the Reporting Period, management service fee income of the Group amounted to RMB19.7 million, representing a decrease of 25.2% as compared with 2017, accounting for 2.7% of healthcare business revenue in 2018 (2017: 4.8%). The decrease of management service fee income was mainly attributable to the Group's adjustment of its business development strategy, reducing the scale of hospital management business and giving more efforts on its owned hospital business, which led to the decrease of the management services fee income of Pingyang Changgeng Ward, Pujiang Hospital, Chun'an Hospital and Yanjiao Furen Hospital during the Reporting Period.

The Group's cost of revenue for rendering management services primarily includes benefits and expenses for management staff assigned and amortization of operation rights acquired for obtaining operation rights. During the Reporting Period, cost of revenue of management service fee of the Group slightly increased to RMB12.8 million, representing an increase of 9.6% as compared with 2017. Accordingly, gross profit margin of the management service business decreased to 35.1% (2017: 55.7%).

Management Discussion and Analysis

Revenue and cost of revenue of the property business

The Group's revenue of the property business includes property leasing income and property sales income. During the Reporting Period, revenue of the property business decreased to RMB17.0 million (2017: RMB117.6 million), mainly due to property sales income of merely RMB9.5 million was recorded by Wenzhou Guoda during the Reporting Period. The corresponding cost of revenue and expense of property business were RMB19.7 million, therefore the losses before tax in property business attributable to Wenzhou Guoda during the Reporting Period amounted to RMB2.7 million.

Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB252.2 million, increased by 16.2% annually. The gross profit of healthcare business after excluding the property and other businesses amounted to RMB241.4 million, representing an increase of 26.0% as compared with 2017. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

	For the year ended December 31,	
	2018	2017
Treatment and general healthcare services	**38.5%**	39.4%
Pharmaceutical sales	**16.0%**	17.8%
Management services	**35.1%**	55.7%
Healthcare business	**33.2%**	35.1%
Property and other businesses	**55.5%**	21.3%
Consolidated gross profit margin	**33.8%**	32.6%

During the Reporting Period, consolidated gross profit margin of the Group increased to 33.8% (2017: 32.6%), of which the gross profit margin of treatment and general healthcare services decreased by 0.9 percentage point as compared with 2017, mainly due to the low bed utilization rate of Hangzhou Yining Hospital and Taizhou Kangning Hospital, etc. which were newly opened in 2018. The gross profit margin of pharmaceutical sales decreased by 1.8 percentage points as compared with 2017, mainly due to the medical insurance department of Zhejiang Province cut down the payment standard for certain pharmaceuticals from April 1, 2018.

Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB5.7 million (2017: RMB9.8 million), mainly included property tax related to the new building of Wenzhou Kangning Hospital and the property of Cangnan Kangning Hospital as well as taxes related to the property business of Wenzhou Guoda.

Management Discussion and Analysis

Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB5.1 million (2017: RMB1.8 million), which increased a lot as compared with 2017, mainly because in order to better serve the patients, the Group's headquarters has established a customer relationship department to improve communication between its hospitals and patients. The selling expenses accounted for only 0.7% of the Group's revenue of healthcare business (2017: 0.3%), demonstrating that the Group's business development does not rely on market promotion.

Administrative Expenses

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

	For the year ended December 31,	
	2018	2017
	(RMB'000)	(RMB'000)
Employee benefits and expenses	**55,281**	42,020
Leasing expenses of the healthcare facilities under development	**4,095**	14,469
Depreciation and amortization	**8,723**	6,967
Consultancy expenses	**10,218**	11,218
Travelling expenses	**3,694**	3,745
Others	**15,990**	11,762
Total administrative expenses	**98,001**	90,181

During the Reporting Period, the administrative expenses of the Group amounted to RMB98.0 million, representing an increase of 8.7% as compared with 2017, mainly due to the increase of 31.6% of our employee benefits and expenses arising from the increase of our management staff. During the Reporting Period, the leasing expenses of healthcare facilities under development decreased by 71.7% as compared with 2017, mainly due to the leasing expenses related to Hangzhou Yining Hospital were recorded in cost of revenue after its operation and the reduction of healthcare facilities under development. During the Reporting Period, the proportion of the administrative expenses to the healthcare business revenue of the Group decreased to 13.5% (2017: 16.5%), demonstrating that the management efficiency of the Group's headquarter has been improved with the expansion of the Group's business scale.

Research and Development Expenses

During the Reporting Period, the Group's research and development expenses amounted to RMB5.7 million (2017: RMB1.6 million), representing a considerable increase as compared with 2017. The proportion of research and development expenses to the Group's healthcare business revenue increased to 0.8% (2017: 0.3%), mainly due to the Group's increased investment in research in the field of psychiatry and information software development.

Management Discussion and Analysis

Finance Expenses – Net

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

	For the year ended December 31,	
	2018	2017
	(RMB'000)	(RMB'000)
Interest income	**3,683**	4,960
Exchange gain/(loss)	**4,074**	(14,930)
Borrowing interest expense	**(8,850)**	(8,371)
Amortization of unrecognized financial charge	**(5,511)**	(5,465)
Others	**(567)**	(457)
Finance expenses – net	**(7,171)**	(24,263)

During the Reporting Period, the net finance expenses of the Group amounted to RMB7.2 million, representing a decrease of RMB17.1 million as compared with 2017, mainly due to the exchange gains of RMB4.1 million were recorded during the Reporting Period, while the exchange losses of RMB14.9 million were recorded during the same period in 2017.

Investment Losses

Our investment losses consist of share of investments 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 losses for the periods indicated:

	For the year ended December 31,	
	2018	2017
	(RMB'000)	(RMB'000)
Share of losses of investments accounted for using the equity method	**(10,029)**	(6,462)
Gains arising from disposal of long-term equity investment	**1,727**	350
	(8,302)	(6,112)

During the Reporting Period, our investment losses amounted to RMB8.3 million, representing an increase of approximately RMB2.2 million as compared with 2017, mainly due to the recorded losses of the Group's investment as a minority shareholder in Chengdu Yining Hospital and Huainan Kangning Hospital during the Reporting Period, resulting in an increase in investment losses accounted for using the equity method.

Management Discussion and Analysis

Assets Impairment Losses and Credit Impairment Losses

During the Reporting Period, assets impairment losses and credit impairment losses increased to RMB23.5 million in total (2017: RMB19.1 million), and increased to 3.2% of the Group's total revenue (2017: 2.9%). As at December 31, 2018 and 2017, the provisions for bad debts of accounts receivables of the Group's healthcare business amounted to RMB25.2 million and RMB14.7 million respectively and accounted for 7.8% and 6.7% of total accounts receivables of the healthcare business at the corresponding time.

Non-Operating Income (Expenses) and Other Gains

Our non-operating income mainly consists of government grants, and non-operating expenses mainly consist of donation expenses and losses on disposal 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 year ended December 31,	
	2018	2017
	(RMB'000)	(RMB'000)
Government grants	**6,714**	9,619
Other non-operating income	**468**	196
Non-operating income	**7,182**	9,815
Losses on disposal of non-current assets	**—**	7,215
Donation	**5,254**	4,166
Other non-operating expenses	**788**	1,821
Non-operating expenses	**6,042**	13,202
Other gains	**8,538**	9,417

During the Reporting Period, the non-operating income of the Group decreased to RMB7.2 million, primarily due to the government grants of RMB2.7 million arising from the listing of the Company in 2017, while there was no relevant grants during the Reporting Period; the non-operating expenses of the Group decreased to RMB6.0 million, primarily due to the decrease of RMB7.2 million of losses on disposal of non-current assets.

Income Tax Expense

During the Reporting Period, income tax expense increased to RMB31.9 million (2017: RMB22.0 million), representing an increase of 45.0% as compared with 2017, mainly due to the increase of 53.0% of the Group's profits before income tax during the Reporting Period as compared with 2017. As for the year of 2018 and 2017, our actual tax rates were 29.9% and 31.5%, respectively. The slight decrease in actual tax rates for the Reporting Period was mainly due to the decrease in the expenses which cannot be deducted before tax.

Management Discussion and Analysis

Total Comprehensive Income

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

	For the year ended December 31,	
	2018	2017
	(RMB'000)	(RMB'000)
Exchange gains/(losses)	**4,074**	(14,930)
Written-off of long-term prepaid expenses	**—**	(7,215)
Real estate business	**(2,755)**	11,969
Total impact of non-recurring items (before income tax)	**1,319**	(10,176)
Total impact of non-recurring items (after income tax)	**60**	(9,887)

Excluding the impact of the above non-recurring items, the total comprehensive income attributable to the Shareholders of the Company during the Reporting Period was approximately RMB80.5 million, representing an increase of 36.4% as compared with 2017 (after excluding the above non-recurring items), mainly due to the increase in the bed utilization rate of newly opened Linhai Kangning Hospital, Geriatric Hospital, Quzhou Yining Hospital, Pingyang Kangning Hospital and Shenzhen Yining Hospital.

Management Discussion and Analysis

Financial Position

Inventory

As of December 31, 2018, inventory balances amounted to RMB20.8 million (as of December 31, 2017: RMB23.5 million), mainly include: (i) the medical inventory and turnover materials of RMB18.2 million (as of December 31, 2017: RMB14.1 million); and (ii) completed development properties of RMB2.6 million (as of December 31, 2017: RMB9.4 million), representing Phase II Works of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda. The table below sets forth the details of completed development properties held by us during the Reporting Period:

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

Accounts Receivables

As of December 31, 2018, the balance of accounts receivables amounted to RMB299.8 million (as of December 31, 2017: RMB232.2 million), among which, the balance of accounts receivables for healthcare business amounted to RMB297.4 million, representing an increase of 35.1% as compared with that of December 31, 2017. With the growth of the business volume of our healthcare facilities, our revenue of healthcare business increased during the Reporting Period as compared with 2017.

During the Reporting Period, the accounts receivables turnover days of the Group's healthcare business were 130 days (2017: 121 days).

Other Receivables and Prepayments

As of December 31, 2018, other receivables and prepayments increased to RMB74.7 million (as of December 31, 2017: RMB54.6 million).

Management Discussion and Analysis

Investment Properties

As of December 31, 2018, the balance of investment properties amounted to RMB128.6 million (as of December 31, 2017: RMB128.6 million), representing Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F) and Phase II Works of Business Center (2F to 11F) held by Wenzhou Guoda. During the Reporting Period, there was no significant change in the fair value of investment properties. The following table sets out the details of our investment properties during the Reporting Period:

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-290617, Wen Guoyong (2012) No. 3-290604, Wen Guoyong (2012) No. 3-290602, Wen Guoyong (2012) No. 3-290616, Zhe (2017) Wenzhou property rights No. 0136790, Zhe (2017) Wenzhou property rights No. 0136791, Zhe (2017) Wenzhou property rights No. 0136792, Zhe (2017) Wenzhou property rights No. 0136793
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	3,722.29
Total floor area (Approx.) (Sq. m.)	11,137.06
Usage	Non-residential
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the related properties are freehold properties
Investment property	Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2F to 11F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City Zhejiang Province, the PRC
Lot number	Wen Guoyong (2012) No. 3-289403
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	11,850.34
Usage	Commercial, office and hotel
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2043, and the related properties are freehold properties

Other Non-current Financial Assets

As of December 31, 2018, other non-current financial assets amounted to RMB51.0 million (as of December 31, 2017: available-for-sale financial assets RMB50.0 million), primarily due to our contribution to the investment fund. During the Reporting Period, the fair value of other non-current financial assets increased by RMB1.0 million.

Management Discussion and Analysis

Accounts Payable

As of December 31, 2018, accounts payables decreased to RMB73.6 million (as of December 31, 2017: RMB83.8 million), mainly due to the decrease in accounts payables for the property project accrued by Wenzhou Guoda.

Contract Liability

As of December 31, 2018, contract liability decreased to RMB2.2 million (as of December 31, 2017: advances from customers RMB7.5 million).

Other Payables

As of December 31, 2018, other payables increased to RMB129.8 million (as of December 31, 2017: RMB99.8 million), due to the obligations of the Company to repurchase all or part of the ungranted or unlocked Shares at the pre-agreed price in the Share incentive arrangement of restricted Shares implemented by the Group.

Liquidity and Capital Resources

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

	For the year ended December 31,	
	2018	2017
	(RMB'000)	(RMB'000)
Net cash generated from operating activities	**66,521**	81,499
Net cash used in investing activities	**(155,481)**	(223,628)
Net cash generated/(used in) from financing activities	**37,374**	(21,900)
Net decrease in cash and cash equivalents	**(50,472)**	(169,625)

Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB66.5 million, primarily consisting of net profit of RMB75.0 million and adjustments of RMB63.0 million for depreciation of property, plant and equipment as well as adjustments for amortisation of intangible assets and long-term prepaid expense. Changes in working capital resulted in cash outflow of RMB105.4 million. We had cash outflow of RMB39.4 million attributable to our various taxes paid.

Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities amounted to RMB155.5 million, primarily due to the amount of RMB145.5 million for purchasing property, plant and equipment, including the amounts paid for the expansion project of Cangnan Kangning Hospital and renovation projects of Hangzhou Yining Hospital and Taizhou Kangning Hospital; and the amount of RMB25.2 million paid for investment as a minority shareholder.

Management Discussion and Analysis

Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities amounted to RMB37.4 million, primarily due to the cash receipt of RMB34.8 million by absorbing investment.

Significant Investment, Acquisition and Disposal

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

Indebtedness

Bank Borrowings

As of December 31, 2018, the balance of bank borrowings of the Group amounted to RMB225.0 million (as of December 31, 2017: RMB200.0 million), primarily attributable to repayment of borrowings of RMB160.0 million and an increase in borrowings of RMB185.0 million during the Reporting Period.

Contingent Liabilities

As of December 31, 2018, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

Asset Pledge

Wenzhou Guoda, a subsidiary of the Group, had pledged its completed properties, Phase II of Business Center of Wenzhou Higher Education Mega Center, in favor of the China Zheshang Bank for bank loan and as of December 31, 2018, the balance of the borrowing amounted to RMB40.0 million.

Contractual Obligations

The contractual obligation of the Group primarily consists of operating lease arrangements. As of December 31, 2018, the future aggregate minimum lease payments under non-cancellable lease agreements were RMB275.0 million.

Financial Instruments

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

Management Discussion and Analysis

Exposure to Fluctuation in Exchange Rates

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

As of December 31, 2018, the Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

Gearing Ratio

As of December 31, 2018, the Group's gearing ratio (total liabilities divided by total assets) was 34.5% (as of December 31, 2017: 34.3%).

Employees and Remuneration Policy

As of December 31, 2018, the Group had a total of 2,581 full-time employees (as of December 31, 2017: 1,860 full-time employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB221.6 million (2017: RMB163.7 million). The average employees' remuneration is RMB101.6 thousand per year (including social medical insurance scheme and housing grant scheme bore by the Group). The remuneration is determined with reference to the salary level in the same industry and the qualifications, experience and performance of an employee.

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

Scope of the participants includes senior management of the Company, core technical personnel and other persons who, in the opinion of the Board, shall be incentivized.

Management Discussion and Analysis

After the consideration and approval at the 2017 AGM, first grant of the grant scheme comprised of 179 persons, the aggregate number of Shares first granted was 1,934,097 Shares. After the confirmation at the eighth meeting of the second session of the Board of the Company convened at August 20, 2018, the actual first grant comprised of 165 persons, as 13 persons voluntarily abstained to subscribe, 1 person was no longer qualified for grant. The actual aggregate number of Shares first granted was 1,818,529 Shares, representing 2.4898% of total issued share capital of the Company as at the date of this annual report and 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) in person.

Category of personnel	**Number of persons granted (person)**	**Number of Shares granted (Share)**	**Number of grant representing total issued share capital of the Company**
Senior management	**4**	133,715	0.1831%
Core technical personnel	**161**	1,684,814	2.3067%
Total	**165**	1,818,529	2.4898%

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

The Company set up the Employees' Shareholding Platform through the formation of a limited partnership, and the Employees' Shareholding Platform will hold the incentive Shares for and on behalf of the participants. Participants shall subscribe for and contribute capital at the grant price and become a limited partner of the partnership.

The incentive Shares under the incentive scheme comprise the non-tradable and non- listed domestic Shares of the Company to be issued to the Employees' Shareholding Platform by the Company.

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 first grant shall be unlocked in one go after 48 months from the date of the first grant; incentive Shares under the reserved grant shall be unlocked concurrently with those under the first grant.

Report of the Board

The Board is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2018.

Principal Activities

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

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

Business Review

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

Financial Highlights and Results

The operating results and summary of assets and liabilities of the Group for the year ended December 31, 2018 are set out in the "Financial Highlights" of this annual report.

The Group's financial results for the year ended December 31, 2018 are set out in the consolidated statement of comprehensive income of this annual report.

Investor Relations

Please refer to the section headed "Corporate Governance Report – Communication with Shareholders and Investor Relations" of this annual report.

Environmental Policies

The Group is conscious of its environmental protection obligations and actively seeks to implement eco-friendly technologies and solutions where feasible. With respect to medical waste management, the Group has engaged qualified third parties to arrange proper disposal for all of its healthcare facilities in accordance with applicable laws and regulations. Those applicable laws and regulations have no material impact on the business operation of the Group. Details of the environmental policies of the Company are set out in the Environmental, Social and Governance Report independently published by the Company in due course, which can be accessed and downloaded at the websites of the Company and the Hong Kong Stock Exchange.

Report of the Board

Compliance with Relevant Laws and Regulations

The Company continues to review its current systems and procedures, emphasizes and strives to comply with the PRC Company Law, the Hong Kong Listing Rules, the Securities and Futures Ordinance, applicable Hong Kong Companies Ordinance, and other relevant laws and regulations which have a significant impact on the Company. The Company endeavors to safeguard its Shareholders' interests, enhance corporate governance and strengthen the functions of the Board of Directors.

Laws and regulations that have a significant impact on the operation of the Group include but are not limited to the Mental Health Law of the PRC (《中華人民共和國精神衛生法》), the Management Regulations of Medical Institutions (《醫療機構管理條例》) and the Rules for the Implementation of Management Regulations of Medical Institutions (《醫療機構管理條例實施細則》).

The operation of the Group has always complied with national and local laws and regulations. It upholds honesty and integrity and performs its social responsibility.

The Company and its employees have been exercising their best endeavours to strictly follow the applicable rules, laws and industry standards. The Directors are not aware of any breach of laws or regulations which have a significant impact on the Group in 2018, nor are they aware of any litigation or cases of corruption, bribery, extortion, fraud and money laundering involving the Group during the Reporting Period.

There was no material incident of non-compliance with relevant laws and regulations that had a significant impact on the Company during the Reporting Period.

Permitted Indemnity Provision

For the year ended December 31, 2018, the Group has no permitted indemnity provision.

Use of Proceeds from Initial Public Offering

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

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

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

Report of the Board

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

As of December 31, 2018, the use of proceeds from the global offering of the Company is set out below:

The use of net proceeds set out in the Prospectus	Original allocation of net proceeds		Amount of net proceeds used as of December 31, 2018		Remaining net proceeds as of December 31, 2018	
	Approximate (RMB million)	Approximate (%)	Approximate (RMB million)	Approximate (%)	Approximate (RMB million)	Approximate (%)
To expand and ramp up our healthcare facility network and operating capacity	290.3	50.0	361.2	66.7	33.8	89.2
To finance renovation and upgrades for Wenzhou Kangning Hospital	145.2	25.0	84.0	15.5	0.0	0.0
Research, teaching and personnel training purposes	58.1	10.0	41.3	7.6	0.0	0.0
To develop our mobile and online platform for medical consultation and upgrade our information technology infrastructure	46.5	8.0	13.3	2.5	4.1	10.8
Working capital and other general corporate purposes	40.6	7.0	41.3	7.6	0.0	0.0
Total	**580.7**	**100.0**	**541.1**	**100.0**	**37.9**	**100.0**

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

Domestically, the Company strictly controlled the raised funds according to the instructions of policy documents of the SAFE and the use of proceeds described in the Prospectus. As of December 31, 2018, the total amount of recycling funds was HK$688.0 million, the accumulative settlement of exchange with the recycling funds was approximately HK$650.0 million, the proceeds from the settlement of exchange were approximately RMB556.0 million, and a total of approximately RMB541.0 million of the proceeds from the settlement of exchange were paid. Among them, approximately RMB361.2 million was used to expand and ramp up our healthcare facility network and operating capacity; approximately RMB84.0 million was used to finance renovation and upgrades for Wenzhou Kangning Hospital; approximately RMB41.3 million was used for research, teaching and personnel training purposes; approximately RMB13.3 million was used to develop our mobile and online platform for medical consultation and upgrade our information technology infrastructure; and approximately RMB41.3 million was used for working capital and other general corporate purposes. As of December 31, 2018, approximately HK$38.4 million of foreign exchange was retained inside Mainland China but had not been settled, and approximately RMB16.0 million of foreign exchange was settled to RMB but had not been paid.

Report of the Board

Overseas, according to the requirements of State Administration of Foreign Exchange of the PRC that "not less than 70% of the raised funds shall be recycled to Mainland China for settlement of foreign exchange", as of December 31, 2018, the Company's retained overseas raised funds accounted for about 0.8% of the total raised funds. The overseas retained funds were distributed as follows: (1) approximately HK$0.5 million and US$2.2 million were retained in the listing collection account opened with the Bank of Communications Hong Kong Branch; (2) a total of HK$50,000 was transferred into Industrial Bank Hong Kong Branch.

Save as used above, as of December 31, 2018, the remaining funds of the Company's proceeds were approximately HK$38.9 million, US$2.2 million and RMB16.0 million, which were deposited in a special account opened by the Company in the bank.

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

Use of net proceeds upon the change	Amount of net proceeds used as of the Latest Practicable Date		Planned amount of net proceeds used as of December 31, 2019	
	Approximate (RMB million)	Approximate (%)	Approximate (RMB million)	Approximate (%)
To expand and ramp up our healthcare facility network and operating capacity	380.2	67.4	33.8	89.2
To finance renovation and upgrades for Wenzhou Kangning Hospital	88.3	15.7	0.0	0.0
Research, teaching and personnel training purposes	41.3	7.3	0.0	0.0
To develop our mobile and online platform for medical consultation and upgrade our information technology infrastructure	13.3	2.4	4.1	10.8
Working capital and other general corporate purposes	41.3	7.3	0.0	0.0
Total	**564.3**	**100.0**	**37.9**	**100.0**

Report of the Board

Dividend

The Board recommends the payment of the Proposed Final Dividend. Subject to the approval of the Proposed Final Dividend by the Shareholders at the AGM to be held on June 18, 2019, the Proposed Final Dividend will be distributed on or about July 18, 2019 to the Shareholders whose names appear on the register of members of the Company on June 30, 2019 (the "**Record Date**").

The amount of final dividend distribution shall be calculated based on the total number of Shares in issue as of December 31, 2018 and the final cash dividend distribution shall be based on RMB0.15 per Share (inclusive of applicable tax). In order to qualify for the Proposed Final Dividend, the holders of H Shares must lodge all Share certificates accompanied by the transfer documents with Computershare Hong Kong Investor Services Limited (address: Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) before 4:30 p.m. on June 24, 2019. For the purpose of ascertaining Shareholders who qualify for the Proposed Final Dividend, the register of members for H Shares will be closed from June 25, 2019 to June 30, 2019 (both days inclusive).

The Proposed Final Dividend will be denominated and declared in RMB. The holders of Domestic Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the Proposed Final Dividend to be paid in Hong Kong dollars will be the exchange rates of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days prior to the date of declaration of the Proposed Final Dividend.

In accordance with the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementation regulations which came into effect on January 1, 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise Shareholders whose names appear on the register of members for H Shares when distributing the cash dividends. Any H Shares not registered under the name of an individual Shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organizations or groups, shall be deemed as Shares held by non-resident enterprise Shareholders. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such Shareholders. If holders of H Shares intend to change its Shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant Shareholders based on the register of members for H Shares as of the Record Date.

Report of the Board

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for the cash dividends to them with the PRC under the relevant tax agreement, the Company should withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of less than 10% with the PRC under the relevant tax agreement, the Company shall withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. In this case, if the relevant individual holders of H Shares wish to reclaim the extra amount withheld due to the application of 10% tax rate, the Company can apply for the relevant agreed preferential tax treatment provided that the relevant Shareholders submit the evidence required by the notice of the tax agreement to Computershare Hong Kong Investor Services Limited. The Company will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of over 10% but less than 20% with the PRC under the tax agreement, the Company shall withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of H Shares are residents of the countries which had an agreed tax rate of 20% with the PRC under the tax agreement, or which has not entered into any tax agreement with the PRC, or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

For the year ended December 31, 2018, none of the Shareholders has waived or agreed to waive any dividends.

Share Capital

Details of the movements in the share capital of the Company during the Reporting Period are set out in "Notes to the Financial Statements – note (28) to the consolidated financial statements" of this annual report.

Reserves

Details of movements in the reserves of the Group during the Reporting Period are set out in the "Consolidated Statement of Changes in Shareholder's Equity and Notes to the Financial Statements – note (29) to the consolidated financial statements" of this annual report.

Distributable Reserves

As of December 31, 2018, details of the Company's reserves available for distribution are calculated in accordance with the PRC regulations, and the distributable reserves was RMB30.0 million, which was the retained earnings computed under China Accounting Standards for Business Enterprises.

Report of the Board

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in "Notes to the Financial Statements – note (10) to the consolidated financial statements" of this annual report.

Major Customers and Suppliers

For the year ended December 31, 2018, the Group's largest customer and five largest customers aggregately contributed to 1.5% and 2.6%, respectively, of the Group's total revenue. For the year ended December 31, 2018, the Group's five largest customers contributed to less than 30.0% of the Group's total revenue for the year. The major customers of the Group are the healthcare facilities managed by us and patients of our owned hospitals. Due to the uniqueness of the business and high liquidity of patients of psychiatric specialty hospitals, our Company has no reliance on large customers.

For the year ended December 31, 2018, the total purchase of the Group's largest supplier and five largest suppliers aggregately accounted for 55.7% and 73.8%, respectively, of the Group's total purchases of pharmaceutical products, medical consumables and construction and renovation services.

None of the Directors, the Supervisors or any of their respective close associates (as defined under the Hong Kong Listing Rules), or any Shareholders, which to the knowledge of the Directors, owning more than 5% of the Company's issued Share capital has any interests in the Group's five largest customers or suppliers for the year ended December 31, 2018.

Relocation of Cangnan Kangning Hospital

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

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

At present, renovation and reconstruction project of the new district of Cangnan Kangning Hospital has been completed and is scheduled to be put into use in 2019.

Report of the Board

Securities Issuance

On June 13, 2018, the annual general meeting of the Company for the year 2017 considered and approved the proposal on the Proposed Grant of A General Mandate to the Board to Issue Additional Domestic Shares and other relevant proposals, endorsing the Company's grant of a general mandate to the Board to issue additional Domestic Shares. On June 29, 2018, the 7th meeting of the 2nd session of the Board of Directors of the Company deliberated and adopted the Proposal on Additional Issuance of Domestic Shares of the Company in Mainland China and other relevant proposals, endorsing the Company issued 2,460,000 Domestic Shares with a nominal value of RMB1.0 each by way of a non-public private placement, and the issue price of the Issuance is determined to be RMB10.47 per Share. On August 20, 2018, the 8th meeting of the 2nd session of the Board of Directors of the Company deliberated and adopted the Proposal on the Additional Registered Capital by the Company and other relevant proposals, the Company issued 2,460,000 Domestic Shares, at a price of issuance of RMB10.47 per Share, the total proceeds amounted to RMB25,756,200, of which RMB2,460,000 shall be included in the Company's registered capital and RMB23,296,200 shall be included in the Company's capital reserve. There was no unused balance of the proceeds. Upon completion of the issuance, the registered capital of the Company shall be increased from RMB73,040,000 to RMB75,500,000.

Please refer to the relevant announcements published on the websites of HKEX news of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.knhosp.com) for detailed information thereof.

Debentures in Issue

For the year ended December 31, 2018, the Group did not issue any debentures.

Equity-linked Agreements

For the year ended December 31, 2018, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2018.

Donations

For the year ended December 31, 2018, the charitable contributions and other donations made by the Group amounted to approximately RMB5.3 million in aggregate.

Subsidiaries

Details of the Company's principal subsidiaries as of December 31, 2018 are set out in "Notes to the Financial Statements – Interests in other entities – Interests in subsidiaries – The Group structure" of this annual report.

Report of the Board

Directors

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

Executive Directors

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

Non-executive Directors

Mr. YANG Yang
Mr. LIN Lijun

Independent Non-executive Directors

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

Supervisors

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

Mr. SUN Fangjun *(Chairman)*
Ms. HUANG Jingou
Mr. XIE Tiefan
Mr. QIAN Chengliang
Mr. MA Jinlong

Business Review and Analysis of Key Indicators of Financial Performance

For business review and analysis of key indicators of financial performance of the Group for the year ended December 31, 2018, please refer to the sections of "Financial Highlights" and "Management Discussion and Analysis" in this annual report.

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

Save as disclosed in "Notes to the Financial Statements – Related parties and related party transactions" of this annual report, no transaction, arrangement or contracts of significance to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries, was a party and in which a Director or a Supervisor, or any entity connected with any Director or Supervisor, had a material interest, whether directly or indirectly, subsisted as of December 31, 2018 or at any time during the Reporting Period.

Report of the Board

Controlling Shareholders' Interests in Contracts of Significance

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

Management Contracts

During the Reporting Period, the Company did not enter into any management contracts with respect to the entire business or the core business of the Company.

Non-competition Agreement

Pursuant to the Non-competition Agreement, each of the Controlling Shareholders has agreed not to, and to procure that his/her respective close associate(s) (as appropriate) (other than the Group) not to, either directly or indirectly, compete with the Group's principal business (which is primarily to provide psychiatric specialty care through managing healthcare facilities and hospitals) and granted to the Group the option for new business opportunities, option for acquisitions and pre-emptive rights. During the period from the date of the Non-competition Agreement to December 31, 2018, the Company did not receive any Offer Notice (as defined under the section headed "Relationship with our Controlling Shareholders" in the Prospectus) from the Controlling Shareholders.

The Company has received confirmations from the Controlling Shareholders confirming their compliance with the Non-competition Agreement for the year ended December 31, 2018 for disclosure in this annual report. The independent non-executive Directors have also reviewed the Controlling Shareholders' compliance with the Non-competition Agreement for the year ended December 31, 2018.

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

Particulars of the Directors' and the chief executives' emoluments and five highest paid individuals for the year ended December 31, 2018 are set out in "Notes to the Financial Statements – Related parties and related party transactions" of this annual report. The remuneration policy of the Company is set out in the section headed "Corporate Governance Report" of this annual report.

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

Directors' Interests in Competing Business

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

Report of the Board

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

As of December 31, 2018, the interests and short positions of the Directors, the Supervisors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company under section 352 of the SFO, or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

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

Notes:

(L): Long position

(1) The shareholding percentages are calculated on the basis of 55,260,000 Domestic Shares and 20,240,000 H Shares (an aggregate of 75,500,000 Shares) issued by the Company as of December 31, 2018.

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

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

Save as disclosed above, as of December 31, 2018, to the knowledge of the Board, none of the Directors, the Supervisors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, the Supervisors and chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) or recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Report of the Board

Interests of Substantial Shareholders

As of December 31, 2018, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons/entities (other than the Directors, the Supervisors or chief executives of the Company) had an interest or short position which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class[1]	Approximate Percentage of the Company's Total Issued Share Capital[1]
Guangzhou GL Capital Investment Fund L.P. (**"Defu Fund"**) (廣州德福股權投資基金合夥企業（有限合夥）（「**德福基金**」）)	Domestic Shares	Beneficial owner	15,384,541 (L)	27.84%	20.38%
Guangzhou GL Capital GP L.P. (廣州德福投資諮詢合夥企業（有限合夥）) [2]	Domestic Shares	Interest in a controlled corporation	15,384,541 (L)	27.84%	20.38%
Guangzhou Automobile Group Capital Co., Ltd. (廣汽資本有限公司) [3]	Domestic Shares	Interest in a controlled corporation	15,384,541 (L)	27.84%	20.38%
Mr. XU Yi [4]	Domestic Shares	Interest of spouse	5,527,350 (L)	10.00%	7.32%
Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥))	Domestic Shares	Beneficial owner	3,253,180 (L)	5.89%	4.31%
Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥)) [5]	Domestic Shares	Interest in a controlled corporation	3,253,180 (L)	5.89%	4.31%
Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥))	Domestic Shares	Beneficial owner	3,253,179 (L)	5.89%	4.31%
Mr. ZHAO Yongsheng [6]	Domestic Shares	Interest in a controlled corporation	3,253,179 (L)	5.89%	4.31%
Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) [7]	Domestic Shares	Interest in a controlled corporation	6,506,359 (L)	11.7%	8.62%
Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝汭投資有限公司)	Domestic Shares	Beneficial owner	2,780,000 (L)	5.03%	3.68%

Report of the Board

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class[1]	Approximate Percentage of the Company's Total Issued Share Capital[1]
Jinshi Investment Co., Ltd. (金石投資有限公司)[8]	Domestic Shares	Interest in a controlled corporation	2,780,000 (L)	5.03%	3.68%
Citigroup Inc.	H Shares	Interest in a controlled corporation/Person having a security interest	2,822,966 (L) 58,266 (S)	13.95% 0.29%	3.74% 0.08%
Baring Asset Management Limited	H Shares	Investment manager	3,052,400 (L)	15.08%	4.04%
Barings LLC (formerly known as Babson Capital Management LLC)	H Shares	Investment manager	3,034,200 (L)	14.99%	4.02%
Northern Trust Fiduciary Services (Ireland) Limited	H Shares	Trustee	2,093,700 (L)	10.34%	2.77%
OrbiMed Advisors LLC	H Shares	Investment manager	1,454,000 (L)	7.18%	1.93%
OrbiMed Capital LLC	H Shares	Investment manager	2,150,900 (L)	10.63%	2.85%
OrbiMed Partners Master Fund Limited	H Shares	Beneficial owner	1,279,900 (L)	6.32%	1.70%
Prime Capital Management Company Limited	H Shares	Investment manager	2,803,800 (L)	13.85%	3.71%
OrbiMed Partners II, L.P.	H Shares	Beneficial owner	1,052,000 (L)	5.20%	1.39%
Morgan Stanley	H Shares	Interest in a controlled corporation	1,208,534 (L) 1,143,634 (S)	5.97% 5.65%	1.60% 1.51%
UBS Group AG	H Shares	Interest in a controlled corporation	3,880,900 (L)	19.17%	5.14%

Notes:

(L): Long position

(S): Short position

(1) The shareholding percentages are calculated on the basis of 55,260,000 Domestic Shares and 20,240,000 H Shares (an aggregate of 75,500,000 Shares) issued by the Company as of December 31, 2018.

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

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

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

Report of the Board

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

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

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

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

Save as disclosed above, as of December 31, 2018, to the knowledge of the Directors, no other person (other than a Director, a Supervisor or chief executive of the Company) had, or was deemed or taken to have interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Directors' and Supervisors' Rights to Acquire Shares or Debt Securities

At no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, the Supervisors, or chief executives of the Company (including their spouses or children under 18 years of age) to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

Connected Transaction

The Board confirms that none of the related party transactions set out in "Notes to the Financial Statements – Related parties and related party transactions" of this annual report constituted connected transactions or continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. During the Reporting Period, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this annual report pursuant to the Hong Kong Listing Rules.

Purchase, Sale or Redemption of Listed Securities

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

Report of the Board

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles or the PRC Company Law which oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

Bank Borrowings

Details of the bank borrowings of the Group as of December 31, 2018 are set out in "Notes to the Financial Statements – notes (18) and (25) to the consolidated financial statements" of this annual report.

Charge on Assets

Details of the charge on assets of the Group as of December 31, 2018 are set out in "Notes to the Financial Statements – notes (18) and (25) to the consolidated financial statements" of this annual report.

Corporate Governance

The Board is of opinion that the Company has complied with all code provisions and the recommended best practices under the CG Code throughout the Reporting Period. Principal corporate governance practices adopted by the Company are set out in the section headed "Corporate Governance Report" of this annual report.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the Latest Practicable Date, the Company had maintained the minimum public float of the issued Shares as required under the Hong Kong Listing Rules.

Closure of the Register of Members

For determining the entitlement to attend and vote at the AGM

The register of members of the Company will be closed from May 19, 2019 to June 18, 2019, both days inclusive, during which period no transfer of the Shares will be effected. In order to determine the identity of Shareholders who are entitled to attend and vote at the AGM, all Share transfer documents accompanied by the relevant Share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on May 17, 2019.

For determining the entitlement to the Proposed Final Dividend

The register of transfer of Shares of the Company will be closed from June 25, 2019 to June 30, 2019, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for receiving the Proposed Final Dividend (subject to the approval by the Shareholders at the AGM), all completed Share transfer documents accompanied by the relevant Share certificates must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on June 24, 2019.

Report of the Board

Important Events after the Reporting Period

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

Audit Committee

The Audit Committee of the Board of Directors of the Company has reviewed the Company's and the Group's 2018 annual results, and the audited consolidated financial statements for 2018 prepared in accordance with the China Accounting Standards for Business Enterprises.

Auditor

The financial statements for the year ended December 31, 2018 have been audited by PricewaterhouseCoopers Zhong Tian LLP.

In June 2017, due to changes in accounting standards, the Company will not re-appoint its original international auditor, PricewaterhouseCoopers, and re-appoint PricewaterhouseCoopers Zhong Tian LLP as the Company's auditor. The auditor performs audits on the financial statements prepared by the Company in accordance with the CASBE and undertakes the duties of overseas audit institutions in accordance with the Listing Rules.

In addition, the Company has not changed its auditor in the past three years.

For and on behalf of the Board
GUAN Weili
Chairman

Zhejiang, the PRC
March 25, 2019

Report of the Supervisory Committee

To the Shareholders:

The Supervisory Committee in compliance with the relevant laws, regulations and the Articles, and based on the attitude of being responsible to all Shareholders of the Company, has conducted its work in accordance with the fiduciary principle, played an active role to work seriously and with diligence, duly performed its supervisory functions, effectively supervised the performance of duties of Directors, chief executives and other senior management members of the Company, and played a positive the in lawful operation and development of the Company.

During the Reporting Period, the Supervisory Committee reviewed cautiously the operation and development plans of the Company, and provided reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they have complied with the laws and regulations and the Articles and in the interests of the Shareholders.

We have attended Board meetings and general meetings of the Company, supervised the Company's major decision-making matters and procedures, and provided suggestions and opinions. We consider that the Directors, the chief executives and other senior management members of the Company are able to strictly observe their fiduciary duties, to act diligently, to exercise their authority faithfully in the best interests of the Company and to work in accordance with the Articles. As of the date of approval of this report, none of the Directors and chief executives and other senior management members of the Company had been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of the Shareholders and employees of the Company. None of them was found to be in breach of any laws and regulations or the Articles.

In 2019, each member of the Supervisory Committee will continue to satisfy his or her supervision responsibilities, and pay attention to the implementation of the Company's major strategy, master the Company's major business decisions, promote the effective operation of the internal control system, and further promote the standardized operation of the Company's business management. We will actively participate in relevant training, strive to improve professional competence and performance standards, to safeguard the interests of the Company and protect the interests of Shareholders, especially small and medium-sized Shareholders.

For and on behalf of the Supervisory Committee
SUN Fangjun
Chairman

Zhejiang, the PRC
March 25, 2019

Corporate Governance Report

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

The Board

Board Composition

The Board currently comprises eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The brief biographical details of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" of this annual report. The overall management and supervision of the Company's operation and the function of formulating overall business strategies were vested in the Board.

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

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

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

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

Corporate Governance Report

Role and Function of and Delegation by the Board

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

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

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

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

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

Chairman and Chief Executives

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

Relationship between Directors and Chief Executives

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

Corporate Governance Report

Role and Function of the Senior Management

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

Changes in Information of Directors, Supervisors and Chief Executives

The Supervisory Committee of the Company received the written resignation report from Mr. MA Jinlong. Due to personal work arrangement, Mr. Ma has proposed his resignation as an independent supervisor of the Company. The resignation of Mr. Ma will take effect from the appointment of a new independent supervisor in replacement of him having been approved at the general meeting of the Company to be held in due course.

Mr. Ma has confirmed that he has no disagreement with the Supervisory Committee or the Board and there is no matter in relation to his resignation which needs to be brought to the attention of the Shareholders of the Company.

Details please refer to the announcement of the Company dated June 22, 2018.

Induction of and Continuous Professional Development for Directors

During the Reporting Period, the Company focused on the continuing professional development of the Directors by encouraging them to take part in and organizing training programs for them. All members of the Board continued to familiarize themselves with various regulatory information and the latest regulatory requirements, including relevant laws and regulations and regulatory documents in relation to corporate governance and the Hong Kong Listing Rules. They also updated their knowledge and skills, and improved their abilities to perform their duties through various methods, such as participating in relevant trainings organized by industry associations, professional bodies and the Company, and personally visiting domestic and foreign financial institutions and the Company, to ensure that they can contribute to the Board in a well-informed manner based on its actual needs. The major trainings attended by the Directors are as follows:

During the Reporting Period, all Directors of the Company, namely Mr. GUAN Weili, Ms. WANG Lianyue, Ms. WANG Hongyue, Mr. YANG Yang, Mr. LIN Lijun, Mr. CHONG Yat Keung, Mr. HUANG Zhi and Mr. GOT Chong Key Clevin, had read through a number of written materials with regard to Director's duties and responsibilities.

Corporate Governance Report

Compliance with the Model Code

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

Corporate Governance

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

Service Contracts of the Directors and Supervisors

Each of the Directors, except Mr. GOT Chong Key Clevin and Mr. LIN Lijun, entered into a service contract with the Company on April 8, 2015, according to which each Director's term of office was (a) three years commencing from the date when their respective appointments were approved by the Shareholders; and (b) subject to termination in accordance with their respective terms. Mr. GOT Chong Key Clevin entered into a service contract with the Company on June 14, 2016, according to which his term of office was (a) from the date of his appointment to the expiry of the term of the first session of the Board; and (b) subject to termination in accordance with his term. Mr. LIN Lijun entered into a service contract with the Company on June 14, 2017, and according to which his term of office was (a) three years commencing from the date when his appointment was approved by the Shareholders; and (b)subject to termination in accordance with his term.

Each of the Supervisors, except Mr. QIAN Chengliang and Mr. MA Jinlong, entered into a service contract with the Company on April 8, 2015, according to which each Supervisor's term of office was (a) three years commencing from the date when their respective appointments were approved by the Shareholders; and (b) subject to termination in accordance with their respective terms. Mr. QIAN Chengliang and Mr. MA Jinlong entered into a service contract with the Company on June 14, 2017 respectively, and according to which their terms of office were (a) from the date of their respective appointment to the expiry of term of the second session of the Supervisory Committee; and (b) subject to termination in accordance with their respective terms.

Corporate Governance Report

The service contracts may be renewed in accordance with the Articles and applicable laws, rules and regulations.

None of the Directors or the Supervisors has entered or has proposed to enter into any service contracts with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

Accounting Standards

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

ACCOUNTING POLICIES

Accounting Policies

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

The financial statements are prepared on a going concern basis.

The Companies Ordinance has come into effect in 2016. Some notes in the financial statements have reflected the new requirements of the Companies Ordinance.

Adoption of New Accounting Policies

The Ministry of Finance of the PRC issued 'Accounting Standard for Business Enterprises No. 14 - Revenue', 'Accounting Standard for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments', 'Accounting Standard for Business Enterprises No. 23 - Transfer of Financial Assets', 'Accounting Standard for Business Enterprises No. 24 - Hedging' and 'Accounting Standard for Business Enterprises No. 37 - Presentation of Financial Instruments' in 2017. The Group has adopted the standards above to prepare the financial statements for the year 2018.

During the Reporting Period, the Group adopted the 'Accounting Standard for Business Enterprises No.22 - Recognition and Measurement of Financial Instruments' to reclassify equity investments classified as available-for-sale financial assets in previous years into financial assets at fair value through profit or loss, resulting in an increase in retained earnings of RMB730,742 at the beginning of the year based on the fair value of relevant equity investments at the effective date of such standard.

Corporate Governance Report

During the Reporting Period, due to the adoption of the 'Accounting Standard for Business Enterprises No.22 - Recongnisition and Measurement of Financial Instruments', the Group adjusted original provision on impairment of receivables to provision on expected loss model as required by the new standard on financial instruments, resulting in a decrease in retained earnings of RMB895,043 at the beginning of the year.

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

Impact of Change in the Format of Financial Statements

Pursuant to the Notice on Revising and Circulating the Format of Financial Statements of General Enterprises for the year 2018 (Cai Kuai [2018] No.15) promulgated by the Ministry of Finance on June 15, 2018, the Company is required to prepare its financial statements in the format as required by Appendix 2 to such notice due to its implementation of such new revenue standard and new financial instrument standard. The implementation of such new format of financial statements primarily impact the reclassification of certain items of assets and liabilities in the financial statements of the Group, and has no impact on the net asset and net profit attributable to Shareholders of the Company.

Attendance at Board Meetings and General Meetings

The Company has adopted the practice of holding Board meetings for at least four times a year at approximately quarterly intervals pursuant to code provision A.1.1 of the CG Code. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend pursuant to code provision A.1.3 of the CG Code and relevant matters are included in the agenda of such meeting.

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

Name of Directors	Number of Board meetings convened/attended
Executive Directors	
Mr. GUAN Weili *(Chairman)*	6/6
Ms. WANG Lianyue	6/6
Ms. WANG Hongyue	6/6
Non-executive Directors	
Mr. YANG Yang	6/6
Mr. LIN Lijun	6/6
Independent non-executive Directors	
Mr. CHONG Yat Keung	6/6
Mr. HUANG Zhi	6/6
Mr. GOT Chong Key Clevin	6/6

Corporate Governance Report

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

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

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

Name of Directors	Number of general meetings convened/attended
Executive Directors	
Mr. GUAN Weili *(Chairman)*	1/1
Ms. WANG Lianyue	1/1
Ms. WANG Hongyue	1/1
Non-executive Directors	
Mr. YANG Yang	1/1
Mr. LIN Lijun	1/0
Independent non-executive Directors	
Mr. CHONG Yat Keung	1/0
Mr. HUANG Zhi	1/1
Mr. GOT Chong Key Clevin	1/0

Corporate Governance Report

Board Committees

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

Audit Committee

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

As at the date of this report, the Audit Committee consists of two independent non-executive Directors, Mr. HUANG Zhi (chairman of the Audit Committee) and Mr. GOT Chong Key Clevin, and one non-executive Director, Mr. LIN Lijun. Four Audit Committee meetings were held during the Reporting Period to, among other matters, review annual results for the year 2017 and interim results for the year 2018 of the Group.

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

Directors	**Number of meetings convened/attended**
Mr. HUANG Zhi *(Chairman)*	4/4
Mr. GOT Chong Key Clevin	4/4
Mr. LIN Lijun	4/4

Corporate Governance Report

Nomination Committee

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

As of the date of this report, the Nomination Committee consists of one independent non-executive Director, Mr. GOT Chong Key Clevin (chairman of the Nomination Committee), one executive Director, Mr. GUAN Weili, and one independent non-executive Director, Mr. CHONG Yat Keung. One Nomination Committee meeting was held during the Reporting Period to, among other matters, review and recommend the proposed appointment of Mr. JIN Weiguang as the vice general manager of the Company for a term of three years. Taking into account (i) the Company's policy of a diversified governance structure; (ii) the Company's internal policy of the qualifications of senior executives and (iii) Mr. Jin's previous work experience, the Nomination Committee is of the view that Mr. Jin is an appropriate candidate for a vice general manager as his previous experience can help the Company improve its administrative capacity.

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

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

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

Corporate Governance Report

Remuneration Committee

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

As at the date of this report, the Remuneration Committee comprises two independent non-executive Directors, Mr. CHONG Yat Keung (chairman of the Remuneration Committee) and Mr. HUANG Zhi, and one non-executive Director, Mr. YANG Yang. The Remuneration Committee has adopted the second model described in paragraph B.1.2(c) under Appendix 14 to the Hong Kong Listing Rules (i.e. make recommendation to the Board on the remuneration packages of individual executive Directors and senior management). Three Remuneration Committee meetings were held during the Reporting Period to, among other matters, review the report of the general manager of the Company for the year 2017.

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

Directors	**Number of meetings convened/attended**
Mr. CHONG Yat Keung *(Chairman)*	3/3
Mr. HUANG Zhi	3/3
Mr. YANG Yang	3/3

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their renumeration with their individual performance. The remuneration package includes basic salary, performance and/or discretional bonus and other benefits. The remuneration of non-executive Directors and independent non-executive Directors mainly includes the Directors' fee which is a matter for the Board to decide by reference to their duties and responsibilities.

The emoluments of each Director for the year ended December 31, 2018 are set out in "Notes to the Financial Statements – Related parties and related party transactions" of this annual report.

Corporate Governance Report

Strategy and Risk Management Committee

The Company has established the Strategy and Risk Management Committee with written terms of reference in compliance with the duties and functions delegated to the Strategy and Risk Management Committee by the Board. The primary responsibilities of the Strategy and Risk Management Committee include reviewing and providing suggestions on the Company's long term strategic plan and significant investment decisions; reviewing the Company's risk management policies and standards; supervising and monitoring the Company's exposure to legal risks.

As at the date of this report, the Strategy and Risk Management Committee consists of one executive Director, Mr. GUAN Weili (chairman of the Strategy and Risk Management Committee), one non-executive Director, Mr. YANG Yang, and one independent non-executive Director, Mr. HUANG Zhi. One Strategy and Risk Management Committee meeting was held during the Reporting Period to, among other things, review and recommend to the Board the report on internal control and risk management of the Group for the year 2017 and proposed grant of general mandate to issue H Shares. The Strategy and Risk Management Committee has conducted annual review regarding internal controls and confirmed the effectiveness of the Group's internal control system in the internal control and risk management report.

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

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

Corporate Governance Report

Board Diversity Policy

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

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties including but not limited to:

(a) to review the Company's compliance with the CG Code and disclosure in the corporate governance report;

(b) to develop and review the Company's policies and practices of corporate governance;

(c) to develop, review and monitor the code of conduct applicable to employees and Directors;

(d) to review and monitor the training and continuous professional development of Directors, Supervisors and senior management; and

(e) to review and monitor the Company's policies and routines on the compliance with legal and regulatory requirements.

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

Corporate Governance Report

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

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended December 31, 2018 which gives a true and fair view of the status of the Company and the Group and of the Group's results and cash flows. The Directors also acknowledge their responsibilities to ensure that the consolidated financial statements of the Group are published in a timely manner. The management of the Company has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements, which are submitted to the Board for approval. The Company provides all members of the Board with the latest materials of the Company's results, status and prospects.

The Directors were not aware of any material uncertainties relating to any events or conditions which may cast a significant influence upon the Group's ability to continue as a going concern.

The statement prepared by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Auditor's Report of this annual report.

Risk Management and Internal Control

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failing to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

A defined management structure and process with specified limits of authority and responsibilities is established to safeguard assets against unauthorized use or disposition, maintain proper accounting records for the provision of reliable financial information for internal use or for publications and the compliance of applicable laws, rules and regulations. An internal audit department has been established by the Company to perform regular financial and operational reviews and recommend actions needed to the relevant management. The internal audit department's work is to ensure the internal controls run properly and function as intended. The results of the internal audit and reviews are reported to the Audit Committee. When the Group encounters any potential significant risk of the Group, the designated department will identify the risk, and the management will assess the risks and consider its impact on the business and the likelihood of the occurrence. After the assessment, the management will determine the strategies and internal control procedures to avoid the risk and prevent similar ones in the future.

Corporate Governance Report

The Board reviews the effectiveness of the Group's risk management and internal control system one time per year and are satisfied with the adequacy of the system of risk management and internal control of the Group for the year ended December 31, 2018. There were no matters of material concerns relating to finance, operation or compliance controls.

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

Senior Management's Remuneration

The details of the Company's senior management are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report, whose remuneration band for the year ended December 31, 2018 is as below:

Remuneration band (RMB)	Number of individuals
0-250,000	0
250,001-500,000	7

Corporate Governance Report

Auditor's Remuneration

For the year ended December 31, 2018, the Group's statutory auditor, PricewaterhouseCoopers Zhong Tian LLP, provided annual audit services. During the year ended December 31, 2018, the total fee paid/payable in respect of audit and non-audit services provided by the Group's auditors is set out below:

Audit services	RMB3,000,000
Non-audit services	RMB70,096

Joint Company Secretaries

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

During the Reporting Period and up to the date of this annual report, Ms. Ng has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules. Mr. Wang attended relevant training relating to the roles, functions and duties of directors of a listed company in Hong Kong and was from time to time been updated and with training materials provided by the external lawyers during the Reporting Period, he has also undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules. He will continue to attend relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules for the year ended December 31, 2019.

Communication with Shareholders and Investor Relations

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

Corporate Governance Report

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

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

Shareholders' Rights

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

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

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

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

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

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

If the Supervisory Committee fails to publish the notice of an EGM within the specified period, it shall be deemed that the Supervisory Committee does not convene or preside over a general meeting. Shareholders who individually or jointly hold 10% or more of the Shares for not less than 90 consecutive days may convene and preside over an EGM by themselves. Necessary expenses of the general meeting held by the Supervisory Committee or Shareholders themselves shall be borne by the Company.

Corporate Governance Report

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

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

Shareholders who individually or collectively hold more than 3% of the Shares may submit *ad hoc* proposals in writing to the convener of the general meeting 10 days before the convening of such general meeting. The convener shall issue a supplemental notice of the general meeting within 2 days upon receipt of the proposals and announce the contents of the *ad hoc* proposals. The contact details for the submission of proposals are as follows:

Address:
No.1 Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
the PRC
Fax: (86)577 8878 9117
Email: ir@knhosp.cn

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the secretary to the Board. The contact details are as follows:

Address:
No.1 Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
the PRC
Fax: (86)577 8878 9117
Email: ir@knhosp.cn

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Change in Constitutional Documents

During the Reporting Period, the Articles was amended once. It took place at the 8th meeting of the second session of Board of Directors of the Company held on August 20, 2018. According to the PRC Company Law, the Essential Provisions of the Articles of Association of Companies Listed Abroad and other laws, regulations and relevant provisions of normative documents, as well as the authorization of the 2017 Annual General Meeting of the Company to the Board to increase the registered capital after the implementation of the equity incentive plan of the Company and to amend the relevant contents of the Articles, including the registered capital, total share capital, equity structure, etc., the Board of Directors of the Company has amended some contents of the Articles. The resolution to amend the Articles has been considered and approved and entered into force. For details, please refer to the announcement dated August 20, 2018.

Directors, Supervisors and Senior Management

Directors

Executive Directors

Mr. GUAN Weili (管偉立), aged 49, is chairman of the Board and an executive Director. He is primarily responsible for the overall business operation and strategic planning of the Company. He founded the Company in February 1996 and became an executive Director since then. Mr. Guan was appointed as chairman of the Board and an executive Director in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, Mr. Guan served as a clinician at Wenzhou Mental Hospital (溫州市精神病院), a local hospital in Wenzhou, from August 1987 to December 1993, where he was primarily responsible for the medical treatment of psychiatric patients. Mr. Guan graduated from Wenzhou Medical University (溫州醫科大學) (previously known as Wenzhoushi Health School (溫州醫學院) in Wenzhou in August 1987, majoring in medical assistance. Mr. Guan obtained his senior business operator certificate from Wenzhou Municipal Bureau of Personnel (溫州市人事局) in December 2007. Mr. Guan is the spouse of Ms. WANG Lianyue and the brother-in-law of Ms. WANG Hongyue and Mr. XU Yi.

Ms. WANG Lianyue (王蓮月), aged 50, is our executive Director and general manager. She is primarily responsible for the overall hospital operation and business development of the Company. She joined the Company in January 1998 and has served as our general manager since September 2011 and our executive Director since April 2013. Ms. Wang was appointed as our executive Director again in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from August 1988 to December 1997, she was a nurse at Wenzhou Mental Hospital (溫州市精神病院), where she was primarily responsible for general patient care. Ms. Wang received two associate degrees from Wenzhou Medical University in Wenzhou in June 2004 and the Party School of Wenzhou Municipal Committee of the Communist Party of China (中共溫州市委黨校) in Wenzhou in June 2002, where she majored in nursing and economic administration respectively. She graduated from Online Education College of Xi'an Jiaotong University (西安交通大學網絡教育學院), through long-distance education, with a bachelor's degree in law in July 2007. She also completed part-time hospital management courses at the China Europe International Business School (中歐國際工商學院) in Shanghai in September 2006. She was accredited as secondary psychological consultant (二級心理諮詢師) by the Ministry of Human Resources and Social Security of China (人力資源和社會保障部) in December 2004. Ms. Wang is the spouse of Mr. GUAN Weili, the sister of Ms. WANG Hongyue and the sister-in-law of Mr. XU Yi.

Directors, Supervisors and Senior Management

Ms. WANG Hongyue (王紅月), aged 46, is our executive Director and our chief financial officer. She is primarily responsible for the overall financial management and capital investment of the Company. She joined the Company in January 1996 and worked in our finance department from January 1996 to December 1999. She became the head of our finance department in January 2000. Ms. Wang was appointed as an executive Director in April 2013 and after the Company was converted into a joint stock limited liability company, she was appointed as an executive Director again and as chief financial officer in September 2014. Ms. Wang also served as our Supervisor from September 2011 to April 2013. Prior to joining the Company, from July 1994 to December 1995, she worked in the finance department of Wenzhou City Kangning Medicine Wholesale Company of Longwan District (溫州市龍灣區康寧醫藥批發公司), which engages in the medicine wholesale business, where she was responsible for accounting work. Ms. Wang graduated from Online Education College of Xi'an Jiaotong University (西安交通大學網絡教育學院), through long-distance education, with a bachelor's degree in accounting in July 2007. She graduated from Shanghai University of Finance and Economics with a master's degree in EMBA in May 2017. Ms. Wang is the sister of Ms. WANG Lianyue, the spouse of Mr. XU Yi and the sister-in-law of Mr. GUAN Weili.

Non-executive Directors

Mr. YANG Yang (楊揚), aged 63, is our non-executive Director. He is primarily responsible for overseeing the corporate development and strategic planning of the Company. He joined the Company in April 2015 and has served as our non-executive Director since then. Since January 2010, Mr. Yang has also been serving as an executive director of GL Capital Investments HK Limited, a company engaging in private equity services for investment business, where he is primarily responsible for hospital management and investments. Prior to joining the Company, from May 1988 to December 2009, Mr. Yang served as the general manager of Long Nice Industries Ltd. (長立實業有限公司), a company in Hong Kong engaging in the business of trading and the provision of investment services, where he was primarily responsible for businesses involving investment, foreign trade and manufacturing. Mr. Yang graduated from the Naval College of the Chinese People's Liberation Army (中國人民解放軍海軍學院) in Nanjing in March 1982, majoring in operational commanding.

Directors, Supervisors and Senior Management

Mr. LIN Lijun (林利軍), aged 46, is our non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Lin joined the Company in June 2017 and has served as our non-executive Director since then. He has been chairman of Loyal Valley Innovation Capital since September 2015. Since April 2016, Mr. Lin has been a director of Yintech Investment Holdings Limited, a company listed on the NASDAQ Stock Market (ticker symbol: YIN.US) engaging in the provision of spot service for bulk commodity, where he is primary responsible for monitoring the strategic development of company. Since March 2016, he has been a director of TANSH Global Food Group, a company listed on the Hong Kong Stock Exchange (stock code: 03666.HK) engaging in the operation of mid-to-high end Chinese cuisine full-service chain restaurants, where he is primary responsible for monitoring the strategic development of company. Since November 2015, he has been a director of Yunfeng Financial Group Limited, a company listed on the Hong Kong Stock Exchange (stock code: 00376.HK) engaging in the provision of financial services, where he is primary responsible for monitoring the strategic development of company. From November 2015 to March 2017, he has been a director of Shanghai Chengtou Holding Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600649.SH), where he was primarily responsible for provision of raw water to Shanghai Water Supply Shinan Co., Ltd., Shanghai Water Supply Shibei Co., Ltd. and Shanghai Pudong Veolia Water Supply Co., Ltd. He founded China Universal Asset, a fixed-income investment professional institution, in April 2004, and served as president since then until April 2015. He also successively served as an assistant to office officer and an assistant to director of listing department at Shanghai Stock Exchange from July 1997 to July 2001, during which he also worked in the growth enterprise board preparation work unit and the listed company supervision department of the CSRC. Mr. Lin graduated from Fudan University with a bachelor's degree in world economy in Shanghai in June 1994. He graduated from Fudan University with a master's degree in world economy in Shanghai in June 1997. He also graduated from Harvard University with a Master of Business Administration degree in U.S. in 2013.

Independent Non-executive Directors

Mr. CHONG Yat Keung (莊一強), aged 55, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Chong joined the Company in April 2015 and has served as our independent non-executive Director since then. From February 2012 to February 2015, Mr. Chong served as the deputy secretary-general of Chinese Hospital Association (中國醫院協會), and from October 2015 to December 2016, he serverd as the part-time deputy secretary-general of Chinese Hospital Association, where he was primarily responsible for hospital accreditation. From January 2004 to January 2012 and since March 2015, he served and has again been serving as the president of Guangzhou Ailibi Management Consulting Co., Ltd. (廣州艾力彼管理顧問有限公司) which is a company engaging in the provision of hospital consultation services, where he was primarily responsible for hospital management consulting, training and hospital rating. From November 1994 to May 2000, he held various positions in a number of pharmaceutical companies including AstraZeneca Pharmaceutical Co., Ltd (阿斯利康(中國)) and Beijing Novartis Pharmaceuticals Co., Ltd. (北京諾華製藥有限公司), which are companies engaging in the sales and marketing of medicine, where he was primarily responsible for the sales and marketing of medicine. Mr. Chong graduated from Sun Yat-Sen University (中山大學) with a bachelor's degree in medical science in Guangzhou in July 1986. He graduated from Northwestern University Kellogg School of Management-Hong Kong University of Science and Technology Business School with an executive master of business administration degree in Hong Kong and Evanston, Illinois in May 2004, where he majored in business administration. He also graduated from ISCTE-Lisbon University Institute with a doctorate degree in management in November 2013.

Directors, Supervisors and Senior Management

Mr. HUANG Zhi (黃智), aged 36, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Huang joined the Company in April 2015 and has served as our independent non-executive Director since then. From June 2014 to present, Mr. Huang has been serving as an independent director of Anhui Korrun Co., Ltd. (安徽開潤股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 300577.SZ) engaging in sales and the research and development of bags, where he is primarily responsible for the supervision of its internal audit system and its implementation. Since November 2014, Mr. Huang has also been serving as an independent director of Wuhan East Lake High-tech Group Co., Ltd. (武漢東湖高新集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600133.SH) engaging in the investment and operation of the high-tech industry, where he is primarily responsible for supervising its internal audit system and its implementation. Since January 2016, he has also been serving as an independent director of Tibet Tianlu Co., Ltd. (西藏天路股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600326.SH) engaging in highway infrastructure construction. Since September 2014, Mr. Huang has also been serving as a partner at Shanghai Infaith Consulting Co., Ltd. (上海信公企業管理諮詢有限公司), which is a company engaging in the provision of consultation services for listed companies, where he is primarily responsible for the general management of business. From March 2016 to December 2016, he served as an independent director of Zigong Huaqi Techology Co. Ltd (自貢華氣科技股份有限公司), a company engaging in pressure vessel manufacturing (limited to underground high-pressure gas storage well) and gas station equipment manufacturing. Prior to joining the Company, from August 2013 to July 2014, he served as the general manager of the merger and financing department of Tianfeng Securities Co., Ltd., (天風證券股份有限公司), which is a company engaging in the provision of services including securities brokerage, investment and asset management for futures companies, where he was primarily responsible for the management of the merger and financing department. From July 2011 to July 2013, he served as the manager of the first department of listed companies' regulation at the Shanghai Stock Exchange, where he was primarily responsible for supervising the compliance of listed companies. From July 2004 to June 2011, he served as a manager at PricewaterhouseCoopers Zhong Tian CPAs Limited Company, where he was primarily responsible for risk and quality management. Mr. Huang graduated from Fudan University (復旦大學) with a bachelor's degree in economics in Shanghai in July 2004. He was accredited as a certified public accountant by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in September 2011.

Directors, Supervisors and Senior Management

Mr. GOT Chong Key Clevin (葛創基), aged 60, is our independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Got joined the Company in June 2016 and has served as our independent non-executive Director since then. He has been acting as the chief executive officer of Hong Kong Breast Cancer Foundation (香港乳癌基金會) from March 2016 to October 2016. From September 1980 to June 1984, he was the assistant secretary of the Community Service Division of the Tung Wah Group of Hospitals (東華三院) in Hong Kong, where he was responsible for the management and promotion of the youth and children center. From July 1984 to June 1985, he was the director of the social service center of the Chinese Neighborhood society of Montreal, overseeing all service operations. From July 1987 to December 1998, he assumed various roles in administration, strategic planning, marketing, and sales division of the Sime Darby Hong Kong's Wallace Harper & Company Ltd. (香港森那美集團夏巴公司), a distributor of vehicles, and later became its managing director. From January 1999 to December 2015, he was general manager and senior corporate director of Dah Chong Hong Holdings Ltd. (大昌行集團有限公司) (stock code: 1828.HK), whose shares are listed on the Main Board of Hong Kong Stock Exchange. Mr. Got was chairman for the Hong Kong Motor Traders Association from January 2011 to December 2013. Mr. Got obtained a bachelor's degree in social work from McGill University (麥基大學) in Montreal, Canada in June 1980. He became a member of the Ontario Association of Professional Social Workers in Canada in February 1987 and a Registered Social Worker under the Hong Kong Social Workers Registration Ordinance (Chapter 505 of the Laws of Hong Kong) in May 2016.

SUPERVISORS

Mr. SUN Fangjun (孫方俊), aged 68, is chairman of the Supervisory Commitee. He is primarily responsible for supervising our daily operations and management. Mr. Sun joined the Company in May 2011 and served as the vice president of the Company from May 2011 to September 2014. He was appointed as chairman of the Supervisory Commitee in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from April 1996 to October 2010, Mr. Sun worked at the Health Bureau of Lucheng District, Wenzhou (溫州市鹿城區衛生局) where he was primarily responsible for medical administrative management. From April 1992 to April 1996, he was the president of Wenzhou Hongqi Hospital (溫州市紅旗醫院), a local hospital in Wenzhou, where he was primarily responsible for the overall operations of the hospital. From August 1988 to April 1992, he served as the vice president of the Eighth People's Hospital of Wenzhou (溫州市第八人民醫院), a local hospital in Wenzhou, where he was primarily responsible for various medical affairs. Mr. Sun graduated from Jixi Medical School in Heilongjiang Province (黑龍江省雞西衛校) with a secondary vocational diploma in Jixi City, Heilongjiang Province in August 1974, where he majored in medicine. He was accredited as chief physician in internal medicine by Wenzhou Municipal Bureau of Personnel (溫州市人事局) in January 1995.

Directors, Supervisors and Senior Management

Ms. HUANG Jingou (黃靖歐), aged 40, is our Supervisor. She is primarily responsible for supervising our daily operations and management. Ms. Huang joined the Company in April 2013 and has served as our Supervisor since then. She was again appointed as a Supervisor in September 2014 after the Company was converted into a joint stock limited liability company. Since November 2011, Ms. Huang has been serving as the vice president of GL Capital Group (德福資本), which is a company engaging in private equity investment, where she is primarily responsible for investment. Prior to joining the Company, from August 2009 to November 2011, she served as the project director of the China Medical Board (美國中華醫學基金會), which is a trust foundation in the U.S. focusing on medical charity affairs, where she was primarily responsible for project implementation. From June 2003 to December 2006, she was an attorney at Woo Kwan Lee & Lo (胡關李羅律師行) where she was primarily responsible for various legal affairs. Ms. Huang graduated from Sun Yat-Sen University (中山大學) with a bachelor's degree in law in Guangzhou in July 2001.

Mr. MA Jinlong (馬津龍), aged 69, is an independent Supervisor. He is primarily responsible for monitoring that our operation complies with laws and regulations. Mr. Ma joined the company in June 2017 and has served as our independent Supervisor since then. Prior to joining the Company, from April 2014 to March 2017, Mr. Ma served as an independent director of Zhejiang Connaught Fluid Control Technology Co., Ltd., a high and new technology enterprise in China listed on the NEEQ (NEEQ: 830985) in charge of the research & development, design, production and sales of fluid control equipment. He served as an independent director of Ningxia Pingluo Rural Commercial Bank Co., Ltd. (寧夏平羅農村商業銀行股份有限公司) from October 2012 to July 2016. He served as an independent director of Ruian Rural Commercial Cooperative Bank (瑞安農村商業合作銀行) from December 2011 to December 2014, where he was primarily responsible for the supervision of the internal audit system and its operation. From January 2009 to November 2011, he also served as an independent director of Zhejiang Cangnan Rural Cooperative Bank (浙江蒼南農村合作銀行), a joint stock cooperative local financial institution. From August 1985 to November 2009, he successively served as deputy officer, officer and researcher in the Policy Study Institute of Wenzhou Municipal Committee of the Communist Party as well as deputy officer and officer of the Commission for the Restructuring of the Economic System of Wenzhou. Mr. Ma graduated from the School of Zhejiang Provincial Committee of the Communist Party with a bachelor's degree in economy in 1985.

Directors, Supervisors and Senior Management

Mr. QIAN Chengliang (錢成良), aged 66, is an independent Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Qian joined the company in June 2017 and has served as our independent Supervisor since then. Prior to joining the Company, from May 2007 to May 2012, he served as a deputy officer at the Standing Committee of Wenzhou Municipal People's Congress. From February 2003 to April 2007, he served as a vice mayor of Wenzhou. From October 1996 to January 2003, he served as a member of Standing Committee and officer of the organization division in Lishui. From November 1995 to September 1996, he served as an executive deputy officer of the organization division of the municipal committee of the Communist Party in Wenzhou.

Mr. XIE Tiefan (謝鐵凡), aged 39, is a Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Xie joined the Company in May 2000 and from May 2010 to September 2014, he held a variety of positions in the Company including the deputy director of the information department, the deputy director of the equipment department, the director of the equipment department and material purchasing department manager, where he was primarily responsible for equipment purchase and management. He was appointed as a Supervisor in September 2014 after the Company was converted into a joint stock limited liability company. Mr. Xie graduated from the Open University of China (中央廣播電視大學) with an associate degree in finance in Beijing in December 2004. Mr. Xie was accredited as assistant engineer by the Wenzhou Municipal Bureau of Personnel (溫州市人事局) in December 2007.

SENIOR MANAGEMENT

Mr. WANG Qian (王謙), aged 54, is our deputy general manager. He is primarily responsible for assisting the general manager in the management of medical services of the Company. Mr. Wang joined the Company in July 2014 and has served as the deputy general manager since then. Prior to joining the Company, from February 1990 to June 2014, Mr. Wang served as various positions at the People's Hospital of Wenzhou (溫州市人民醫院) which is a local hospital in Wenzhou; from December 2005 to June 2014, he served as the vice president where he was primarily responsible for assisting the president in hospital management; from January 2000 to November 2005, he served as the head of the internal medicine department where he was primarily responsible for the management of internal medicine department; from January 1995 to December 1999, he served as the doctor in charge where he was primarily responsible for hematology; from February 1990 to December 1994, he served as a physician where he was primarily responsible for pediatrics. From August 1987 to January 1990, Mr. Wang served as a physician in pediatrics at the People's Hospital of Taishun County (泰順縣人民醫院), which is a local hospital in Wenzhou, where he was primarily responsible for providing medical treatment to children. Mr. Wang obtained a bachelor's degree from Wenzhou Medical University (溫州醫科大學) (previously known as Wenzhoushi Health School (溫州醫學院)), majoring in medicine, in Wenzhou in July 1987. Mr. Wang was accredited as associate chief physician in internal medicine by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in December 2004.

Directors, Supervisors and Senior Management

Mr. ZHOU Chaoyi (周朝毅), aged 57, is our vice general manager. He is primarily responsible for assisting the general manager in managing the infrastructure of our Company. Mr. Zhou joined the Company in February 2005 and has served as our vice general manager since then. He was appointed as our vice general manger in September 2014 again after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from November 1995 to December 2004, Mr. Zhou served as the vice president of Wenzhou Cardiovascular Hospital (溫州心血管醫院) which is a local hospital in Wenzhou, where he was primarily responsible for logistics. From May 1990 to October 1995, Mr. Zhou served as the assistant to president and section chief (科長) of human resources and security section at Wenzhou Traditional Chinese Medicine Hospital (溫州市中醫院) which is a local hospital in Wenzhou, where he was primarily responsible for human resources and security. From January 1986 to April 1990, Mr. Zhou served as the human resource officer and deputy office director-general at Wenzhou Qigong Sanatorium (溫州市氣功療養院) in Wenzhou, where he was primarily responsible for human resources and youth work organization. Mr. Zhou completed the advanced study class (高級研修班) for modern health management at Zhejiang University in Hangzhou, Zhejiang Province in June 2014. Mr. Zhou was accredited as radiologist by Wenzhou Municipal Bureau of Health (溫州市衛生局) in December 1989 and was accredited as clinical assistant medical practitioner by Zhejiang Health Bureau (浙江省衛生廳) in April 2000. Mr. Zhou was accredited as senior business operator by Wenzhou Municipal Human Resources and Social Security Bureau in November 2015.

Mr. YE Minjie (葉敏捷), aged 45, is our vice general manager. He is primarily responsible for assisting the general manager in the management of scientific research and teaching of the Company. He joined the Company in October 2013 as the vice president. Mr. Ye was appointed as our vice general manger in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from July 1994 to September 2013, he was the section chief (科長) at Wenzhou Mental Hospital (溫州市精神病院), which is a local hospital in Wenzhou, where he was primarily responsible for scientific research and teaching. Mr. Ye graduated from Xinxiang Medical College (新鄉醫學院) with a master's degree in psychiatry and mental health in Xinxiang, Henan Province in July 2007. He was accredited as chief physician in psychiatry by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in January 2014.

Directors, Supervisors and Senior Management

Mr. XU Yi (徐誼), aged 44, is our vice general manager. He is primarily responsible for assisting the general manager in the facility and information technology of the Company. Mr. Xu joined the Company in October 2002 and served as the section chief (科长) in the logistics department from October 2002 to March 2009, where he was primarily responsible for logistics management. From April 2009 to September 2014, he served as our vice president, where he was primarily responsible for assisting the president in the overall management and logistics of the Company. He was appointed as our vice general manger in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from April 1999 to September 2002, he was a teacher at the Party School of Wenzhou Municipal Committee of the Communist Party of China (中共溫州市委黨校), where he was primarily responsible for teaching information technology courses. Mr. Xu graduated from the Beijing Institute of Economics and Management (北京經濟管理職業學院) with a college diploma in art design through long-distance education in July 2005. Mr. Xu is the spouse of Ms. WANG Hongyue and the brother-in-law of MR. GUAN Weili and Ms. WANG Lianyue.

Ms. ZHANG Feixue (章飛雪), aged 49, is our vice general manager. She is primarily responsible for the operation of the hospitals in Taizhou of the Company. Ms. Zhang joined the Company in February 2004 and served as the head of the nursing department from February 2004 to October 2009, where she was primarily responsible for the management of nursing. From November 2009 to September 2010, she served as the head of the education department and the out-patient department, where she was primarily responsible for management. From October 2010 to March 2015, Ms. Zhang served as the vice president of the Company and was primarily responsible for assisting the president in managing nursing affairs. Ms. Zhang has been serving as the vice general manager of the Company since March 2015. Prior to joining the Company, Ms. Zhang held various positions at the Fifth People's Hospital of Yueqing (樂清市第五人民醫院): from October 1995 to January 2004, she served as the head of the nursing department, where she was primarily responsible for hospital nursing management, and from January 1993 to September 1995, she served as an emergency head nurse, where she was primarily responsible for emergency nursing management. Ms. Zhang graduated from Beijing University of Chinese Medicine (北京中醫藥大學) with a bachelor's degree in nursing through long-distance education in July 2005. Ms. Zhang obtained the certificate of advanced study class for modern health management at Zhejiang University (浙江大學現代衛生管理高級研修班) in Hangzhou, Zhejiang Province in November 2014. Ms. Zhang completed the master of public administration courses at Zhejiang Normal University (浙江師範大學) in Jinhua, Zhejiang Province in June 2017. She was accredited as senior nurse by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in November 2013.

Directors, Supervisors and Senior Management

Mr. WANG Jian (王健), aged 34, is our vice general manager and the secretary to our Board. He is primarily responsible for overseeing public affairs and investment relationship, corporate financing and listing-related matters. Mr. Wang joined the Company in July 2014 and has served as the secretary to our Board since then. Mr. Wang was appointed as the secretary to our Board again in September 2014 after the Company was converted into a joint stock limited liability company. Mr. Wang was appointed as our vice general manger in June 2017. Prior to joining the Company, from June 2009 to July 2014, he served as a staff member (科員) and a senior staff member (副主任科員) in the CSRC Xiamen Regulatory Bureau (中國證監會廈門監管局) where he was primarily responsible for monitoring the corporate governance and information disclosure supervision of listed companies in the Xiamen area. From February 2008 to March 2009, he was a senior auditor at Ernst & Young Hua Ming LLP (安永華明會計師事務所(特殊普通合夥)), where he was primarily responsible for audit work. From August 2005 to February 2008, he served as an auditor and a senior auditor at PricewaterhouseCoopers Zhong Tian CPAs Limited Company, where he was primarily responsible for audit work. Mr. Wang obtained a bachelor's degree in management from Guanghua School of Management at Peking University in Beijing in July 2005, where he majored in business administration. Mr. Wang was recognized as a non-practicing certified public accountant (註冊會計師非執業會員) by the Chinese Institute of Certified Public Accountants in April 2010 and was granted the legal professional qualification certificate by the Ministry of Justice of the PRC in March 2014.

Mr. JIN Weiguang (金偉光), aged 52, is our vice general mamager. He is primarily responsible for the Company's foreign investment and administrative management. Mr. Jin joined the Company in May 2015 and served as the vice general manager of Shenzhen Yining Hospital from May 2015 to May 2017, where he was primarily responsible for operation functions. Mr. Jin served as the chief investment officer of the Company since May 2017 and he was appointed as the vice general manager of the Company in November 2018. Prior to joining the Company, from August 1987 to April 2015, he served in Wenzhou Municipal Health Bureau, mainly responsible for planning, finance, infrastructure, price, statistics, equipment, drugs, consumables, social medical and other management works, concurrently serving as director of the planning finance department of Wenzhou Municipal Health Bureau from April 2009 to April 2015. From March 2002 to March 2009, he served as deputy head of office and deputy director of the planning finance department of Wenzhou Municipal Health Bureau. Mr. Jin graduated from the Correspondence College of the Party School of the Central Committee of CPC in December 1997, majoring in economic management. He graduated from the regional economic postgraduate course of Zhejiang Normal University in August 2002. He graduated from the Australian Training Course on Health Administration (Medical Quality Management) in November 2003. He also graduated from the Public Administration Seminar of Zhejiang University in November 2004.

Directors, Supervisors and Senior Management

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

Directors/ Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
GUAN Weili	Qingtian Kangning Hospital	Executive director	From April 2011 to present
	Qingtian Kangning Hospital	General manager	From April 2011 to December 2018
	Cangnan Kangning Hospital	Executive director	From June 2012 to present
	Cangnan Kangning Hospital	General manager	From June 2012 to September 2018
	Yongjia Kangning Hospital	Executive director	From December 2012 to present
	Yongjia Kangning Hospital	General manager	From December 2012 to October 2018
	Yueqing Kangning Hospital	Executive director	From September 2013 to present
	Yueqing Kangning Hospital	General manager	From September 2013 to December 2018
	Shenzhen Yining Hospital	Executive director	From September 2014 to present
	Linhai Kangning Hospital	Executive director, Manager	From February 2015 to January 2018
	Geriatric Hospital	Executive director	From November 2015 to present
	Geriatric Hospital	General manager	From November 2015 to January 2018
	Pingyang Kangning Hospital	Executive director	From November 2015 to present
	Pingyang Kangning Hospital	Manager	From November 2015 to January 2018
	Shenzhen Yining Medical Investment Co., Ltd.	Executive director, General manager	From September 2015 to present
	Quzhou Yining Hospital	Chairman	From November 2015 to present
	Quzhou Yining Hospital	Manager	From November 2015 to December 2018
WANG Lianyue	Yiwu Kangning Hospital Management Co., Ltd.	Executive director, Manager	From January 2017 to present
	Qingtian Kangning Hospital	Manager	From December 2018 to present

Directors, Supervisors and Senior Management

Directors/ Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
WANG Hongyue	Cangnan Kangning Hospital	Supervisor	From June 2012 to present
	Quzhou Yining Hospital	Director	From November 2015 to present
	Pingyang Kangning Hospital	Supervisor	From November 2015 to present
	Zhejiang Huangfeng Hosptial Management Co., Ltd.	Director	Form August 2016 to present
	Wenzhou Guoda	Director	From July 2016 to present
	Sihui Kangning Hospital	Director	From August 2016 to present
	Hangzhou Cining Hospital	Supervisor	From November 2017 to present
	Zhejiang Yining Hospital Management Co., Ltd.	Director	From November 2018 to present
	Wenzhou Yining Pension Service Co., Ltd.	Executive director	From May 2018 to present
WANG Qian	Langfang Yining Hospital	Executive director, General manager	From December 2015 to present
	Geriatric Hospital	General manager	From January 2018 to present
	Wenzhou Yining Pension Service Co., Ltd.	Manager	From May 2018 to present
	Heze Yining Hospital	Chairman	From December 2018 to present
	Guanxian Yining Hospital	Executive director	From December 2018 to present
	Yancheng Yining Hospital Co., Ltd.	Executive director, General manager	From November 2018 to present

Directors, Supervisors and Senior Management

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

Directors, Supervisors and Senior Management

Directors/ Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
ZHOU Chaoyi	Wenzhou Guoda	Chairman	From July 2016 to present
	Yiwu Kangning Hospital Management Co., Ltd.	Supervisor	From January 2017 to present
WANG Jian	Quzhou Yining Hospital	Director	From November 2015 to present
	Sihui Kangning Hospital	Chairman	From August 2016 to present
	Hangzhou Yining Hospital	Director	From April 2017 to present
	Wenzhou Kangning Hospital Hangzhou Branch	Person in charge	From April 2017 to present
	Zhejiang Yining Hospital Management Co., Ltd.	Director	From November 2018 to present
	Nanjing Yining Hospital	Director	From July 2018 to present
	Heze Yining Hospital	Director	From April 2017 to present
	Wenzhou Yining Pension Service Co., Ltd.	Supervisor	From May 2018 to present
ZHANG Feixue	Linhai Kangning Hospital	Executive director, Manager	From January 2018 to present

Auditor's Report

PwC ZT Shen Zi (2019) No. 15010
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To the Shareholders of Wenzhou Kangning Hospital Co., Ltd.,

Opinion

What we have audited

We have audited the accompanying financial statements of Wenzhou Kangning Hospital Co., Ltd.(hereinafter "Wenzhou Kangning Hospital"), which comprise:

- the consolidated and company balance sheets as at 31 December 2018;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Wenzhou Kangning Hospital as at 31 December 2018, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of Wenzhou Kangning Hospital in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

Auditor's Report

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Key Audit Matters

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

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

- Determination of control over the hospitals with which the Group has management contracts
- Impairment assessment of contractual rights to provide management services to Yanjiao Furen

Key Audit Matters	How our audit addressed the Key Audit Matters
Determination of control over the hospitals with which the Group has management contracts	
Refer to note 2(27)(b)(i) 'Critical judgements in applying the Company's accounting policies' to the consolidated financial statements. The Group entered into agreements with several hospitals to provide management services for certain periods. These hospitals are not-for-profit hospitals owned by third parties. The Group is entitled to receive either performance-based management fees or the portion of profit over the annual minimum performance target undertaken by the Group during the periods. In determining whether the Group has control over these hospitals, management exercised significant judgements in relation to (i) whether the Group has power to direct the relevant activities of those hospitals under the management contracts; and (ii) whether the magnitude and variability of returns from those hospitals would indicate that the Group has substantive power and thus has control over these hospitals. Management concluded that the Group does not have control over these hospitals. We focused on this matter because the control assessment involved significant judgement.	We discussed with management the basis of assessment, including analysis of the governing power and variable returns they considered when assessing the control over these hospitals. We obtained and reviewed the agreements entered into by the Group and the hospitals, and Articles of Association and other equivalent constitutional documents of the hospitals. We focused on the composition of the governing committees, and the power of nominating parties and the members of the governing committees which oversee the operations of those hospitals, and the power attained by these committees versus those granted to the Group. We conducted interview with the owners of the hospitals and members of the governing committees regarding their duties and governing power to corroborate with the views of the management, including how these committees exercised their power in directing the hospitals' relevant activities. We also analysed monetary and non-monetary variable returns received and receivable by different parties resulting from their involvement in the hospitals. Based on the work performed, we found the management's assessment is supported by available evidence.

Auditor's Report

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Key Audit Matters (continued)

Key Audit Matters	How our audit addressed the Key Audit Matters
Impairment assessment of contractual rights to provide management service to Yanjiao Furen Refer to note 2(27)(a)(i) 'Critical accounting estimates and key assumptions' and note 4(12) 'intangible assets' to the consolidated financial statements. At 31 December 2018, the carrying amount of contractual rights to provide management service to Yanjiao Furen was RMB75,461,047. For the year ended 31 December 2018, Yanjiao Furen did not achieve the minimum performance target. This indicated that the contractual rights related to Yanjiao Furen may be impaired, management was therefore required to perform an impairment assessment. As the Group's management fee income is linked to the hospital's performance, management used value-in-use method to assess the recoverable amount of the contractual rights, which is determined based on the cash flow projections of Yanjiao Furen. The value-in-use calculations require significant estimation on the assumptions, including average number of beds in operation, average in - patient spending per day per bed, gross margin and discount rate. Based on the management's assessment, no impairment provision is required. We paid special attention to this matter because management applied significant estimates in the assessment.	We evaluated the appropriateness of the value-in-use method adopted by the Group. We evaluated the reasonableness of the underlying forecast prepared by the management of Yanjiao Furen and endorsed by directors' of the Group. We examined the key assumptions including average number of beds in operation, average in-patient spending per day per bed and gross margin by referencing to similar hospitals within the Group. We involved our internal valuation expert to assess the reasonableness of the discount rates used, taking into account the cost of capital of the Group and the comparable organisations. We compared prior year budgets and actual results to assess the quality of management's cash flow projections. We performed sensitivity analysis on the above key assumptions to ascertain the extent to which adverse changes, either individually or in aggregate, would result in the contractual rights being impaired. Based on the work performed, we found the management's assessment is supported by available evidence.

Auditor's Report

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Other Information

Management of Wenzhou Kangning Hospital is responsible for the other information. The other information comprises all of the information included in 2018 annual report of Wenzhou Kangning Hospital other than the financial statements and our auditor's report thereon.

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

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

Responsibilities of Management and Audit Committee for the Financial Statements

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

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

Audit Committee are responsible for overseeing Wenzhou Kangning Hospital financial reporting process.

Auditor's Report

PwC ZT Shen Zi (2019) No. 15010
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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Wenzhou Kangning Hospital's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Wenzhou Kangning Hospital to cease to continue as a going concern.

Auditor's Report

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Wenzhou Kangning Hospital to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers Zhong Tian LLP	Signing CPA	**Kong Yu** (Engagement Partner)
Shanghai , the People's Republic of China 25 March 2019	Signing CPA	**Chen Yi**

Consolidated Balance Sheet

As at 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Current assets				
Cash at bank and on hand	4(1)	**187,076,694**	279,334,159	496,614,542
Accounts receivable	4(2)	**299,750,063**	232,179,323	142,938,440
Other receivables	4(3)	**58,051,581**	43,447,939	54,672,733
Advance to suppliers	4(4)	**16,683,839**	11,132,676	22,283,987
Inventories	4(5)	**20,813,747**	23,532,469	162,827,694
Current portion of non-current assets	4(6)	**12,688,704**	12,688,704	12,688,704
Total current assets		**595,064,628**	602,315,270	892,026,100
Non-current assets				
Available-for-sale financial assets	4(7)	**NA**	50,000,000	50,000,000
Other non-current financial assets	4(7)	**50,974,323**	NA	NA
Long-term equity investments	4(8)	**100,321,983**	89,683,865	22,429,070
Investment properties	4(9)	**128,568,963**	128,568,963	72,191,872
Fixed assets	4(10)	**444,322,834**	502,649,528	97,666,540
Construction in progress	4(11)	**131,187,406**	22,290,670	198,066,153
Intangible assets	4(12)	**185,257,977**	151,842,863	125,865,371
Goodwill	4(13)	**19,296,005**	4,823,557	8,533,389
Long-term prepaid expenses	4(14)	**144,386,669**	96,335,653	88,855,792
Deferred tax assets	4(15)	**33,825,347**	22,571,944	20,300,383
Other non-current assets	4(16)	**7,517,900**	19,318,211	27,447,253
Total non-current assets		**1,245,659,407**	1,088,085,254	711,355,823
TOTAL ASSETS		**1,840,724,035**	1,690,400,524	1,603,381,923

Consolidated Balance Sheet

As at 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Current liabilities				
Short-term borrowings	4(18)	**145,000,000**	90,000,000	30,000,000
Accounts payable	4(19)	**73,644,717**	83,787,338	43,271,014
Advances from customers	4(20)	**—**	7,511,284	71,147,900
Contract liability	4(20)	**2,244,706**	NA	NA
Employee benefits payable	4(21)	**28,270,410**	23,714,318	19,552,350
Taxes payable	4(22)	**41,119,676**	34,912,381	41,195,655
Other payables	4(23)	**129,807,988**	99,796,754	38,922,694
Non-current liabilities due within one year	4(24)	**63,757,304**	22,751,104	54,180,304
Total current liabilities		**483,844,801**	362,473,179	298,269,917
Non-current liabilities				
Long-term borrowings	4(25)	**40,000,000**	110,000,000	149,950,190
Long-term payables	4(26)	**86,645,200**	86,932,300	86,738,600
Deferred income	4(27)	**10,253,059**	10,556,851	10,632,800
Deferred tax liabilities	4(15)	**14,707,619**	9,941,379	16,420,433
Total non-current liabilities		**151,605,878**	217,430,530	263,742,023
Total liabilities		**635,450,679**	579,903,709	562,011,940
Owners' equity				
Share capital	4(28)	**75,500,000**	73,040,000	73,040,000
Capital surplus	4(29)	**827,379,886**	808,244,186	795,604,861
Less: Treasury Share	9(4)	**(21,910,000)**	—	—
Surplus reserve	4(30)	**29,981,034**	23,710,012	18,548,942
Retained earnings	4(31)	**210,044,608**	146,840,254	121,190,550
Total equity attributable to owners of the parent company		**1,120,995,528**	1,051,834,452	1,008,384,353
Non-controlling interests		**84,277,828**	58,662,363	32,985,630
Total owners' equity	6	**1,205,273,356**	1,110,496,815	1,041,369,983
TOTAL LIABILITIES AND OWNERS' EQUITY		**1,840,724,035**	1,690,400,524	1,603,381,923

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

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

Balance Sheet

As at 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Current assets				
Cash at bank and on hand		**147,680,587**	226,701,946	445,980,786
Accounts receivable	15(1)	**108,177,162**	92,294,344	82,359,131
Advances to suppliers		**3,882,154**	2,549,714	4,941,566
Other receivables	15(2)	**554,772,707**	458,908,039	273,651,111
Inventories		**8,404,245**	6,905,196	6,115,311
Current portion of non-current assets		**12,688,704**	12,688,704	12,688,704
Total current assets		**835,605,559**	800,047,943	825,736,609
Non-current assets				
Available-for-sale financial assets	4(7)	**NA**	50,000,000	50,000,000
Other non-current financial assets	4(7)	**50,974,323**	NA	NA
Long-term equity investments	15(3)	**172,804,786**	124,740,272	115,854,920
Fixed assets	15(4)	**319,978,975**	327,445,436	59,318,225
Construction in progress	15(5)	**4,508,592**	3,294,872	165,085,994
Intangible assets	15(6)	**96,340,865**	101,238,786	106,549,041
Long-term prepaid expenses		**18,656,548**	14,645,580	25,035,472
Other non-current assets		**171,000**	—	4,058,271
Deferred tax assets		**7,665,855**	5,126,991	4,833,044
Total non-current assets		**671,100,944**	626,491,937	530,734,967
TOTAL ASSETS		**1,506,706,503**	1,426,539,880	1,356,471,576

Balance Sheet

As at 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	**31 December 2018**	31 December 2017 (Restated)	1 January 2017 (Restated)
Current liabilities				
Short-term borrowings		**105,000,000**	50,000,000	30,000,000
Accounts payable		**24,081,460**	31,368,328	21,549,595
Advances from customers		**—**	2,560,379	2,997,368
Contract liability		**779,733**	NA	NA
Employee benefits payable		**13,395,856**	14,111,913	15,533,171
Taxes payable		**10,129,626**	4,266,616	18,302,075
Other payables		**57,248,249**	53,048,128	22,931,803
Non-current liabilities due in one year		**63,757,304**	22,751,104	17,480,304
Total current liabilities		**274,392,228**	178,106,468	128,794,316
Non-current liabilities				
Long-term borrowings		**40,000,000**	110,000,000	130,000,000
Long-term payables		**86,645,200**	86,932,300	86,738,600
Deferred income		**10,253,059**	10,556,851	10,632,800
Total non-current liabilities		**136,898,259**	207,489,151	227,371,400
Total liabilities		**411,290,487**	385,595,619	356,165,716
Owners' equity				
Share capital	4(28)	**75,500,000**	73,040,000	73,040,000
Capital surplus	15(8)	**828,931,889**	807,109,474	799,821,777
Less: Treasury Share	9(4)	**(21,910,000)**	—	—
Surplus reserve		**29,981,034**	23,710,012	18,548,942
Retained earnings	15(9)	**182,913,093**	137,084,775	108,895,141
Total owners' equity		**1,095,416,016**	1,040,944,261	1,000,305,860
TOTAL LIABILITIES AND OWNERS' EQUITY		**1,506,706,503**	1,426,539,880	1,356,471,576

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

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

Consolidated Income Statement

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Year Ended 31 December 2018	2017 (Restated)
1. Revenue	4(32)	**745,971,888**	666,435,528
Less: Cost of sales	4(32), 4(34)	**(493,729,636)**	(449,331,902)
Taxes and surcharges	4(33)	**(5,720,201)**	(9,780,313)
Selling and distribution expenses	4(34)	**(5,141,918)**	(1,752,173)
General and administrative expenses	4(34)	**(98,001,249)**	(90,180,597)
Research and development expenditure	4(34)	**(5,733,120)**	(1,573,650)
Finance expenses - net	4(35)	**(7,171,247)**	(24,262,625)
Asset impairment losses	4(36)	**(4,823,557)**	(19,104,920)
Credit impairment losses	4(37)	**(18,695,980)**	NA
Add: Other gains	4(39)	**8,538,235**	9,417,463
Investment losses	4(38)	**(8,302,493)**	(6,111,760)
Including: Share of losses of associates		**(10,029,269)**	(6,461,760)
Losses on disposal of assets		**(1,420,551)**	(505,331)
2. Operating profit		**105,770,171**	73,249,720
Add: Non-operating income	4(40)	**7,182,072**	9,814,600
Less: Non-operating expenses	4(41)	**(6,041,975)**	(13,201,645)
3. Total profit		**106,910,268**	69,862,675
Less: Income tax expenses	4(42)	**(31,941,040)**	(22,026,917)
4. Net profit		**74,969,228**	47,835,758
Net profit generated from Continuing operation		**74,969,228**	47,835,758
Discontinued operation		**—**	—
Net profit attributable to Shareholder of the Company		**80,595,677**	49,070,774
Non-controlling interests		**(5,626,449)**	(1,235,016)
5. Total comprehensive income		**74,969,228**	47,835,758
Attributable to			
Shareholder of the Company		**80,595,677**	49,070,774
Non-controlling interests		**(5,626,449)**	(1,235,016)
6. Earnings per share			
– Basic (RMB per share)	4(43)	**1.10**	0.67
– Diluted (RMB per share)	4(43)	**1.09**	0.67

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

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Income Statement

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Year Ended 31 December 2018	2017 (Restated)
1. Revenue	15(10)	**354,166,839**	314,816,680
Less: Cost of sales	15(10), 15(12)	**(230,191,852)**	(199,812,811)
Taxes and surcharges		**(2,957,704)**	(1,368,268)
Selling and distribution expenses	15(12)	**(1,797,984)**	(885,822)
General and administrative expenses	15(12)	**(51,747,365)**	(47,018,250)
Research and development expenditure	15(12)	**(5,733,120)**	(1,573,650)
Finance expenses - net	15(11)	**(5,198,109)**	(22,579,776)
Asset impairment losses		**—**	(3,101,603)
Credit impairment losses	15(13)	**(4,921,160)**	NA
Add : Other gains		**4,213,299**	7,601,003
Investment loss	15(14)	**17,800,908**	19,118,539
Losses on disposal of assets		**(1,479,145)**	(372,693)
2. Operating profit		**72,154,607**	64,823,349
Add: Non-operating income		**7,339,091**	9,200,453
Less:Non-operating expenses		**(1,925,819)**	(9,778,737)
3. Total profit		**77,567,879**	64,245,065
Less:Income tax expenses	15(15)	**(14,857,659)**	(12,634,361)
4. Net profit		**62,710,220**	51,610,704
Net profit generated from			
Continuing operation		**62,710,220**	51,610,704
Discontinued operation		**—**	—
5. Total comprehensive income		**62,710,220**	51,610,704

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

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

Consolidated Cash Flow Statement

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Year Ended 31 December 2018	2017
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		**654,660,709**	502,692,532
Cash received relating to other operating activities		**31,999,794**	35,442,492
Sub-total of cash inflows		**686,660,503**	538,135,024
Cash paid for goods and services		**(241,731,386)**	(172,416,737)
Cash paid to and on behalf of employees		**(218,086,294)**	(158,956,031)
Payments of taxes and surcharges		**(39,374,238)**	(47,590,827)
Cash paid relating to other operating activities		**(120,948,057)**	(77,672,510)
Sub-total of cash outflows		**(620,139,975)**	(456,636,105)
Net cash flows generated from operating activities	4(44)(a)	**66,520,528**	81,498,919
2. Cash flows from investing activities			
Cash received from disposal of investments		—	5,675,000
Cash received relating to other investing activities		**363,629,965**	310,446,972
Sub-total of cash inflows		**363,629,965**	316,121,972
Cash paid to acquire fixed assets and other long-term assets		**(145,499,984)**	(208,923,550)
Cash paid to acquire investments		**(25,190,000)**	(60,498,286)
Acquisition of Subsidiaries, net of cash acquired		**(17,520,196)**	—
Cash paid relating to other investing activities		**(330,900,393)**	(270,328,000)
Sub-total of cash outflows		**(519,110,573)**	(539,749,836)
Net cash flows used in investing activities		**(155,480,608)**	(223,627,864)

Consolidated Cash Flow Statement

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Year Ended 31 December 2018	2017
3. Cash flows generated from financing activities			
Cash received from capital contributions		**34,820,000**	27,020,000
Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries		**12,910,000**	27,020,000
Cash received from borrowings		**190,440,000**	90,000,000
Cash received relating to other financing activities		**—**	300,000
Sub-total of cash inflows		**225,260,000**	117,320,000
Cash repayments of borrowings		**(169,285,600)**	(107,650,190)
Cash payments for interest expenses and distribution of dividends or profits		**(18,600,234)**	(27,084,188)
Cash payments relating to other financing activities		**—**	(4,485,351)
Sub-total of cash outflows		**(187,885,834)**	(139,219,729)
Net cash flows generated from/(used in) financing activities		**37,374,166**	(21,899,729)
4. Effect of changes in foreign exchange rate		**1,113,949**	(5,596,209)
5. Net decrease in cash and cash equivalents		**(50,471,965)**	(169,624,883)
Add: Cash and cash equivalents at beginning of the year	4(44)(a)	**237,538,659**	407,163,542
6. Cash and cash equivalents at end of the period	4(44)(a)(c)	**187,066,694**	237,538,659

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

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Cash Flow Statement

For the year ended 31 December 2018
(All amounts in RMBYuan unless otherwise stated)

Item	Note	Year Ended 31 December 2018	2017
1. Cash flows used in operating activities			
Cash received from sales of goods or rendering of services		**330,913,867**	302,473,516
Cash received relating to other operating activities		**27,567,019**	17,225,507
Sub-total of cash inflows		**358,480,886**	319,699,023
Cash paid for goods and services		**(129,474,129)**	(92,186,996)
Cash paid to and on behalf of employees		**(110,056,158)**	(92,849,834)
Payments of taxes and surcharges		**(14,606,257)**	(28,382,923)
Cash paid relating to other operating activities		**(157,663,360)**	(225,250,018)
Sub-total of cash outflows		**(411,799,904)**	(438,669,771)
Net cash flows used in operating activities		**(53,319,018)**	(118,970,748)
2. Cash flows from investing activities			
Cash received from disposal of investments		**—**	5,675,000
Cash received from returns on investments		**36,000,000**	10,000,000
Cash received relating to other investing activities		**365,293,712**	309,456,144
Sub-total of cash inflows		**401,293,712**	325,131,144
Cash paid to acquire fixed assets and other long-term assets		**(40,477,961)**	(79,154,601)
Cash paid to acquire investments		**(46,594,921)**	(2,000,000)
Cash paid relating to other investing activities		**(323,091,850)**	(263,418,000)
Sub-total of cash outflows		**(410,164,732)**	(344,572,601)
Net cash flows used in investing activities		**(8,871,020)**	(19,441,457)

Cash Flow Statement

For the year ended 31 December 2018
(All amounts in RMBYuan unless otherwise stated)

Item	Note	Year Ended 31 December 2018	2017
3. Cash flows generated from financing activities			
Cash received from capital contributions		**21,910,000**	—
Cash received from borrowings		**145,000,000**	50,000,000
Sub-total of cash inflows		**166,910,000**	50,000,000
Cash repayments of borrowings		**(124,791,600)**	(50,000,000)
Cash payments for interest expenses and distribution of dividends or profits		**(16,108,587)**	(23,129,575)
Cash payments relating to other financing activities		**—**	(4,485,351)
Sub-total of cash outflows		**(140,900,187)**	(77,614,926)
Net cash flows generated from/(used in) financing activities		**26,009,813**	(27,614,926)
4. Effect of changes in foreign exchange rate		**1,113,949**	(5,596,209)
5. Net decrease in cash and cash equivalents		**(35,066,276)**	(171,623,340)
Add: Cash and cash equivalents at beginning of the year		**184,906,446**	356,529,786
6. Cash and cash equivalents at end of the year		**149,840,170**	184,906,446

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

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Consolidated Statement of Changes in Shareholders's Equity

For the year ended 31 December 2018
(All amounts in RMBYuan unless otherwise stated)

		Equity attributable to owners of the parent company						
	Note	Share capital	Capital surplus	Less: Treasury Share	Surplus reserve	Retained earnings	Non-controlling interests	Total owners' equity
Balance at 31 December 2017		73,040,000	808,244,186	–	23,710,012	146,840,254	58,662,363	1,110,496,815
Add:change in accounting policies	2(28)	–	–	–	–	(164,301)	–	(164,301)
Balance at 1 January 2018 (Restated)		73,040,000	808,244,186	–	23,710,012	146,675,953	58,662,363	1,110,332,514
Movements for the year ended 31 December 2018								
Total comprehensive income								
Net profit		–	–	–	–	80,595,677	(5,626,449)	74,969,228
Capital contribution and withdrawal by owners								
Capital contribution by shareholders		2,460,000	19,450,000	(21,910,000)	–	–	12,910,000	12,910,000
Share-based payment	9	–	2,372,415	–	–	–	–	2,372,415
Transactions with non-controlling Shareholders	4(29)	–	(3,597,311)	–	–	–	(4,157,192)	(7,754,503)
Others		–	910,596	–	–	–	–	910,596
Business combination involving enterprises not under common control		–	–	–	–	–	22,489,106	22,489,106
Profit distribution								
Appropriation for surplus reserve		–	–	–	6,271,022	(6,271,022)	–	–
Profit distribution to equity owners	4(31)	–	–	–	–	(10,956,000)	–	(10,956,000)
Balance at 31 December 2018		75,500,000	827,379,886	(21,910,000)	29,981,034	210,044,608	84,277,828	1,205,273,356

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

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Consolidated Statement of Changes in Shareholders's Equity

For the year ended 31 December 2018
(All amounts in RMBYuan unless otherwise stated)

		Equity attributable to owners of the parent company					
	Note	Share capital	Capital surplus	Surplus reserve	Retained earnings	Non-controlling interests	Total owners' equity
Balance at 1 January 2017		73,040,000	795,604,861	18,548,942	121,190,550	32,985,630	1,041,369,983
Movements for the year ended 31 December 2017							
Total comprehensive income							
Net profit		—	—	—	49,070,774	(1,235,016)	47,835,758
Capital contribution and withdrawal by owners							
Capital contribution by shareholders		—	—	—	—	27,020,000	27,020,000
Share-based payment	9	—	412,805	—	—	—	412,805
Others		—	12,226,520	—	—	(108,251)	12,118,269
Profit distribution							
Appropriation for surplus reserve		—	—	5,161,070	(5,161,070)	—	—
Profit distribution to equity owners	4(31)	—	—	—	(18,260,000)	—	(18,260,000)
Balance at 31 December 2017		73,040,000	808,244,186	23,710,012	146,840,254	58,662,363	1,110,496,815

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

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Statement of Changes in Shareholder's Equity

For the year ended 31 December 2018
(All amounts in RMBYuan unless otherwise stated)

	Note	Share capital	Capital surplus	Less: Treasury Share	Surplus reserve	Retained earnings	Total owners' equity
Balanceat31December2017		73,040,000	807,109,474	—	23,710,012	137,084,775	1,040,944,261
Add:change in accounting policies		—	—	—	—	345,120	345,120
Balanceat1January2018		73,040,000	807,109,474	—	23,710,012	137,429,895	1,041,289,381
Movements for the year ended 31 December 2018							
Total comprehensive income							
Net profit		—	—	—	—	62,710,220	62,710,220
Capital contribution and withdrawal by owners							
Capital contribution by shareholders		2,460,000	19,450,000	(21,910,000)	—	—	—
Share-based payment	9	—	2,372,415	—	—	—	2,372,415
Profit distribution							
Appropriation for surplus reserve		—	—	—	6,271,022	(6,271,022)	
Profit distribution to equity owners	15(9)	—	—	—	—	(10,956,000)	(10,956,000)
Balanceat31December2018		**75,500,000**	**828,931,889**	**(21,910,000)**	**29,981,034**	**182,913,093**	**1,095,416,016**

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

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Statement of Changes in Shareholder's Equity

For the year ended 31 December 2018
(All amounts in RMBYuan unless otherwise stated)

	Note	Share capital	Capital surplus	Surplus reserve	Retained earnings	Total owners' equity
Balance at 1 January 2017		73,040,000	799,821,777	18,548,942	108,895,141	1,000,305,860
Movements for the year ended 31 December 2017						
Total comprehensive income						
Net profit		—	—	—	51,610,704	51,610,704
Capital contribution and withdrawal by owners						
Share-based payment	9	—	412,805	—	—	412,805
Other		—	6,874,892	—	—	6,874,892
Profit distribution						
Appropriation for surplus reserve		—	—	5,161,070	(5,161,070)	—
Profit distribution to equity owners	15(9)	—	—	—	(18,260,000)	(18,260,000)
Balance at 31 December 2017		73,040,000	807,109,474	23,710,012	137,084,775	1,040,944,261

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

Legal representative: GUAN Weili

Principal in charge of accounting: WANG Hongyue

Head of accounting department: XU Qunyan

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

1. General information

The Company was established as a joint stock cooperative enterprise under the name of Wenzhou City Kangning Psychiatric Rehabilitation Hospital (溫州市康寧精神康復醫院) in the PRC on 7 February 1996. The address of the Company's registered office is at Shengjin Road, Huanglong Residential District, Wenzhou, Zhejiang, PRC.

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

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

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

During the year, several subsidiary hospitals of the Group(Note 5) commenced full operation, and the Group continued to expand its medical network through investing in associates(Note 4(8)) and providing management services to other hospitals (Note 4(12)).

The financial statements have been approved for issue by the Company's Board of Directors on 25 March 2019.

2. Summary of significant accounting policies and accounting estimates

(1) Basis of preparation

The financial statements are prepared in accordance with the *Accounting Standard for Business Enterprises - Basic Standard and 38 specific accounting standards* issued by the Ministry of Finance on 15 February 2006 (hereafter collectively referred to as "the Accounting Standards for Business Enterprises" or "CAS").

The financial statements are prepared on a going concern basis.

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

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

The financial statements of the Company for for the year ended 31 December 2018 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and company's financial position of the Company as at 31 December 2018 and their financial performance and cash flows for the year then ended.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(3) Accounting year

The Company's accounting year starts on 1 January and ends on 31 December.

(4) Recording currency

The recording currency is Renminbi (RMB).

(5) Business combination

Business combination involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(6) Preparation of consolidated financial statements

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(6) Preparation of consolidated financial statements (continued)

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

If the accounting treatment of a transaction which concerns the Group as an accounting entity is different from that concerns the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

(7) Cash and cash equivalents

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

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

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

(8) Foreign currency translation

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

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

(9) Financial instruments

Financial instruments are the contracts that form one party's financial assets and the other party's financial liabilities or equity. When the Group becomes a party to the contractual provisions of the financial instruments, it recognizes the relevant financial assets or financial liabilities.

(a) Financial assets

(i) Classification of financial assets

According to on the entity's business model for managing the financial assets and the contractual terms of the cash flows, the Group classifies its financial assets in (1) those to be measured at amortized cost., (2) those to be measured subsequently at fair value through profit or loss.

At initial recognition, the Group measures a financial asset at its fair value. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognized in profit or loss for the current period. For other financial assets, transaction costs that attributable to the acquisition of the financial assets are included in their initially recognized amounts. For the accounts and notes receivable which result from product sales or service rendering, which do not contain nor are expected a significant financial component, the Group initially measured the amount at their transaction price that the Group are entitled to.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(9) **Financial instruments** (continued)

(a) Financial assets (continued)

(i) Classification of financial assets (continued)

Debt instruments

The debt instruments held by the Group refer to instruments that conform to the definition of financial liabilities from the perspective of issuers. There are two measurement categories into which the Group classifies its debt instruments:

Measured at amortized cost:

The financial assets fall in this category when the Group's business model is to collect contractual cash flow. The characteristics of the contractual cash flow in such financial assets are consistent with the basic loan arrangements. Therefore, the cash flow incurred on the specific date represents solely the payment of principal and interest. The Group recognizes interest income for such financial assets in accordance with the effective interest method. Such financial assets mainly include cash at bank and on hand, notes receivable and accounts receivable, other receivables, and long-term receivables. The Group presents long-term receivables maturing within one year (inclusive) from the balance sheet date as non-current assets maturing within one year, those with a original mature period within one year (inclusive) as other current assets.

Measured at fair value through profit or loss:

For the debt instruments held by the Group which dose not meet the criteria measured at amortized cost or fair value through comprehensive income, it is measured at fair value through profit or loss and presented as financial assets held for trading. In the initial recognition, in order to eliminate or significantly reduce accounting mismatch, the Group designates certain financial assets as financial assets measured at fair value through profit or loss.However, the financial assets maturing over one year and expected to be held over one year are classified as other non-current assets.

Equity instrument

The investment in equity instruments which are not controlled, or jointly controlled by the Group or have significant influence for the Group are measured by fair value through profit or loss and are classified as transactional financial assets. The financial assets maturing over one year and expected to be held over one year are classified as other non-current assets.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(9) **Financial instruments** (continued)

(a) Financial assets (continued)

(ii) Impairment

For financial assets measured at amortized cost such as accounts receivable and other receivables, the Group recognizes loss provisions on the basis of expected credit losses.

The Group assess expected credit losses by calculating the probability - weighted present value of the cash shortfalls (i.e. the difference between the contractual cash flow and the cash flow expected to be received) using the probability of default as the weight with reasonable and supportable information on past events, current conditions, and forecast for future economic conditions.

At each balance sheet date, the Group measures the expected credit losses of financial instruments by different stages. If the credit risk of the financial instrument does not increase significantly after the initial recognition, it would be classified in 'Stage 1', the Group would recognized the loss according to the expected credit loss in the next 12 months; If the credit risk of a financial instrument has significantly increased since its initial recognition but not yet credit-impaired, it would be the second stage, the Group would accrued the loss according to the expected credit loss of the instrument's entire duration. If the credit impairment of a financial instrument has occurred since the initial confirmation, it would be the third stage, and the Group would accrued the loss accordance with the expected credit loss of the entire duration of the instrument.

For financial instruments with low credit risk on the balance sheet date, the Group assumes that its credit risk has not increased significantly since the initial recognition, and accrued the loss reserve according to the expected credit loss in the next 12 months.

For the financial instruments classified in 'Stage 1' and 'Stage 2' and those with lower credit risk, the Group would calculate interest revenue by applying effective interest on gross carrying amount of the asset (that is, without deduction for credit allowance). For financial instruments classified in'Stage 3', the Group would calculate the interest revenue by applying effective interest on the net carrying amount (that is, net of credit allowance).

For accounts receivable, whether it has significant financial components or not, the Group measures creidt loss provisions according to lifetime expected credit losses.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(9) **Financial instruments** (continued)

(a) Financial assets (continued)

(ii) Impairment (continued)

When an individual financial asset can't estimate the expected credit loss information by a reasonable cost, the Company divides the receivables into several combinations based on the credit risk characteristics and calculates the expected credit losses base ont those combinations. The basis for determining the combination is as follows:

Receivables group	Medicial service receivables from patinets and from social security bureau and other institutions
Other receivales group	Loans to third parties
Other receivales group	Payments on behalf of
Other receivales group	Amounts due from related parties
Other receivales group	Deposit and guarantee
Other receivales group	Others

For the accounts receivable grouped, the Group refers to the experience of historical credit loss, combined with the current situation and the forecast of the future economic situation and uses provision matrix specifiying the overdue days of accounts receivable and expected credit loss rate to calculate lifetime expected credit loss.

For other receivables grouped, the Group refers to the experience of historical credit loss, combined with the current situation and the forecast of the future economic situation to calculate expected credit loss with exposure at default and expected credit loss rate in the next 12 months or the lifetime.

The Group recognize the provision and write back of credit loss into current profit and loss account.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(9) **Financial instruments** (continued)

(a) Financial assets (continued)

(iii) Derecognition

A financial asset is derecognized when any of the below criteria is met: (1) the contractual rights to receive the cash flows from the financial asset expire; (2) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (3) the financial asset has been transferred and The Group has not retained control of the financial asset, although The Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of other equity instruments, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in owner's equity, is recognised in retained earnings. On derecognition of other financial assets, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in owner's equity, is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss.

The financial liabilities of the Group mainly comprise financial liabilities measured at amortised cost, including accounts payable, other payables, long-term payables and borrowings, which are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Financial liabilities of which the period is within one year (inclusive) are classified as current liabilities; the period is over one year while will be due within one year (inclusive) since the balance sheet date are classified as current portion of non-current liabilities; and the others are classified as non-current liabilities

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(9) **Financial instruments** (continued)

(c) Determination of fair value

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. In the valuation, the Group adopted applicable valuation techniques with adequate available data and other information support in the circumstances, and selected inputs that have consistent characteristics with assets and liabilities in the transactions which are also considered by other market participants, and give priority to the use of relevant observable inputs. When relevant observable inputs cannot be obtained or obtaining the observable inputs is not feasible in the circumstances, unobservable inputs are adopted.

(10) Inventories

(a) Classification

Inventories comprised pharmaceuticals, medical consumables and poperties (including the relating land use right) and are stated at the lower of cost and net realisable value

(b) Valuation method for inventory issued

Inventories are accounted using the method of first-in first-out when issued.

Inventories are measured initially at cost. The developing cost of properties under development includes the cost of land, construction cost and other costs. The borrowings costs that meet the capitalized conditons can also be counted into the cost of properties under development.

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

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

(d) The Group adopts the perpetual inventory system.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(11) Long-term equity investments

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

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

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

(a) Determination of investment costs

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the acquirer's share of the carrying amount of owners' equity of the acquiree at the combination date; for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(11) Long-term equity investments (continued)

(b) Subsequent measurement and recognition methods of gains and losses

For long-term equity investments accounted for using the cost method, cash dividend or profit distribution declared by the investees is recognised as investment income in profit or loss.

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

Under the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of the net losses of an investee after the carrying amounts of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, The Group continues recognising the investment losses and the provisions. The changes of the Group's share of the investee's owner's equity other than those arising from the net profit or loss, other comprehensive income and profit distribution, are recognised in the Group's equity and the carrying amounts of the long-term equity investment are adjusted accordingly. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the transactions between the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, to arrive the amount on which the investment gain or losses are recognised. Any losses resulting from transactions between the Group and its investees attributable to asset impairment losses are not eliminated.

(c) Basis for determining existence of control and significant influence over investees

Control means having power over an investee, enjoying variable returns through involvement in relevant activities of the investee, and being able to impact the amount of such variable returns by using the power over the investee.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(11) Long-term equity investments (continued)

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(18)).

(12) Investment properties

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

The Group adopts the fair value model for subsequent measurement of investment properties and does not provide depreciation or amortision. The carrying amount of investment properties is adjusted to their fair value at the balace sheet date and the difference between the fair value and the original carrying amount is recognised in profit or loss for the current period.

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

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(13) Fixed assets

(a) Recognition and initial measurement of fixed assets

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

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

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

(b) Depreciation method for fixed assets

Depreciation of fixed assets is calculated using the straight-line method to allocate cost of each asset to their residual values over their estimated useful lives. For the fixed assets for which impairments have been made, the amount of depreciation are determined by the book value after deducting the impairment provision over the useful lives in the future.

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

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

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

The carrying amounts of fixed assets are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(18)).

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(13) Fixed assets (continued)

(c) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(14) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowings costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below its carrying amount (Note 2(18)).

(15) Borrowings costs

The borrowings costs that are directly attributable to the acquisition and construction of a asset that needs a substantially long period of time for its intended use is capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowings costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowings costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowings costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowings costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For special borrowings for the acquisition and construction of qualifying assets, the capitalised amount of the special borrowings is determined by the interest expenses incurred in the period less interest income of the unused borrowings deposited at bank or investment income from temporary investment.

For general borrowings occupied for the acquisition or construction of qualifying assets, the capitalised amount of the general borrowings is determined by the weighted average of the difference between accumulated capital expenditure and capital expenditure of the special borrowings multiplies by the weighted average effective interest rate of the occupied general borrowings. The effective interest rate is the interest rate used when the future cash flows of the borrowings over the estimated remaining deposit period or a shorter applicable period are discounted into the initial recognised amount of the borrowings.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(16) Intangible assets

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

(i) Land use rights

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

(ii) Software use rights

Software use rights are amortised on the straight-line basis on 5 years.

(iii) Contractual rights to provide management services

Contractual rights to provide management services is the right to manage a hospital that are carried at costs less accumulated amortization and any accumulated impairment losses.

Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over the contractual terms as below:

	Contractual terms
Yanjiao Furen Integrated Traditional Chinese and Western Medicine Hospital("Yanjiao Furen Hospital")	19.75 years
Pujiang Huangfeng Psychiatric Hospital("Pujiang Hospital")	30 years
Chunan Huangfeng Kangen Hospital ("Chunan Hospital")	30 years
Yiwu Mental Health Center("Yiwu Health Center")	20 years

(iv) Licences

The licences acquired are recognized by fair value at the date of asset acquisition. These licences have limited useful life and are measured by cost and accumulated amortization. Amortization of licences is calculated using the straight-line method to allocate cost of each asset to their residual values over their estimated useful lives. Amortization is amortised basing the straight-line method over the estimated useful lives from 5 to 15 years.

(v) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(16) Intangible assets (continued)

(vi) Research and development

Research expenditure and development expenditure are classified into research phase expenditures and development phase expenditures according to their nature and the uncertainty of intangible assets ultimately formed by research and development activities.

The expenditures for the planned investigation, evaluation and selection phases for the study of medical systems and software are classified as expenditures for the research phase, which are included in the current profit and loss while occurred; before the mass production, Expenditure that is relevant design for the final application of the medical system and software or in the test phase is classified as development phase expenditure which should be capitalized if following conditions are meet:

- The development of medical systems and software has been fully proofed by the technical team;
- Management has approved budgets for medical systems and software development;
- Research and analysis of previous market research indicates that the products produced by medical systems and software have marketing capabilities;
- Adequate technical and financial support for medical system and software development activities and subsequent support operations;
- Expenditure on medical systems and software development can be collected reliably.

Expenditure in the development phase that does not meet the above conditions is recognised in profit or loss in the period when it is incurred. Development expenditures that have been charged to profit or loss in the previous period are not reconfirmed as assets in subsequent periods. Expenditures that have been capitalized during the development phase are listed as development expenditures on the balance sheet and are converted to intangible assets from the date the project reaches its intended use.

(vii) Impairment of intangible assets

The carrying amounts of intangible assets are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(18)).

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(17) Long-term prepaid expenses

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

(18) Impairment of long-term assets

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(19) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

(a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which The Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, The Group's post-employment benefits mainly include basic pensions and unemployment insurance, both of which belong to the defined contribution plans.

(c) Basic pensions

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(20) Dividend distribution

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

(21) Share-based payments

(a) The types of share-based payments

Share-based payment transactions include equity-settled share-based payments and cash-settled share-based payments. Where the Group uses shares or other equity instruments as consideration for services received from the employees at the grant date, the share-based payments are classified to equity-settled share-based payments. Where the Group receives services from employees by incurring a liability to deliver cash or other equity intruments, the share-based payments are classified to cash-settled share-based payments. For the year ended 31 December 2018, the Group did not hold any cash-settled share-based payments.

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments(restricted shares) of the Group. The payment is measured at the fair value of the equity instruments granted to employees at the grant date. The equity instruments granted to employees do not vest until the completion of services for a vesting period, the Group, at each balance sheet date during the vesting period, makes the best estimation according to the latest information of the number of employees who are granted to vest and revises the number of equity instruments expected to vest. Based on such estimation, the Group recognises the services received for the current period as related costs or expenses, with a corresponding increase in capital reserve, at an amount equal to the fair value of the equity instruments at the grant date.

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

The restricted shares are recognized for the difference between the grant price and the fair value of the restricted shares at the grant date.

(c) Basis of the best estimate of the number of equity instruments expected to vest

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(22) Revenue recognition

The group recognised the revenue according to the price of consideration which expected to recover, when the customers obtain the control power of the relevant goods or services.

(a) Service income - Treatments and general healthcare services and ancillary hospital services

Revenue from service income including medical treatments income, general healthcare services and ancillary hospital services income. For the revenue recognized according to the measure of hospital service rendered, the portion that the group has obtained the unconditional rights to consideration is recognized as accounts receivable, while the rest is recognized as contract assets, and loss provisions is recognized on the basis of expected credit losses of the accounts receivable and contract assets recognized(Note 4(37)); And where the amount of contract consideration received or receivable exceeds the measure of service rendered, the difference is recognized as contract liability. The group presents the net of contract asset and contract liability of one same contract. Transactions are settled by payment of social security card, bank card or cash.

(b) Pharmaceutical sales

Pharmaceuticals are sold at retail. Revenue from pharmaceutical sales is recognized at the point of the transaction.

(c) Management service fee

Management service fee is recognized according to the measure of hospital service rendered when such benefit could be reliably measured.

(d) Rental income

Rental income from properties leasing under operating leases is recognised on a straight-line basis over the lease terms.

(e) Sales of properties

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(23) Government grants

Government grants are transfers of monetary or non-monetary assets from the government to the Group at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant is recognised when the conditions attached to it can be complied with and the government grant can be received. A government grant in monetary asset is recognised at the amount received or to be received. A government grant in non-monetary asset is recognised at its fair value; if the fair value is not reliably measured, the grant is measured at nominal amount.

A government grant related to an asset is recognised as a deduction of related asset, or recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss for the current period. The group use same presentation for the same type of government grant.

If a government grant is related to the normal operation, it would be recognised before operating profit, otherwise would be recognised as non-operating income.

The government loans with preferential interest rate are initially recognised at the amounts received by the Group, and borrowing costs are calculated based on the principal and the preferential interest rate. The government subsidies towards interst directly received by the Group should be offset the related borrowing costs.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

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

(24) Deferred tax assets and deferred tax liabilities

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

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

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

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within The Group and the same taxation authority; and,
- that tax payer within The Group has a legally enforceable right to offset current tax assets against current tax liabilities.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(25) Leases

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

(a) Operating leases

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

Lease income from operating leases are recognized on a straight-line basis over the period of the lease.

(b) Finance leases

The leased asset is recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge and is amortised using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognised finance charge.

(26) Segment information

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

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

(27) Critical accounting estimates and judgements

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(27) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions

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

(i) Estimated impairment of contractual rights to provide management services

As at 31 December 2018, the carrying amount of contractual right to provide management services to Yanjiao Furen Hospital was RMB 75,461,047(31 December 2017: RMB 80,177,100). Management performs review for impairment of such assets whenever events or changes in circumstances indicate that the carrying amounts of contractual rights to provide management services may not be recoverable. For the year ended 31 December 2018 , Yanjiao Furen Hospital did not meet the minimum performance target, so the manangement tested the impairment of the operational rights to provide management service. The recoverable amount of the contractual right to provide management service was recognized baesd on the discounted cash flow method and the calcutions of this method required the use of significant estimates and assumptions on the projections of cash flows from the continuous use of contractual rights to provide management services.

The Group continuously evaluates the important accounting estimates and key judgments based on historical experience and other factors, including reasonable expectations for future events.

For year ended 31 December 2018, the key assumpitons adopted to recognise the recoverable amount of the the contractual right to provide management service include mainly:

Average number of beds in operation *	387
Average in patient spending per day per bed *	263
Gross profit rate*	28.0%
Discount rate	15.0%

For year ended 31 December 2017, the key assumpitons adopted to recognise the recoverable amount of the the contractual right to provide management service include mainly:

Average number of beds in operation *	430
Average in patient spending per day per bed *	317
Gross profit rate *	40.3%
Discount rate	14.0%

* It represents the average number in upcoming five years.

The decrease in forecasted average inpatient spending per day per bed and gross profit rate were made by management based on current market condition. As for the year ended 31 December 2018 and the year ended 31 December 2017, the management did not make any provision for impairment based on the impairment test result.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(27) Critical accounting estimates and judgements (continued)

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

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

The Group calculates the expected credit loss with exposure at default and expected credit loss rate, which is determined based on the default probability and defult loss rate. When determining the expected credit loss rate, the Group refers to the experience of historical credit loss, and makes adjustments considering the current situation and forward-looking informations, which is measured with indicators including the microeconomic indicators such as government revenue growth. The Group monitors and reviews the assumptions used in the calculation of expected credit loss on a regular basis.

For the accounts receivable grouped, the Group refers to the experience of historical credit loss, combined with the current situation and the forecast of the future economic situation and use provision matrix specifying the overdue days of accounts receivable and corresponding provision rate to calculate lifetime expected credit loss.

For other receivables grouped, the Group refers to the experience of historical credit loss, combined with the current situation and the forecast of the future economic situation to calculate expected credit loss with exposure at default and expected credit loss rate in the next 12 months or the lifetime.

The amount of provision for bad debts in accounts receivable and other receivables as at 31 December 2018 was RMB25,519,357 and RMB4,245,481, respectively.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(27) Critical accounting estimates and judgements (continued)

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

(iii) Measurement of investment property at fair value

For investment property, the fair value was determined by using income. The input value adopted were the growth rate of rental, the return on rental and vacancy rate, etc.

The related information of fair value measurement is as followings:

	31 December 2018 Fair value	Technical of valuation	Unobservable materially inputs Item	Scope/ Weighted Average	Relationship with the fair value	Observable/ Unobservable
Phase I of Business Center in Higher Education Park	62,546,153 RMB	Income approach	Return rate/ capitalization rate	5.05%	(a)	Unobservable
			Monthly rental (RMB/square/month)	33.6-42.88		
			Vacancy rate	2.74%		
Phase II of Business Center in Higher Education Park	66,022,810 RMB	Income approach	Return rate/ capitalization rate	4.75%	(a)	Unobservable
			Monthly rental (RMB/square/month)	30-30.5		
			Vacancy rate i)	—		

i) Based on the signed leases on hand, the vacancy rate of the property is zero during the forecast period.

(a) The relationship between the unobservable inputs and the fair value are as below

- The higher of the final return rate/capitalization rate, the lower of the fair value
- The higher of the estimated vacancy rate, the lower of the fair value
- The higher of the monthly rental, the higher of the fair value

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(27) Critical accounting estimates and judgements (continued)

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

(iv) Accounting estimates of goodwill impairment provision

Goodwill is tested at least annually for impairment,The recoverable amount of the asset group and asset group combination containing goodwill is the present value of its estimated future cash flows while its calculation requires accounting estimates (Note 4 (13)).

If the management revised the gross profit rate used in the calculation of the future cash flow of the asset group and the asset group combination while the revised gross profit rate is lower than the one current used, the Group needs to increase the provision for impairment of goodwill.

If the management re-revises the pre-tax discount rate for discounted cash flows while the revised pre-tax discount rate is higher than the current one, the Group is required to make provision for impairment on goodwill.

If the actual gross profit rate or pre-tax discount rate is higher or lower than the management's estimate, the Group cannot reverse the impairment loss of the goodwill that has been accrued.

(b) Critical judgments in applying the Company's accounting policies

(i) Control over the hospitals with which the Group has management contracts

The Group entered into agreements with hospitals which Group obtain contractual rights to provide management services of relevant hospitals for certain periods. The Group is entitled to receive performance-based management fees during the periods.

In making their judgment, the management considered the composition of the internal governance bodies and also certain committees which oversee the operations of those hospitals and power attained by those committee and granted to the Group respectively. After assessment, the management concluded that the Group does not obtain the decision making power over these bodies and committees to direct the relevant activities of the hospitals, so the Group does not control and thus does not consolidate those hospitals. Instead, agreements are considered as management contracts to generate management service income.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(27) Critical accounting estimates and judgements (continued)

(b) Critical judgments in applying the Company's accounting policies (continued)

(ii) Judgments on credit risk that significantly increases

The Group judges credit risk of financial instrument as significant increase based on the crtieria that whether the overdue days are above 30, or whether one or more indicators listed below are significantly changing: the business environment that debtors situated in, internal and external credit rating, marked change of actual or expected business performance, dramatically drop in collateral value or credit downgrades of the guarantor, etc.

The Group judges financial instrument as credit impaired based on the criteria that whether the overdue days are above 90(namely in default), or whether one or more situations below happened: the debtor is subject to serious financial difficulties, debt restructuring is undertaken or bankrupt is highly probable, etc.

(iii) Determination of the minimum lease term in lease contract

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

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

– the amount of penalties to be paid;

– the balance of leasehold improvements to be written off;

– the availability of alternative operating premises and the competitiveness of the rentals comparable to existing leasing contracts;

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(28) Change in accounting policies

In 2017, the Ministry of Finance of PRC issued the revised 'Accounting Standard for Business Enterprises No. 14—Revenue' ("New Revenue Standard"), and 'Accounting Standard for Business Enterprises No. 22—Recognition, Measurement of Financial Instruments', 'Accounting Standard for Business Enterprises No. 23—Transfer of financial assets', 'Accounting Standard for Business Enterprises No. 37—Disclosure of Financial Disclosure', etc. (together "the New Financial Instrument Standard") in 2018, the Ministry of Finance issued 'Circular of the Ministry of Finance on Revising and Issuing the Format of General Enterprise Financial Statements' (Cai Kuai [2018] No. 15). The Group has prepared financial statements for the year ended 31 December 2018 in accordance with the above standards and circulars. The impact to the Group's financial statements is set below:

(a) Revised format of General Enterprise Financial Statements

(i) The impact to Consolidated Balance sheet and Income statement as follow:

Change reason and nature	**Impacted Financial Statement Line Item**	**Impacted Amount** Year Ended 31 December 2017
The Group separately present the R&D expenditure as research and development expenditure, previously grouped in General and administrative expenses.	Research and development expenditure	1,573,650
	General and administrative expenses	(1,573,650)

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(28) Change in accounting policies (continued)

(a) Format of General Enterprise Financial Statements (continued)

(ii) The impact to Company Balance sheet as follow:

Change reason and nature	Impacted Financial Statement Line Item	Amout of impact	
		31 December 2018	31 December 2017
The Group combined dividends payable and other payables as other payables.	Dividends payable	(18,000,000)	(10,000,000)
	Other payables	18,000,000	10,000,000

(iii) The impact to Company Income statement as follows:

Change reason and nature	Impacted Financial Statement Line Item	Impacted Amount Year Ended 31 December 2017
The Company reclassified the entrusted loan interest income originally included in the financial expenses to investment losses.	Financial expenses	(948,872)
	Investment losses.	948,872
The group display the R&D expenditure used to be incorporated in General and administrative expenses separately as Research and development expenditure.	Research and development expenditure	1,573,650
	General and administrative expenses	(1,573,650)

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(28) Change in accounting policies (continued)

(b) Revenue

According to new revenue standards requirements, the Group directly adjusted the 2018 opening retained earnings and other comparable financial statement items for the impact upon adoption of these standards. The comparable financial statements are not restated.

The nature and reason for change in accounting policies	Impacted Financial Statement Line Item	Impacted amount 1 January 2018 Consolidated	Company
As a result of the application of the new revenue standard, the Group reclassify the receivables related to medical services, which do not meet the unconditional collection right, to the contract assets, and reclassify the advances from customers related to medical services to the contract liabilities.	Contract liability	7,511,284	2,560,379
	Advances from customers	(7,511,284)	(2,560,379)

The impacts that New Revenue Standard brings to balance sheet are as follow :

Impacted Financial Statement Line Item	Impacted Amount 31 December 2018 Consolidated	Company
Contract liability	2,244,706	779,733
Advances from customers	(2,244,706)	(779,733)

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(28) Change in accounting policies (continued)

(c) Financial instruments

According to New Financial Instrument Standards requirements, the Group and the Company directly adjusted the 2018 opening retained earnings and other comparable financial statement items for the impact upon adoption of these standards. The comparable financial statements are not restated.

(i) The following is the comparison form of results of classification and calculation of financial assets in accordance with the original Financial Instruments Standards and the new Financial Instruments Standards on 1 January 2018:

Previous financial instrument standards			New Financial Instrument Standards		
Subjects	**Measurement categories**	**Balance**	Subject	Measurement categories	Carrying amount
Available-for-sale financial assets	Measured at fair value through other comprehensive income (debt instruments)	**50,974,323**	Debt investment	Amortized costs	—
			Other debt investment	Measured at fair value through other comprehensive income	—
	Measured at fair value through other comprehensive income (equity instruments)	—	Other non-current financial assets	Measured at fair value through profit and loss	50,974,323

On 31 December 2017 and 1 January 2018, the Group did not designate any financial assets that were measured at fair value and whose changes were recorded in the profits and losses of the current period.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(28) Change in accounting policies (continued)

(c) Financial instruments (continued)

(ii) The reconciliation of balances of financial assets adjusted from reported previous to those under New Financial Instrument Standards by measurement category as at 1 January 2018 are set out below:

Financial assets at amortised cost in New Financial Instrument Standards

	Note	Balance	
		the Group	the Company
Receivables (Note 1)			
31 December 2017		275,627,262	533,202,383
Re-measurement adjustment: expected credit loss		(1,193,391)	(514,163)
1 January 2018		274,433,871	532,688,220

Note 1: As at 31 December 2017 and 1 January 2018, receivables includes notes receivable, accounts receivable and other receivables.

Financial assets at fair value through profit or loss in New Financial Instrument Standards

	Note	Balance	
		the Group	the Company
Financial assets at fair value through profit or loss (including other non-current assets)			
31 December 2017		—	—
Add: Transfered from available-for-sale financial assets (previous financial instrument standards)	i)	50,000,000	50,000,000
Re-measurement adjustment: Measured at fair value		974,323	974,323
1 January 2018		50,974,323	50,974,323

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

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

(28) Change in accounting policies (continued)

(c) Financial instruments (continued)

(ii) (continued)

i) Investment fund

As at 31 December 2018, the carrying amount of investment fund owned by the Group was RMB 50,000,000. Upon the adoption of the New Financial Instrument Standards, as the characteristics of contractual terms of the cash flow of the investment fund did not meet the basic loan arrangements, the Group reclassified the investment fund as financial instruments measured at fair value through profit or loss under other non-current financial assets from available-for-sale financial assets. Accordingly, the Group adjusted the difference of RMB 974,323 between fair value and original carrying amount to the opening retained earnings.

(iii) The reconciliation of impairment provision of financial assets adjusted from reported previous to loss provision under new financial instrument standards by measurement category as at 1 January 2018 are set out below:

Measurement category	**Impairment provision reported previous**	**Remeasurement**	**Loss provision under New Financial Instrument Standards**
Financial instruments measured at amortized cost- Impairment provision of accounts receivable	15,348,262	1,193,391	16,541,653

Due to the impact of applying New Financial Instrument Standards, the Group adjusted deferred income tax assets and deferred income tax liabilities amounting to RMB298,348 and RMB 243,581 respectively, which had a impact of RMB 164,301 on equity attributable to owners of the parent company, including RMB 164,301 on opening retained earnings.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

3. Taxation

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

Category	Tax rate	Tax base
Corporate income tax	25%	Taxable profit
Value-added tax (a)	3%,5% or 6%	Taxable turnover amount
City maintenance and construction tax	7%	The amount of turnover tax actually paid
Educational surcharge	3%	The amount of turnover tax actually paid
Local educational surcharge	2%	The amount of turnover tax actually paid
Property tax	1.2% or 12%	The 70% of the original value of the property or the rental income
Land use tax(c)	5 per square metre	The square meter of the land
Land value-added tax	30%-60%	The amount of value-added

(a) Pursuant to the "Circular on the Overall Promotion of Pilot Program of Levying VAT in Place of Business Tax" (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, the revenue from providing medical service of the Company and its subsidariy, Qingtian Kangning Hospital Co., Ltd ('Qingtian Kangning Hospital'), Cangnan Kangning Hospital Co., Ltd (Cangnan Kangning Hospital),Yongjia Kangning Hospital Co., Ltd (Yongjia Kangning Hospital), Yueqing Kangning Hospital Co., Ltd (Yueqing Kangning Hospital), Linhai Kangning Hospital Co., Ltd (Linhai Kangning Hospital), Wenzhou Yining Geriatric Hospital Co., Ltd (Wenzhou Yining Geriatric Hospital), Shenzhen Yining Hospital Co., Ltd (Shenzhen Yining Hospital), Pingyang Kangning Hospital Co., Ltd (Pingyang Kangning Hospital), Quzhou Yining Hospital Co., Ltd (Quzhou Yining Hospital), Taizhou Luqiao Cining Hospital Co., Ltd (Luqiao Cining Hospital), Taizhou Kangning Hospital Co., Ltd (Taizhou Kangning Hospital), Wenzhou Tianzhentang Chinese Medicine Clinic Co., Ltd ("Wenzhou Tianzhentang"), Nanjing Yining Hospital Co., Ltd (Nanjing Yining Hospital), Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd(Wenling Nanfang Hospital), Heze Yining Psychiatric Hospital Co., Ltd(Heze Yining Hospital), Guanxian Yining Hospital Co., Ltd (Guanxian Yining Hospital), Hangzhou Yining Hospital Co., Ltd (Hangzhou Yining Hospital) and Hangzhou Cining Hospital Co., Ltd (Hangzhou Cining Hospital) were exempted from value-added tax.

Pursuant to the relevant tax regulations, the revenue of judicial forensicservice from the Company's subsidiary, Wenzhou Kangning Judicial Forensic Center(Judicial Forensic Center) was subject to value-added tax at a rate of 3%.

Pursuant to the relevant tax regulations, since 1 May 2016, the rental income of the Company's subsidiary, Wenzhou Guoda Investment, arising from the rental of the properties purchased before 30 April 2016 was subject to the simple value-added tax calculation method with the rate of 5%, the sales of the properties built before 30 April 2016 was subject to the simple value-added tax rate of 5%. The advance proceeds from the sales of real estate is subject to the advance tax rate of 3% and should be prepaid.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

3. Taxation (continued)

(a) (continued)

Pursuant to the "Circular on the Overall Promotion of Pilot Program of Levying VAT in Place of Business Tax" (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, the management service income is subject to 6% rate value-added tax.

(b) Pursuant to the "Notice on Taxation Affairs" (Ping Di Shui Kun Tong[2017]No. 930 and Ping Di Shui Kun Tong[2017]No. 931) issued by Pingyang County Local Tax Bureau Kunyang Branch on 13 April 2017, Pingyang Kangning Hospital Limited Liability Company enjoyed exemption of real-estate tax for 3 years since 1 January 2016.

(c) Pursuant to the "Implementation plan on adjustment of urban land use tax policy in Wenzhou city to promote land intensive use and utilization" issued by Wenzhou Municipal People 's Government Office on 9 May 2016 and the Notice of tax matters(Wen Dishui Tong[2017]No.45068) issued by Wenzhou Local Taxation Bureau Lucheng Tax Branch, the Company enjoyed 100% exemption on urban land use tax for the year ended 2017 and 2018.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements

(1) Cash at bank and on hand

	31 December 2018	31 December 2017
Cash on hand	657,361	466,947
Cash at bank	186,180,534	278,829,862
Other cash balances	238,799	37,350
	187,076,694	279,334,159

As at 31 December 2018, the term deposits that over three months was RMB10,000 (31 December 2017: HKD50,000,000, equivalent to RMB41,795,500).

(2) Accounts receivable

	31 December 2018	31 December 2017
Due from related parties(Note8(5)(a))	6,749,917	2,250,000
Due from third parties	318,519,503	245,277,585
Subtotal	325,269,420	247,527,585
Less: Provision for bad debts	(25,519,357)	(15,348,262)
	299,750,063	232,179,323

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

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

	31 December 2018	31 December 2017
Within 1 year	261,000,854	215,379,873
1 - 2 years	51,396,190	29,274,942
2 - 3 years	12,862,881	2,441,995
Over 3 years	9,495	430,775
	325,269,420	247,527,585

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(2) Accounts receivable (continued)

(a) Provision for bad debts

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

(i) As at 31 December 2018, no provision for bad debts of account receviables was made individually.

(ii) As at 31 December 2018, the Group measures the loss allowance of accounts receivable at an amount equal to the lifetime expected credit losses, the amout of provision for bad debts was RMB 25,519,357.

	31 December 2018		
	Balance	Provision for bad debts	
	Amount	Estimated credit loss during the survival period	Amount
Not overdue – unbilled	18,132,664	1%	181,327
Overdue - Within 3 months	132,857,728	5%	6,642,886
Within 1 year	110,010,462	6%	6,600,628
1 - 2 years	51,396,190	11%	5,653,580
2 - 3 years	12,862,881	50%	6,431,441
Over 3 years	9,495	100%	9,495
Total	325,269,420	8%	25,519,357

(iii) The amount of provision for bad debts made during the current year was RMB 18,881,621, and reversal was RMB 339,700.

(b) The actual write-off of accounts receivable was RMB 9,681,206, with the provision made RMB 9,681,206 mainly due by the medical insurance deduction and those aged over 3 years.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(3) Other receivables

	31 December 2018	31 December 2017
Loans to third parties(i)	**20,712,000**	16,020,000
Prepayments(ii)	**7,461,889**	16,770,285
Receivable from related parties (Note8(5)(a))	**17,970,291**	3,393,867
Deposit and guarantee	**7,709,142**	6,818,311
Others	**8,443,740**	4,536,898
	62,297,062	47,539,361
Less: Provision for bad debts	**(4,245,481)**	(4,091,422)
	58,051,581	43,447,939

(i) As at 31 December 2018, the amount that the Company lent to the Pujiang Hospital and Chunan Hospital were RMB 13,402,000 and RMB 7,310,000 respectively (31 December 2017: RMB8,660,000 and RMB7,360,000), with an interest rate of 7.2% per annum.

(ii) Prepayments were mainly included the receivable relating to rental of Nanchang branch and the payments to Housing Maintenance Fund.

As at 31 December 2018, Xiong Guoxiu and Min Honggen owed the rent paid by the Group on behalf of Nanchang branch of RMB 2,156,115.

As at 31 December 2018, the Housing Maintenance Fund of RMB 3,307,591 (31 December 2017: RMB 3,420,200) were paid by Wenzhou Guoda Investment to Wenzhou Ouhai Real Estate Administrative Bureau before obtaining property ownership certificate. Such amount was a one-off contribution at a rate of RMB 53 per square meter, which would be recovered from property buyers when the property is sold.

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(3) Other receivables (continued)

(a) Bad debt and relavent balance statement

	The First Stage Expected Credit Loss within 12 months(Comprehensive)		The Third Stage Expected Credit loss within entire stage (Credit Losted)		Total
	Balance	Provision for bad debt	Balance	Provision for bad debt	Provision for bad debt
31 December 2017	45,116,203	2,614,349	2,423,158	1,477,073	4,091,422
Addition	15,024,744	533,920	—	—	533,920
Recovery	—	(112,818)	(267,043)	(267,043)	(379,861)
31 December 2018	**60,140,947**	**3,035,451**	**2,156,115**	**1,210,030**	**4,245,481**

(i) As at 31 December 2018, the analysis of other receivables on the first stage was as follow:

	Balance	Expected Credit Loss rate within 12 months	Provision for bad debt
By group:			
Loans due by third parties	20,712,000	7%	1,449,840
Prepayments	5,305,775	7%	371,404
Receivable from related parties-outside the Group	17,970,290	5%	898,515
Deposit and guarantee	7,708,142	3%	231,244
Others	8,444,740	1%	84,448
	60,140,947		3,035,451

(ii) As at 31 December 2018, there was no other receivables on the second stage.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(3) Other receivables (continued)

(a) Bad debt and relavent balance statement (continued)

(iii) As at 31 December 2018, the analyse of other receivables on the third stage was as follow:

	Balance	Expected Credit Loss rate within survival period	Provision for bad deb
individual basis :			
Guoxiu Hong and Honggen Min i)	2,156,115	56%	1,210,030

i) It reprensents the rental amount paid by the Group in the previous year, subsequently the Group requested the termination of the contract and the payback of the repayment. As at 1 January and 31 December 2018, the lawsuit was still in court proceedings. The management of the Group considered that the receivable was in the third stage and recognised provision for bad debts on individual basis.

(b) The amount of provision accrued for the year ended 31 December 2018 was RMB 533,920. RMB 112,818 of bad debts reversed were in the first stage and RMB 267,043 in the third stage were recovered.

(c) There was no write-off of other receivables during the current year.

(4) Advances to suppliers

	31 December 2018		31 December 2017	
	Amount	**%**	Amount	%
Within 1 year	**16,576,535**	**100%**	11,089,576	100%
1 - 2 years	**75,304**	**—**	43,100	—
2 - 3 years	**32,000**	**—**	—	—
	16,683,839	**100%**	11,132,676	100%

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(5) Inventories

(a) Inventories are summarised by category as follows:

	31 December 2018	31 December 2017
Pharmaceuticals	**14,933,448**	11,272,632
Medical consumables	**3,305,013**	2,865,031
Properties held for sale (i)	**2,575,286**	9,394,806
	20,813,747	23,532,469

As at 31 December 2018 and 31 December 2017, the management assessed and are of view that no provision for the inventories is required.

During 2018, there was no capitalized interest included in the properties held for sale (During 2017, the capitalized interest included in the properties held for sale was RMB883,356).

(i) Properties held for sale

Project Name	Commencing Date	Completion Date	Total budgeted cost	Opening balance	Additions	Transfer to Cost of revenue (Note4(32))	Ending balance
Phase II of Business Center in Higher Education Park	November 2012	June 2017	173,507,594	9,394,806	441,165	(7,260,685)	2,575,286

As at 31 December 2018, the Group had no properties held for sale being pledged.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(5) **Inventories** (continued)

(b) Analysis of book balance movement of inventory for the year is as follows:

	31 December 2017	Business combination involving enterprises not under common control	Increase	Decrease	**31 December 2018**
Pharmaceuticals	11,272,632	150,327	143,840,000	(140,329,511)	**14,933,448**
Medical consumables	2,865,031	415,073	39,934,598	(39,909,689)	**3,305,013**
Properties held for sale	9,394,806	—	441,165	(7,260,685)	**2,575,286**
	23,532,469	565,400	184,215,763	(187,499,885)	**20,813,747**

(6) **Current portion of non-current assets**

	31 December 2018	31 December 2017
Deposits(i)	**12,688,704**	12,688,704

(i) The amount was a deposit to the contractor of the new hospital construction work as the guarantee for fulfillment of obligation of the Group under the construction contract. The deposit will be repaid to the Group after the construction is completed and all Group's obligation has been discharged. As at 31 December 2018, the Company and the contractor have not yet agreed on the final construction work amounts. However the management are of view that such deposits has no impairment risk and will be collected within one year (Note 4(26)) .

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(7) Other non-current financial assets/Available-for-sale financial assets

	31 December 2018	31 December 2017
Measured at fair value		
— Others(a)	**50,974,323**	50,000,000

(a) On 22 February 2016, the Company entered into a partnership agreement with Shanghai Jinpu Jianfu Equity Investment Management Co., Ltd("Jinpu Jianfu") in relation to the establishment of a limited liability partnership ("LLP") to run an investment fund which focuses on the healthcare industry investments in PRC. As at 31 December 2018, the total asset managed by the investment fund was RMB 1,406,000,000. The Company, being a limited partner of the LLP, injected RMB50,000,000 as the subscription to the investment fund, owning 3.56% interest of LLP. The investment fund is debt instrument at fair value through profit or loss, at initial recognition without public quotation. It is measured at fair value on Level 3.

(8) Long-term equity investment

	31 December 2018	31 December 2017
Associates (a)	**100,321,983**	89,683,865
Less:Provision for impairment of long-term equity investments	**—**	—
	100,321,983	89,683,865

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(8) Long-term equity investment (continued)

(a) Associates

	31 December 2017	Initial investment	Additional investment	Share of net profit/(loss) under equity method	Other equity movement	**31 December 2018**
Shandong Yining Hospital Co., Ltd ("Shandong Yining")	14,892,452	—	—	392,737	—	**15,285,189**
Beijing Yining Hospital (i)	5,434,738	—	7,330,000	(3,787,251)	—	**8,977,487**
Hangzhou Anken Information Technology Co., Ltd ("Hangzhou Anken Information Technology") (ii)	8,464,141	—	—	(1,082,727)	—	**7,381,414**
Chongqing Hechuan Kangning Hospital Co., Ltd ("Hechuan Kangning")	11,111,689	—	2,400,000	239,206	—	**13,750,895**
Shanxi Shanda Hospital Management Co., Ltd ("Shanxi Shanda")	25,303,120	—	—	(577,929)	—	**24,725,191**
Heze Yining Hospital Co.,Ltd ("Heze Yining Hospital) (iii)	6,927,243	—	1,860,000	(1,354,034)	(7,433,209)	**—**
Chengdu Yining Hospital Co., Ltd("Chengdu Yining")(iv)	17,550,482	—	—	(2,672,827)	910,596	**15,788,251**
Huainan Kangning Hospital Co., Ltd("Chengdu Yining")	—	3,600,000	—	(1,186,444)	—	**2,413,556**
Hangzhou Anken Medical Management Consulting Co., Ltd. ("Hangzhou Anken Consulting")(v)	—	12,000,000	—	—	—	**12,000,000**
	89,683,865	15,600,000	11,590,000	(10,029,269)	(6,522,613)	**100,321,983**

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(8) **Long-term equity investment** (continued)

(a) Associates (continued)

(i) Beijing Yining was set up in August 2015 as an associate of the Group. The capital contribution of RMB14,700,000 by the Group was settled in cash, representing 49% equity. In Janurary 2017, the Company entered into a capital increase agreement with Beijing Yining Hospital, Ningbo Meishan Bonded Port Kuanzhan Investment Management Partnership (Limited Liabilties Partnership) (hereinafter referred to as “Ningbo Meishan Kuanzhan”) and Chongqing Jinpu Medical&Health Service Industry Equity Investment Fund Partnership (Limited Liabilties Partnership)(hereinafter referred to as “Chongqing Jinpu”), to inject capital into Beijing Yining with Chongqing Jinpu Fund subscribing additional registered capital RMB15,000,000, accounting for 33.33% of equity interest ,at a price of RMB20,000,000. The transaction diluted the Group‘s equity holding in Beijing Yining from 49% to 32.67%, but the Group retained significant influence on it. In the year 2018, all shareholders entered into a capital increase agreement that Zhejiang Kangning injects capital into Beijing Yining at a price at RMB7,330,000 and the registered capital increased by RMB5,497,500, other shareholders voluntarily waive the right to preempt capital contribution. After the transaction, Zhejiang Kangning held 40% equity of Beijing Yining, retained significant influence on it.

(ii) Hangzhou Anken Information Technology was set up in November 2015. As at 31 December 2018, the Group held 25.94% of its equity. Pursuant to the directors’ resolution in January 2019, the Group transferred 5% of its equity to Honglan Investment Management Partnership (Limited Partnership) Ningbo Meishan Bonded Port Area (“Ningbo Meishan Honglan”). After the transaction, the Group held 20.94% equity of Hangzhou Anken Information Technology, retaining significant influence on it.

(iii) Heze Yining Hospital Co.,Ltd was set up in April 2017, the Group invested RMB9,300,000 in cash, accounting for 31% of its equity and has a significant impact. In December 2018, the Group acquired 20% of its equity at a consideration of RMB6,600,000 to obtain the control of Heze Yining Hospital and accounted it as a subsidiary subsequently (Note 6 (1)(a)).

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(8) **Long-term equity investment** (continued)

(a) Associates (continued)

(iv) The Group acquired 41.67% equity interest of Chengdu Yining Hospital at a cash consideration of RMB15,000,000 in September 2017. RMB8,000,000 of the consideration was satisfied by net-off with the amounts the investee due to the Group. Consequently, in December 2017, the Group entered into a capital increase agreement with Chengdu Yining Hospital, Ningbo Meishan Kuanzhan and Chongqin Jinpu and further injected RMB3,000,000 in Chengdu Yining Hospital, while others agreed to acquire 52% equity interest of Chengdu Yining Hospital from another existing shareholder at a cash consideration of RMB39,000,000. In January 2018, the capital transfer and increase was completed and the Group's equity interest in Chengdu Yining was diluted from 41.67% to 24%, but the Group retained significant influence on it.

(v) Hangzhou Anken Consulting Co., Ltd was set up in August 2018. The Company invested RMB12,000,000 in cash, holding 40% of its equity. Hangzhou Anken Information Technology holds 60% of its equity.

(9) **Investment properties**

	Properties and land use right
Fair value	
31 December 2017and 31 December 2018	128,568,963

As at 31 December 2018, the Group's investment property with amount of RMB66,022,810 was pledged, alongside withfixed asset about RMB 28,251,311 (Note 4(10)), against the loan of RMB 40,000,000 of Zhejiang Kangning Hospital Management Ltd.(a subsidiary of the Group, "Zhejiang Kangning") from Zheshang Bank in May 2018 (Note 4(18)). The maximum amount of debt secured over the property in the contract is RMB120,000,000. The loan period is from 9 May 2018 to 9 May 2019. As at 31 December 2018, the outstanding loan amount was RMB 40,000,000.

Please refer to Note2(27(a)(iii)) about the key assumptions and judgment of investment property at fair value.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(10) Fixed assets

	Bulidings	Medical equitment	Motor vehicles	Electronic and other equitment	Total
Cost					
31 December 2017	470,189,549	63,161,125	4,139,482	34,668,410	572,158,566
Additon					
Business combination involving enterprises not under common control	—	2,938,819	619,936	1,723,169	5,281,924
Purchase	3,346,407	18,669,044	984,259	6,644,792	29,644,502
Transfered from construction in progress	332,312	—	—	—	332,312
Decrease					
Disposal	(3,063,574)	(3,313,222)	(289,038)	(103,104)	(6,768,938)
Other(i)	(63,543,235)	—	—	—	(63,543,235)
31 December 2018	407,261,459	81,455,766	5,454,639	42,933,267	537,105,131
Accumulated depreciation					
31 December 2017	23,134,171	27,322,772	2,135,095	16,917,000	69,509,038
Addition					
Business combination involving enterprises not under common control	—	343,573	124,350	254,408	722,331
Charge for the year	11,922,126	10,402,035	511,991	6,078,216	28,914,368
Decrease					
Disposal	(1,771,421)	(3,132,975)	(274,586)	(90,026)	(5,269,008)
Other(i)	(1,094,432)	—	—	—	(1,094,432)
31 December 2018	32,190,444	34,935,405	2,496,850	23,159,598	92,782,297
Net book value					
31 December 2018	375,071,015	46,520,361	2,957,789	19,773,669	444,322,834
31 December 2017	447,055,378	35,838,353	2,004,387	17,751,410	502,649,528

(i) Cangnan Kangning Hospital started function renovation work of the purchased building in 2018. The project expects to highly improve the function of the building. Therefore, the related building was transferred into the construction in progress as meeting the requirements for the improvement of the fixed asset.

The depreciation charged during the year ended 31 December 2018 was RMB 28,914,368(2017: RMB 18,634,133) and the amount charged to cost of sales and general and administrative was RMB22,064,852 and RMB6,849,516, respectively (2017: RMB11,667,335 and RMB6,966,798).

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(10) Fixed assets (continued)

(i) (continued)

As at 31 December 2018 , buildings of Wenzhou Guoda Investment with amount of RMB28,251,311(As at 31 December 2017: RMB9,645,719), alongside with certain investment property(Note 4(9)), was pledged against the loan of RMB40,000,000(Note 4(18)).

During the year ended 31 December 2018, the cost of fixed assets transferring from construction in progress was RMB 332,312 (2017: RMB 288,751,568).

(11) Construction in progress

(a) *The change of construction in progress*

Project name	31 December 2017	Increase in the year ended 31 December 2018	Transfer to fixed assets/long-term prepaid expenses	31 December 2018	Accumulative amount of capitalised borrowings costs	Including: Borrowings costs capitalised in theyear ended 31 December 2018	Capitalisation rate
The expansion project of Cangnan Kangning Hospital(a)	295,662	107,363,805	–	107,659,467	3,833,934	3,833,934	4.83%
The decoration project of Wenzhou Kangning Hospital	3,171,272	4,453,617	(7,624,889)	–	–	–	–
The project of Wenzhou Kangning Hospital training center	10,000	4,384,992	–	4,394,992	–	–	–
The decoration project of Wenzhou Yining Geriatric Hospital	–	4,602,016	(3,483,364)	1,118,652	–	–	–
The decoration project of Langfang Yining Hospital	3,236,627	493,379	–	3,730,006	–	–	–
The decoration project of Taizhou Kangning Hospital	2,022,773	8,921,998	(10,944,771)	–	–	–	–
The decoration project of Hangzhou Yining Hospital	12,841,349	3,193,353	(16,034,702)	–	–	–	–
The project of Pujiang Yining Huangfeng Hospital	–	10,343,513	–	10,343,513	–	–	–
The decoration project of Qingtian Kangning Hospital	–	2,020,684	–	2,020,684	–	–	–
The decoration project of Wenzhou TIanzhentang	–	3,863,234	(3,863,234)	–	–	–	–
Others	712,987	7,680,543	(6,473,438)	1,920,092	–	–	–
	22,290,670	157,321,134	(48,424,398)	131,187,406	3,833,934	3,833,934	–

As at 31 December 2018 and 31 December 2017, the management of the Group considered that there did not exitst the objective evidence that indicated the construction in progress was impaired and no provision for impairment was required.

(b) Buildings of RMB 62,448,803 was transferred into the construction in progress.(Note 4(10)).

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(12) Intangible assets

	Land use rights	Software	Contractual right to provide management service	Licences	Total
Cost					
31 December 2017	23,602,729	4,794,565	145,054,013	—	173,451,307
Addition	12,857,211	2,697,712	—	5,200,000	20,754,923
Business combination involving enterprises not under common control	—	97,250	—	22,527,000	22,624,250
31 December 2018	36,459,940	7,589,527	145,054,013	27,727,000	216,830,480
Accumulated amortisation					
31 December 2017	3,808,329	2,555,478	15,244,637	—	21,608,444
Addition	560,469	1,146,599	6,950,823	1,275,853	9,933,744
Business combination involving enterprises not under common control	—	30,315	—	—	30,315
31 December 2018	4,368,798	3,732,392	22,195,460	1,275,853	31,572,503
Net book value					
31 December 2018	32,091,142	3,857,135	122,858,553	26,451,147	185,257,977
31 December 2017	19,794,400	2,239,087	129,809,376	—	151,842,863

The amortisation charge during the year ended 31 December 2018 was RMB 9,933,744(2017 : RMB7,695,722) and the amount charges to cost of sales and general and administrative RMB 8,751,839and RMB 1,181,905respectively (2017 : RMB6,855,916 and RMB839,806).

As at 31 December 2018 and 31 December 2017, the Group had no intangible assets pledged.

As at 31 December 2018 and 31 December 2017, the Group had no provision for impairment of intangible assets (Note 2 (27)(a)(i)).

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(13) Goodwill

	31 December 2017	Addition (Notes 5)	**31 December 2018**
Goodwill —			
Wenzhou Guoda Investment	8,533,389	—	**8,533,389**
Wenling Nanfang Hospital	—	7,784,850	**7,784,850**
Nanjing Yining Hospital	—	9,271,800	**9,271,800**
Others	—	2,239,355	**2,239,355**
Subtotal	8,533,389	19,296,005	**27,829,394**
Less:impairment provision	(3,709,832)	(4,823,557)	**(8,533,389)**
	4,823,557	14,472,448	**19,296,005**

(a) All goodwill of the Group has been allocated to the relevant CGU or group of CGUs upon acquisition. The allocation is summarized as below by operating segment:

	31 December 2018	31 December 2017
Healthcare service		
Nanjing Yining Hospital	**9,271,800**	—
Wenling Nanfang Hospital	**7,784,850**	—
Others	**2,239,355**	—
Property investment and development		
Wenzhou Guoda Investment	—	4,823,557
	19,296,005	4,823,557

In performing the impairment test of goodwill, the Group compares the caring amount of the relevant CGU or group of CGUs (including goodwill) (note 7) with the recoverable amount. If the recoverable amount is lower than the carrying amount, the relevant impairment is recognised in the current profit and loss (note 4 (36)). The Group's goodwill allocation remained same in 2018.

Notes to the Financial Statements
For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(13) Goodwill (continued)

(b) The recoverable amount of the CGU or group of CGUs under healthcare service segment is based on the six-year budget approved by the management, then estimated on the basis of a fixed growth rate (as described in the table below), and calculated using the cash flow forecasting method, the key assumptions used in such calculation are set out below.

	healthcare service		
	Nanjing Yining Hospital	**Wenling Nanfang Hospital**	**Others**
Forecast period growth rate	14%-71%	9%-15%	18%-60%
Stable period Growth Rate	3%	3%	3%
Gross profit rate	22%-40%	16%-40%	-9%-40%
Discount rate	16%	16%	16%

The Group determines growth rate and gross interest rate on the basis of historical experience and forecast of market development, and adopts after-tax interest rate as discount rate, which can reflect the specific risks of relevant asset groups and portfolios. The stable period growth rate is the weighted average growth rate adopted by the Group to forecast cash flow after six-year budget, which is consistent with the forecast data contained in the industry report and does not exceed average growth rate of the industry.

(c) The management has performed the Property investment and development segment goodwill impairment test on 31 December 2018 and recognised an impairment loss of RMB 4,823,557. The key assumpitons adopted to determine the recoverable amount of the asset portfolio include mainly rental growth rate and return and vacancy rates.

(14) Long-term prepaid expense

	31 December 2017	Addition	Business combination involving enterprises not under common control	Amortization	**31 December 2018**
Leasehold improvements	95,760,053	48,092,086	24,072,874	(24,034,744)	**143,890,269**
Others	575,600	—	—	(79,200)	**496,400**
	96,335,653	48,092,086	24,072,874	(24,113,944)	**144,386,669**

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(15) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets

	31 December 2018		31 December 2017	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deductible tax losses	**87,415,699**	**21,853,925**	58,340,142	14,585,036
Provision for asset impairments	**29,587,849**	**7,396,962**	19,413,884	4,853,471
Payroll accrual expenses	**—**	**—**	3,151,612	787,903
Payables	**6,999,814**	**1,749,954**	—	—
Share-based payment	**6,245,972**	**1,561,493**	5,720,813	1,430,203
Amortization of intangible assets	**4,925,394**	**1,231,349**	3,534,669	883,667
Advances received from real estate sales	**126,654**	**31,664**	126,654	31,664
	135,301,382	**33,825,347**	90,287,774	22,571,944
Including:				
Expected to be recovered within one year (inclusive)		**10,697,159**		9,630,231
Expected to be recovered after one year		**23,128,188**		12,941,713
		33,825,347		22,571,944

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

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

(b) Deferred tax liabilities

	31 December 2018		31 December 2017	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Appreciation of assets revalued	**58,830,476**	**14,707,619**	39,765,516	9,941,379
Including:				
Expected to be recovered within one year (inclusive)		**917,776**		554,037
Expected to be recovered after one year		**13,789,843**		9,387,342
		14,707,619		9,941,379

(c) Deductible temporary differences and deductible losses for which that no deferred tax assets recognised are analysed as follows:

	31 December 2018	31 December 2017
Deductible temporary differences	**—**	831,348
Deductible losses	**121,875**	1,672,966
	121,875	2,504,314

(d) Deductible losses for which no deferred tax assets are recognized will be expired as follows:

	31 December 2018	31 December 2017
2021	**252**	11,973
2022	**16,339**	1,660,993
2023	**105,284**	—
	121,875	1,672,966

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(16) Other non-current assets

	31 December 2018	31 December 2017
Prepaid tax	**—**	300,773
Prepayments for construction and fixed assets	**3,420,001**	2,267,150
Prepaid rental	**4,097,899**	9,550,288
Prepayments for investment	**—**	7,200,000
	7,517,900	19,318,211

(17) Provision for assets impairment

	31 December 2017	Change in accounting policy	1 January 2018	Business combination involving enterprises not under common control	Addition	Decrease: Recovery	Decrease: Written-off	**31 December 2018**
Provision for accounts receivable	15,348,262	1,193,391	16,541,653	116,989	18,881,621	(339,700)	(9,681,206)	**25,519,357**
Provision for other receivables	4,091,422	—	4,091,422	—	533,920	(379,861)	—	**4,245,481**
Goodwill impairment	3,709,832	—	3,709,832	—	4,823,557	—	—	**8,533,389**
	23,149,516	1,193,391	24,342,907	116,989	24,239,098	(719,561)	(9,681,206)	**38,298,227**

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(18) Short-term borrowings

	31 December 2018	31 December 2017
Guaranteed borrowings (Note8(4)(h))	**105,000,000**	50,000,000
Pledged borrowings(i)	**40,000,000**	40,000,000
	145,000,000	90,000,000

(i) The guaranteed borrowing amounting to RMB105,000,000 was guaranteed by Guan Weili, Wang Lianyue and Wang Hongyue, the shareholders of the Company. The pledged borrowings amounting to RMB40,000,000 was guaranteed by Wenzhou Guoda, a subsidiary of the Group, along with Guan Weili, the shareholders of the Company. In addition, the loan was secured by the investment property(Note 4(9)) with carrying amount of RMB 66,419,452 and fixed assets(Note 4(10)) of RMB28,251,311owned by Wenzhou Guoda.

As at 31 December 2018, the interest rate of short-term borrowings was 4.83%-6.50% annually (31 December 2017: 4.35%-6.003%).

(19) Accounts payable

(a) The aging analysis of accounts payable is as follows:

	31 December 2018	31 December 2017
Within 3 months	**43,099,493**	42,078,771
3- 6 months	**3,971,590**	7,390,442
6-12 months	**836,832**	20,516,232
1 - 2 years	**25,470,222**	13,579,346
2 - 3 years	**50,357**	68,731
Over 3 years	**216,223**	153,816
	73,644,717	83,787,338

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(20) Contract liability and Advance from customers

	31 December 2018	31 December 2017
Advance from goods and services	**2,244,706**	7,511,284

As at 1 January 2018, the amount of contract liability is RMB7,511,284, of which RMB4,753,447 had been transferred into revenue during the year of 2018, including real estate sales revenue RMB2,056,546, rental income RMB1,046,820 and healthcare services revenure RMB1,650,081.

(21) Employee benefits payable

	31 December 2018	31 December 2017
Short-term employee benefits payable (a)	**26,998,313**	19,679,161
Defined contribution plans payable (b)	**1,272,097**	4,035,157
	28,270,410	23,714,318

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(21) Employee benefits payable (continued)

(a) Short-term employee benefits payable

	31 December 2017	Business combination involving enterprises not under common control	Increase	Decrease	**31 December 2018**
Wages and salaries, bonus, allowances and subsidies	19,182,501	960,560	191,837,444	(185,610,252)	**26,370,253**
Staff welfare	600	—	4,100,288	(4,099,088)	**1,800**
Social security contributions	495,748	6,717	7,378,603	(7,261,706)	**619,362**
Including: Medical insurance	444,812	6,717	6,506,359	(6,413,230)	**544,658**
Work injury insurance	16,218	—	296,742	(294,575)	**18,385**
Maternity insurance	34,718	—	575,502	(553,901)	**56,319**
Housing funds	312	7,448	9,052,796	(9,053,658)	**6,898**
Labour union funds and employee education funds	—	—	765,099	(765,099)	**—**
	19,679,161	974,725	213,134,230	(206,789,803)	**26,998,313**

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(21) Employee benefits payable (continued)

(b) Defined contribution plans

	31 December 2017	Business combination involving enterprises not under common control	Increase	**Decrease**	**31 December 2018**
Basic pensions	4,012,938	18,154	8,240,076	(11,028,081)	**1,243,087**
Unemployment insurance	22,219	—	275,201	(268,410)	**29,010**
	4,035,157	18,154	8,515,277	(11,296,491)	**1,272,097**

(c) Termination benefits payable

During the year ended at 31 December 2018 and 2017, the Group had no termination benefits incurred for termination of employment contracts.

(22) Taxes payable

	31 December 2018	31 December 2017
Corporate income tax payable	**17,561,884**	13,480,775
Property tax payable	**3,475,529**	1,373,863
Valued-added tax payable	**830,465**	1,518,242
Land value-added tax payable	**18,455,529**	17,937,693
Others	**796,269**	601,808
	41,119,676	34,912,381

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(23) Other payables

	31 December 2018	31 December 2017
Payables for construction	**55,265,308**	57,374,586
Payables to related party (Note 8(5)(b))	**23,501,353**	16,199,172
Advance received from a non-controlling shareholder (Note 8(5)(b))(i)	**3,410,000**	3,410,000
Rental payables	**6,657,029**	6,058,569
Borrowings from individual (ii)	**6,000,000**	6,000,000
Guarantee deposits	**3,743,045**	2,318,220
Repurchase for the restricted shares (iii)	**21,910,000**	—
Deposits for sales of real estate	**—**	2,200,234
Interest payable	**1,554,541**	336,902
Others	**7,766,712**	5,899,071
	129,807,988	99,796,754

As at 31 December 2018 and 31 December 2017, the Group had no other significant payables aged over one year except note(i)、(ii)、(iii).

(i) It represented the interest-free advances received from a non-controlling shareholder of one of Group's subsidiaries .

(ii) It represented the borrowings of Wenzhou Guoda Investment from its employees. The interest rate is 8.28% per year.

(iii) It represented the obligation of the Group to repurchase all or part of the shares that have not been granted or unlocked under conditions specified in the Restricted Shares Scheme of the Group (Note 9).

(24) Current portion of non-current liabilities

	31 December 2018	31 December 2017
Current portion of long-term borrowings (Note 4(25))	**40,000,000**	—
Current portion of long-term payables(Note 4(26))	**23,757,304**	22,751,104
	63,757,304	22,751,104

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(25) Long-term borrowings

	31 December 2018	31 December 2017
Guaranteed borrowings	**80,000,000**	110,000,000
Current portion of long-term borrowings (Note 4(24))		
Guaranteed borrowings	**(40,000,000)**	—
	40,000,000	110,000,000

In January 2016, the Company obtained the fixed assets loan credit line of RMB130,000,000 with fixed interest rate of 4.75%. The loan period is from 5 January 2016 to 5 January 2021. As at 31 December 2018, the balance of the loan is RMB80,000,000 (31 December 2017:RMB110,000,000), and was guaranteed jointly by Guan Weili, Wang Lianyue and Wang Hongyue, shareholders of the Company(Note8(4)(h)).

As at 31 December 2018, the weighted average interest rate for long-term borrowings was 4.75%((31 December 2017:4.86%)

(26) Long-term payable

	31 December 2018	31 December 2017
Guarantee payable(i)	**12,688,704**	12,688,704
Long-term payable to the contractual right to provide management service	**97,713,800**	96,994,700
	110,402,504	109,683,404
Less: Current portion of long-term payables	**(23,757,304)**	(22,751,104)
	86,645,200	86,932,300

(i) The amount was provided by the contractor of the new hospital construction to the Group. As at 31 December 2018, the Company and the contractor have not agreed to settle the accounts, but the management are of view that it will be settled within the next year. At the same time, the Company has legal disputes over the settlement amount with the contractor. Up to the date of approval of the financial statements, the case is still under court proceeding. The Company considers that the possibility of winning this lawsuit is high, so there is no need to recognised any provisions for the lawsuit.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(27) Deferred income

	31 December 2018	31 December 2017
Government grants	**10,253,059**	10,556,851

Government grants projects	31 December 2017	Amount charged to other operation revenue/other gains	**31 December 2018**	**Related to assets/income**
The expantion project of the inpatient building (i)	10,556,851	(303,792)	**10,253,059**	**Related to assets**

(i) The deferred income related to the assets is the government grant of RMB 10,632,800 for the expansion project of the inpatient building of the Company received from Wenzhou Financial Bureau in 2013. The Company credited it into the deferred income when receiving the grant and allocate it over the useful life of the assets to the income statements since the buildings was in use.

(28) Share capital

	31 December 2017	Increase (Note 9)	31 December 2018
Share capital	73,040,000	2,460,000	75,500,000

Pursuant to the shareholders' approval on 13 June 2018, the Company issued 2,460,000 domestic Stocks for employee share incentive plan(Note 9). These funds are received on 4 September 2018, which is audited by Grant Thornton (Limited Liability Partnership) Hangzhou Branch through the capital verification report (2018) No. 330FC0005.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(29) Capital surplus

	31 December 2017	Increase	Decrease	**31 December 2018**
Share premium(i)	760,572,782	21,297,256	(3,597,311)	**778,272,727**
Other capital surplus				
– Share-based payment(Note 9)	5,720,813	2,372,415	(1,847,256)	**6,245,972**
– Others(ii)	41,950,591	910,596	—	**42,861,187**
	808,244,186	24,580,267	(5,444,567)	**827,379,886**

(i) Pursuant to the shareholders' approval on 13 June 2018, the Company issued 2,460,000 domestic stocks for share incentive plan at RMB10.47 per share for employees. As at 31 December 2018, employees paid RMB21,910,000, of which RMB2,460,000 was recognised as share capital and RMB19,450,000 in capital reserve -share premium (Note 9).

In 2018, the Group purchased 14.78% equity of Zhejiang Huangfeng Hospital Management Co., Ltd. ("Zhejiang Huangfeng Company") from its minority shareholders. The difference between the consideration paid and the share of net assets acquired at the purchase date was deducted in capital surplus.

(ii) The increase during the year representated the dilution gain based on the decreased of the equity shares in Chengdu Yining(Note4(8)) due to the transaction of the capital injection from new investors. .

(30) Surplus reserve

	31 December 2017	Appropriation	Decrease	**31 December 2018**
Statutory surplus reserve	23,710,012	6,271,022	—	**29,981,034**

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(31) Retained earning

	Year ended 31 December 2018	2017
Retained earnings at beginning of year(previous reported)	**146,840,254**	121,190,550
Change in accounting policy (Note2(28))	**(164,301)**	—
Retained earnings at beginning of year(Restated)	**146,675,953**	121,190,550
Add: Net profit attributable to shareholders of the parent company	**80,595,677**	49,070,774
Less: Appropriation to statutory surplus reserve	**(6,271,022)**	(5,161,070)
Ordinary share dividends paid	**(10,956,000)**	(18,260,000)
Retained earnings at end of the year	**210,044,608**	146,840,254

(a) In 2018, retained earnings at beginning of year were adjusted by RMB164,301 upon the adoption of the New Revenue Standard and the New Financial Instrument Standards (Note 2(28)).

(b) Pursuant to the shareholders' approval on 13 June 2018, the Company declared a 2017 final cash dividend of RMB10,956,000, being RMB 0.15 per share for issued and outstanding shares of 73,040,000.

Pursuant to the resolution of the Board of Directors on 25 March 2019, the directors proposed a cash dividend of RMB11,325,000, being RMB0.15 per share for issued and outstanding shares of 75,500,000. The proposed dividend is subject to shareholders' approval(Note 11).

(32) Revenue and cost of sales

	Year ended 31 December 2018		Year ended 31 December 2017	
	Revenue	Cost	Revenue	Cost
Main businesses	**726,399,201**	**485,028,916**	546,561,325	354,933,687
Other businesses	**19,572,687**	**8,700,720**	119,874,203	94,398,215
	745,971,888	**493,729,636**	666,435,528	449,331,902

Notes to the Financial Statements
For the year ended 31 December 2018
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4. Notes to the consolidated financial statements (continued)

(32) Revenue and cost of sales (continued)

(a) Revenue and cost of sale from main businesses

	Year ended 31 December 2018		Year ended 31 December 2017	
	Revenue	**Cost**	Revenue	Cost
Pharmaceutical sales	**167,103,194**	**140,329,511**	130,681,392	107,405,332
Treatments and general healthcare services	**539,548,284**	**331,883,344**	389,493,815	235,838,816
Management service fee	**19,747,723**	**12,816,061**	26,386,118	11,689,539
	726,399,201	**485,028,916**	546,561,325	354,933,687

(b) Revenue and cost of sale from other businesses

	Year ended 31 December 2018		Year ended 31 December 2017	
	Revenue	**Cost**	Revenue	Cost
Real estate sales	**9,471,045**	**7,260,685**	111,196,703	93,079,858
Rental income	**7,568,944**	**—**	6,359,631	—
Others	**2,532,698**	**1,440,035**	2,317,869	1,318,357
	19,572,687	**8,700,720**	119,874,203	94,398,215

(33) Taxes and surcharges

	Year ended 31 December 2018		
	2018	2017	Basis
Land value-added tax	**845,222**	6,728,017	Referred to Note3
Property tax	**4,139,967**	2,098,736	Referred to Note3
City maintenance and construction tax	**134,982**	443,794	Referred to Note3
Educational surcharge	**57,691**	190,250	Referred to Note3
Others	**542,339**	319,516	
	5,720,201	9,780,313	

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(34) Expenses by nature

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

	Year ended 31 December	
	2018	2017
Employee and welfare benefits	**221,649,507**	162,460,177
Pharmaceutical and medical consumables used	**179,200,817**	134,266,394
Cost of real estate sold	**7,260,685**	93,079,858
Depreciation of fixed assets	**28,914,368**	18,634,133
Amortisation of intangible assets	**9,933,744**	7,695,722
Amortisation of long-term prepayment	**24,113,944**	19,048,439
Operating lease expenses	**32,065,307**	34,826,630
Canteen expenditure	**25,331,355**	17,401,136
Consumables	**14,021,346**	12,718,189
Outsourcing expenses	**4,049,315**	2,637,244
Testing fee	**14,092,852**	9,975,292
Consulting expense	**7,497,157**	7,274,448
Auditor's remuneration		
– Audit services	**3,000,000**	4,050,000
– Non - audit services	**70,096**	68,000
Promotion expenses	**2,637,078**	1,752,173
Travelling expenses	**5,930,695**	4,649,589
Office expenses	**6,047,780**	3,908,563
Share-based payment(Note 9)	**2,372,415**	412,805
Others	**14,417,462**	7,979,530
	602,605,923	542,838,322

Notes to the Financial Statements

For the year ended 31 December 2018
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4. Notes to the consolidated financial statements (continued)

(35) Finance expenses-net

	Year ended 31 December	
	2018	2017
Net exchange (income)/loss	**(4,073,649)**	14,930,009
Interest income	**(3,682,615)**	(4,959,972)
Interest expense	**12,684,236**	14,161,353
Less: capitalised interest	**(3,833,934)**	(5,789,949)
The amortization of unrecognized financial expenses(i)	**5,510,700**	5,464,500
Others	**566,509**	456,684
	7,171,247	24,262,625

(i) The amount represented the unwinding of discount on long-term payables being calculated using effective interest rate method.(Note 4(26))

(36) Assets impairment losses

	Year ended 31 December	
	2018	2017
Bad debts provision	**—**	15,395,088
Goodwill impairement losses	**4,823,557**	3,709,832
	4,823,557	19,104,920

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(37) Credit impairment losses

	Year ended 31 December	
	2018	2017
Credit impairment losses for accounts receivable	**18,541,921**	—
Credit impairment losses for other receivables	**154,059**	—
Total	**18,695,980**	—

(38) Investment losses/(Income)

	Year ended 31 December	
	2018	2017
Share of losses of investees under the equity accounting method (Note4(8))	**10,029,269**	6,461,760
Gain from disposal of long-term equity investment (i)	**(1,726,776)**	(350,000)
	8,302,493	6,111,760

(i) After the acquisition of 20% equity by the Group in Heze Yining Hospital in December 2018, the Group obtain control of Heze Yining hospital through a step acquisition(Note 4(8)(a)(iii)). The 31% equity of Heze Yining Hospital previously held before the purchase date were re-messure to the fair value on the purchase date, and the difference between the fair value and the carrying amount was recognised in investment income.

In 2017, the investment income of RMB350,000 was generated by the Group's disposal of 3.5% stake in Hangzhou Anken Information Technology.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(39) Other gains

	Year ended 31 December		Revalant to
	2018	2017	assets/income
Subsidy for resident doctors standardized training (i)	**2,010,000**	1,020,000	Relavant to income
Private medical institutions award (ii)	**3,908,500**	5,398,600	Relavant to income
Individual income tax refund	**2,094,077**	2,492,863	Relavant to income
Others	**525,658**	506,000	Relavant to assets/income
	8,538,235	9,417,463	

(i) The Company received the government grant of RMB 2,010,000 from Wenzhou Finance Bureau in April 2018, according to the Notes on Payment of General Transfer Subsidy for Health and Family Planning in 2018 issued by Wenzhou Health and Family Planning Commission.

(ii) According to the Implementation Opinion of Qingtian County on Accelerate the development of private medical institutions and the Notes on the measures for declaring municipal award and subsidy funds for the comprehensive reform pilot of private medical institutions (Wen Wei Cai [2013] No. 312) and Shi Zheng Fu [2014] No. 243,the Company received government grant of RMB 3,908,500 for hospital beds in 2018.

(40) Non-operating income

	Year ended 31 December	
	2018	2017
Government grants	**6,713,886**	9,618,421
Others	**468,186**	196,179
	7,182,072	9,814,600

Notes to the Financial Statements

For the year ended 31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(41) Non-operating expenses

	Year ended 31 December	
	2018	2017
Written-off of long-term prepaid expenses	—	7,214,824
Donation to charities	**5,254,412**	4,165,610
Medical liability compensation cost	**292,800**	1,103,637
Others	**494,763**	717,574
	6,041,975	13,201,645

(42) Income tax expenses

	Year ended 31 December	
	2018	2017
Current income tax	**39,910,885**	30,123,517
Deferred income tax	**(7,969,845)**	(8,096,600)
	31,941,040	22,026,917

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

	Year ended 31 December	
	2018	2017
Profit before tax	**106,910,268**	69,862,675
Income tax expenses calculated at the effect tax rate of 25%	**26,727,567**	17,465,669
Expenses not deductible for tax purposes	**3,898,294**	3,741,704
Adjustment of income tax	**2,553,569**	579,395
Tax deduction of Research and development expenditure	**(850,617)**	—
Income not subject to tax	—	(42,417)
Tax effect of unrecognized tax losses	**26,321**	415,248
Tax effect of unrecognized temporary differences	—	207,837
Utilization of previous unrecognized tax losses	**(414,094)**	(340,519)
Income tax expenses	**31,941,040**	22,026,917

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(43) Earning per share

(a) Basic earning per share

	Year ended 31 December	
	2018	2017
The profit attributed to the ordinary shareholders of the Company(i)	**80,226,677**	49,070,774
Weighted average number of outstanding ordinary shares of the Company(i)	**73,040,000**	73,040,000
Basic earning per share	**1.10**	0.67

(i) As stated in Note 9, the Company issued 2,460,000 shares for the employee stock incentive after being approved by shareholders'meeting on 13 June 2018. As these stocks are regarded as treasury stock according to 'Interpretation of Accounting Standard for Business Enterprises No. 7' issued by MoF, the consolidated net profit attributed to owners of the parent company has deducted RMB369,000 of cash dividend currently distributed to the holders of the expected future unlockable restricted stocks when calculating the basic earnings per share in 2018. The company has deducted 2,460,000 restricted shares from the number of ordinary shares issued and outstanding.

(b) Diluted earning per share

Diluted earning per share is calculated by the profit attributed to the ordinary shareholders of the Company adjusted by the potential shares divided by the adjusted weighted average number of ordinary shares. In 2018, the profit attributed to the ordinary shareholders of the Company is RMB80,595,677 after the company's adjusted it based on the dilutive potential common shares. The adjusted weighted average of common shares issued by the company is 73,849,076, and the diluted earning per share is 1.09. The Company did not have any potential dilutive shares throughout the year ended 31 December 2017. Accordingly, diluted earning per share for 2017 is the same as the basic earnings per share.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

(44) Supplementary information to the statement of cash flows

(a) Supplementary information to the statement of cash flows

Reconciliation from net profit to cash flows from operating activities

	Year ended 31 December	
	2018	2017
Net profit	**74,969,228**	47,835,758
Add: Asset impairment losses	**4,823,557**	19,104,920
Credit impairment losses	**18,695,980**	—
Depreciation of fixed assets	**28,914,368**	18,634,133
Amortisation of intangible assets	**9,933,744**	7,695,722
Amortisation of long-term prepaid expenses	**24,113,944**	19,048,439
Net losses on disposal of fixed assets,intangible assets and other long-term assets	**1,420,551**	505,331
Net losses on disposal of long-term prepaid expense	**—**	7,214,824
Finance expenses	**6,604,738**	20,058,641
Investment loss	**8,302,493**	6,111,760
Decrease in deferred income	**(303,792)**	(75,949)
Increase in deferred tax assets	**(7,104,335)**	(2,271,561)
Decrease in deferred tax liabilities	**(865,510)**	(6,479,054)
Decrease in inventories	**3,284,122**	45,574,109
Share-based payment expense	**2,372,415**	412,805
Increase in operating receivables	**(84,326,090)**	(86,592,974)
Decrease in operating payables	**(24,314,885)**	(15,277,985)
Net cash flows generated from operating activities	**66,520,528**	81,498,919

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

For the year ended 31 December 2018, there is no significant non-cash transactions in investing and financing activities.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

4. Notes to the consolidated financial statements (continued)

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

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

The net change of the cash

	Year ended 31 December 2018	2017
Cash at end of the year	**187,066,694**	237,538,659
Less: Cash at beginning of the year	**(237,538,659)**	(407,163,542)
Net decrease in cash and cash equivalents	**(50,471,965)**	(169,624,883)

(b) Acquisition of subsidiaries

	2018
Cash and cash equivalents paid for business combinatiom in the current year	**18,290,000**
Including: Heze Yining Hospital	**1,580,000**
Guanxian Yining Hospital	**—**
Wenling Nanfang Hospital	**6,000,000**
Nanjing Yining Hospital	**10,710,000**
Less: cash and cash equivalents held by subsidiaries on the date of purchase	**(769,804)**
Including: Heze Yining Hospital	**(301,276)**
Guanxian Yining Hospital	**(468,528)**
Net cash and cash equivalents paid for business combination	**17,520,196**

(c) Cash and cash equivalents

	31 December 2018	31 December 2017
Cash on hand		
Including: Cash	**657,361**	466,947
Cash at bank that can be readily drawn on demand	**186,170,534**	237,034,362
Other cash balances	**238,799**	37,350
Cash at end of the year	**187,066,694**	237,538,659

Notes to the Financial Statements

For the year ended 31 December 2018
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5. Changes in the consolidation scope

A wholly-owned subsidiary Wenzhou Tianzhentang Chinese Medicine Clinic Co., Ltd ("Tianzhentang") was set up on 23 January 2018 with a registered capital of RMB5,000,000.

Zhejiang Huangfeng Company, a subsidiary of the Company, set up a wholly-owned subsidiary Pujiang Yining Huangfeng Hospital Co., Ltd. ("Pujiang Yining Huangfeng Hospital") on 3 September 2018, with a registered capital of RMB10,000,000.

On 1 July 2018 (delivery date), a subsidiary of the Group Zhejiang Kangning purchased 20% of the shares of Wenling Nanfang Hospital held by individual shareholders, at a price of RMB 6,000,000. At the same time, Zhejiang Kangning invested RMB7,530,000 to subscribe for 31% of the total shares of Wenling Nanfang Hospital. The Group held 51% of the shares of Wenling Nanfang Hospital upon completion of the transaction.

On 23 July 2018, Zhejiang Kangning entered into an equity transfer agreement with the individual shareholders of Nanjing Yining Hospital to purchase 51% of the shares of Nanjing Yining Hospital, at a price of RMB10,710,000.

On 4 December 2018, Zhejiang Kangning entered into an equity transfer agreement with Heze Yining Hospital and Shandong Yining Hospital to purchase 20% equity of Heze Yining Hospital held by Shandong Yining Hospital, at a price of RMB 6,600,000. The Group held 51% of the equity of Heze Yining Hospital upon completion of the transaction.

On 21 December 2018, Zhejiang Kangning entered into an equity transfer agreement with the shareholders of Shandong Yining Hospital and Liaocheng Lizhen Healthcare Science and Technology Consulting Co., Ltd. ("Liaocheng Lizhen"), to purchase 51% and 37% of the shares of Shandong Yining Hospital, at a price of RMB5,610,000 and RMB4,070,000 respectively. The Group held 88% of the equity of Guanxian Yining Hospital upon completion of the transaction.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

5. Changes in the consolidation scope (continued)

(1) Business combination involving enterprises not under common control

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

Acquiree	Date of addition	Purchase consideration	% of equity interest	Date of acquisition	Basis for acquisition	Revenue of the acquiree from the date of acquisition to the end of the period	Net loss of the acquiree from the date of acquisition to the end of the period	Cash flows used in operating activities of the acquiree from the date of acquisition to the end of the period	Net cash outflow of the acquiree from the date of acquisition to the end of the period
Wenling Nanfang Hospital	1 July 2018	13,530,000	51%	1 July 2018	transaction was completed	6,338,386	742,525	158,799	1,115,934
Nanjing Yining Hospital	31 August 2018	10,710,000	51%	31 August 2018	transaction was completed	993,700	(419,404)	(695,703)	1,191,417
Guanxian Yining Hospital	31 December 2018	9,680,000	88%	31 December 2018	transaction was completed	–	–	–	–
Heze Yining Hospital	30 November 2018	6,600,000	20%	30 November 2018	transaction was completed	831,477	(374,052)	878,837	627,808

(b) Consideration and goodwill are analysed as follows:

	Wenling Nanfang Hospital	Nanjing Yining Hospital	Guanxian Yining Hospital	Heze Yining Hospital
Consideration				
Cash	13,530,000	10,710,000	9,680,000	6,600,000
Fair value of non-cash assets transferred	—	—	—	9,159,986
Total consideration	13,530,000	10,710,000	9,680,000	15,759,986
Less: the fair value of the identifiable net assets acquired	(5,745,150)	(1,438,200)	(8,130,977)	(15,069,654)
Goodwill	7,784,850	9,271,800	1,549,023	690,332

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

5. Changes in the consolidation scope (continued)

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

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

(i) Wenling Nanfang Hospital

	Acquisition date Fair value	Acquisition date Carrying amounts	31 December 2017 Carrying amounts
Accounts receivable	7,530,000	7,530,000	—
Intangible assets	4,980,000	—	—
Deferred tax liabilities	(1,245,000)	—	—
Net assets	11,265,000	7,530,000	—
Less: minority interests	(5,519,850)	(3,689,700)	—
Net assets acquired	5,745,150	3,840,300	—

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

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

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5. Changes in the consolidation scope (continued)

(1) Business combination involving enterprises not under common control (continued)

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

(ii) Nanjing Yining Hospital

	Acquisition date Fair value	Acquisition date Carrying amounts	31 December 2017 Carrying amounts
Intangible assets	3,760,000	—	—
Deferred tax liabilities	(940,000)	—	—
Net assets	2,820,000	—	—
Less: minority interests	(1,381,800)	—	—
Net assets acquired	1,438,200	—	—

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

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

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5. Changes in the consolidation scope (continued)

(1) Business combination involving enterprises not under common control (continued)

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

(iii) Guanxian Yining Hospital

	Acquisition date Fair value	Acquisition date Carrying amounts	31 December 2017 Carrying amounts
Cash and cash equivalents	468,528	468,528	4,820,200
Accounts receivable	2,117,761	2,117,761	2,085,049
Inventories	166,596	166,596	517,163
Prepayment	937,086	937,086	980,486
Fixed assets	1,477,408	1,477,408	1,246,490
Intangible assets	6,426,933	66,933	97,250
Deferred tax assets	1,843,418	1,843,418	—
Other non-current assets	701,547	701,547	1,174,466
Less:borrowings	(1,000,000)	(1,000,000)	—
Accounts payable	—	—	(216,504)
Contract liability	(22,200)	(22,200)	(10,800)
Employee benefits payable	(598,133)	(598,133)	(219,273)
Other liabilities	(1,689,197)	(1,689,196)	(844,013)
Deferred tax liabilities	(1,590,000)	—	—
Net assets	9,239,747	4,469,748	9,630,514
Less: minority interests	(1,108,770)	(536,370)	(1,155,662)
Net assets acquired	8,130,977	3,933,378	8,474,852

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

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

5. Changes in the consolidation scope (continued)

(1) Business combination involving enterprises not under common control (continued)

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

(iv) Heze Yining Hospital

	Acquisition date Fair value	Acquisition date Carrying amounts	31 December 2017 Carrying amounts
Cash and cash equivalents	301,276	301,276	8,424,053
Accounts receivable	1,852,157	1,852,156	400,000
Inventories	398,804	398,804	7,600
Prepayment	222,155	222,155	534,952
Fixed assets	3,082,187	3,082,186	283,862
Intangible assets	7,427,000	—	—
Deferred tax assets	2,007,302	2,007,302	—
Long-term prepaid expenses	23,371,325	23,371,326	12,777,990
Less:borrowings	(3,494,000)	(3,494,000)	—
Contract liability	(24,650)	(24,650)	—
Employee benefits payable	(394,746)	(394,746)	(82,493)
Other liabilities	(3,343,721)	(3,343,717)	(19)
Deferred tax liabilities	(1,856,750)	—	—
Net assets	29,548,339	23,978,092	22,345,945
Less: minority interests	(14,478,686)	(11,749,265)	(10,949,513)
Net assets acquired	15,069,653	12,228,827	11,396,432

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

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

Notes to the Financial Statements

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6. Interests in other entities

(1) Interests in subsidiaries

(a) The Group structure

Name of the subsidiaries	Major business location	Place of registration	Nature of business	Shareholding (%)		Method of acquisition
				Direct	Indirect	
Qingtian Kangning Hospital	Qingtian	Qingtian	Medical service	100%	—	Incorporation
Cangnan Kangning Hospital	Cangnan	Cangnan	Medical service	100%	—	Incorporation
Yongjia Kangning Hospital	Yongjia	Yongjia	Medical service	100%	—	Incorporation
Yueqing Kangning Hospital	Yueqing	Yueqing	Medical service	100%	—	Incorporation
Linhai Kangning Hospital	Yueqing	Yueqing	Medical service	80%	—	Incorporation
Langfang Yining Hospital Management ("Langfang Yining)	Langfang	Langfang	Hospital Management	100%	—	Incorporation
Zhejiang Huangfeng	Hangzhou	Hangzhou	Hospital Management	51.22%	—	Asset acquisition
Judicial Forensic Center	Wenzhou	Wenzhou	Forensic psychiatric identification	100%	—	Incorporation
Shenzhen Yining Medical Investment ("Shenzhen Yining Investment")	Shenzhen	Shenzhen	Investment	100%	—	Incorporation
Shenzhen Yining Hospital	Shenzhen	Shenzhen	Medical service	—	52%	Incorporation
Sihui Kangning Hospital Co., Ltd ("Sihui Kangning Hospital")	Sihui	Sihui	Medical service	—	51%	Incorporation
Zhejiang Kangning	Ningbo	Ningbo	Hospital Management	100%	—	Incorporation
Hangzhou Yining Hospital	Hangzhou	Hangzhou	Medical service	—	60%	Incorporation
Quzhou Yining Hospital	Quzhou	Quzhou	Medical service	—	60%	Incorporation
Wenzhou Yining Geriatric Hospital	Wenzhou	Wenzhou	Medical service	—	100%	Incorporation
Pingyang Kangning Hospital	Pingyang	Pingyang	Medical service	—	100%	Incorporation
Taizhou Kangning Hospital	Taizhou	Taizhou	Medical service	—	51%	Business combinations involving enterprises not under common control
Wenzhou Guoda Investment	Wenzhou	Wenzhou	Real estate	—	75%	Business combinations involving enterprises not under common control
Luqiao Cining Hospital	Taizhou	Taizhou	Medical service	—	51%	Incorporation
Yiwu Kangning Hospital Management	Yiwu	Yiwu	Hospital Management	—	100%	Incorporation
Hangzhou Cining Hospital	Hangzhou	Hangzhou	Medical service	—	100%	Incorporation
Wenzhou Tianzhentang	Wenzhou	Wenzhou	Medical service	—	100%	Incorporation
Pujiang Yining Huangfeng Hospital	Jinghua	Jinghua	Medical service	—	66%	Incorporation
Wenling Nanfang Hospital	Taizhou	Taizhou	Medical service	—	51%	Business combinations involving enterprises not under common control
Nanjing Yining Hospital	Nanjing	Nanjing	Medical service	—	51%	Business combinations involving enterprises not under common control
Heze Yining Hospital	Heze	Heze	Medical service	—	51%	Business combinations involving enterprises not under common control
Guanxian Yining Hospital	LIaocheng	LIaocheng	Medical service	—	88%	Business combinations involving enterprises not under common control

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For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

6. Interests in other entities (continued)

(1) Interests in subsidiaries (continued)

(b) Non-controlling interests

	31 December 2018	31 December 2017
Hangzhou Yining Hospital	10,067,491	13,844,620
Quzhou Yining Hospital	8,424,991	5,027,733
Shenzhen Yining Hospital	13,116,462	7,371,653
Wenzhou Guoda Investment	13,612,308	14,610,786
Zhejiang Huangfeng	10,533,224	13,777,235
Taizhou Kangning Hospital	2,779,948	1,380,827
Others	25,743,404	2,649,509
	84,277,828	58,662,363

(c) Subsidiaries with significant non-controlling interests

Subsidiaries	Shareholding % of non-controlling shareholders	Net profit or loss attributable to non-controlling shareholders for year ended 31 December 2018	Non-controlling interests as at 31 December 2018
Wenzhou Guoda Investment	25%	(998,478)	13,612,308
Shenzhen Yining Hospital	48%	(1,455,191)	13,116,462
Zhejiang Huangfeng	34%	(913,181)	10,533,224
Hangzhou Yining	40%	(3,777,129)	10,067,491
		(7,143,979)	47,329,485

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

6. Interests in other entities (continued)

(1) Interests in subsidiaries (continued)

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

The summarised financial information of the above subsidiaries of the Group is listed below:

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

	Year ended 31 December 2018			
	Revenue	Net loss	Total comprehensive income	Cash flows from operating activities
Wenzhou Guoda Investment	16,930,448	(3,993,911)	(3,993,911)	60,098,732
Shenzhen Yining	22,770,236	(3,031,647)	(3,031,647)	4,676,387
Zhejiang Huangfeng	3,887,830	(2,738,363)	(2,738,363)	(978,414)
Hangzhou Yining	690,744	(9,442,822)	(9,442,822)	(7,169,131)
	44,279,258	(19,206,743)	(19,206,743)	56,627,574

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For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

6. Interests in other entities (continued)

(1) Interests in subsidiaries (continued)

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

The summarised financial information of the above subsidiaries of the Group is listed below: (continued)

	31 December 2017					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Zhejiang Huangfeng	22,595,017	21,140,780	43,735,797	663,571	—	663,571
Wenzhou Guoda Investment	32,137,461	165,950,590	198,088,051	77,795,170	9,941,379	87,736,549
Hangzhou Yining	19,808,940	16,915,496	36,724,436	2,112,883	—	2,112,883
	74,541,418	204,006,866	278,548,284	80,571,624	9,941,379	90,513,003

	Year ended 31 December 2017			
	Revenue	Net profit/(loss)	Total comprehensive income	Cash flows from operating activities
Zhejiang Huangfeng	4,556,828	1,594,522	1,594,522	(128,469)
Wenzhou Guoda Investment	117,517,585	8,962,025	8,962,025	13,394,994
Hangzhou Yining	—	(5,117,823)	(5,117,823)	(2,538,344)
	122,074,413	5,438,724	5,438,724	10,728,181

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

6. Interests in other entities (continued)

(2) Interests in associates

(a) Summarised information of significant associates

	Principal Place of Business	Registry Place	Bustiness Nature	Is it Strategic to Group Business	Shareholding ratio	
					Direct	Indirect
Chengdu Yining	Chengdu	Chengdu	Medical Service	No	—	24%
Shanxi Shanda	Xi'an	Xi'an	Hospital management	No	—	30%

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

(b) Financial information of significant associates

	Year ended 31 December 2018	
	Chengdu Yining	Shanxi Shanda
Current assets	9,758,005	30,077,967
Non-current assets	54,414,823	47,166,506
Total assets	64,172,828	77,244,473
Total liabilities	19,738,345	9,808,123
Equtiy attributable to shareholders of company	44,434,483	67,436,350
Net asset proportion calculated by shareholding ratio(i)	10,664,276	20,230,905
Adjustment		
– Goodwill	5,024,000	4,494,286
– Other	99,975	—
The Carrying amount of equity investment in the associates	15,788,251	24,725,191

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For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

6. Interests in other entities (continued)

(2) Interests in associates (continued)

(b) Financial information of significant associates (continued)

	Year ended 31 December 2018	
	Chengdu Yining	**Shanxi Shanda**
Revenue	**1,528,541**	**16,307,931**
Net Profit and total comprehensive income	**(11,136,779)**	**(1,926,430)**

(i) The Group used equity accounting method based on the amount attributable to the parent in the associates's consolidated financial statements. The amounts on the associate's consodidated financial statement take into account adjustments on the fair value of identifiable assets and liabilities when obtaining the investment and the effects of the uniform accounting policies into consideration.

(c) Summarised information of insignificant associates

The name of the associates of the Company were stated as in Note4(8).

	Year ended 31 December	
	2018	2017
Aggregated carrying amount of investments	**59,808,541**	46,830,263
Aggregated of the following items in proportion:		
Net loss (i)	**(6,778,513)**	(5,251,077)
Total comprehensive income	**(6,778,513)**	(5,251,077)

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

7. Segment information

The reportable segments of the Group are the business units that provide different services. Different businesses require different technologies and marketing strategies. The Group, therefore, independently manages the productions and operations of reportable segments and evaluates their operating results, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Group has two operating segments:

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

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

There is no inter-segment sales during the year.

The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Indirect income attributed to each segment are allocated based on the revenue ratio of the segment.

(a) The segment information for the year ended 31 December 2018 is as bellow:

	Healthcare and related service	Property investment and development	Total
Revenue from external customers	729,041,440	16,930,448	745,971,888
Cost of revenue	(486,468,951)	(7,260,685)	(493,729,636)
Interest income	3,668,077	14,538	3,682,615
Interest expenses	(3,100,878)	(5,749,424)	(8,850,302)
Investing profit in associates	(8,302,493)	—	(8,302,493)
Asset impairment losses	—	(4,823,557)	(4,823,557)
Credit impairment losses	(19,148,498)	452,518	(18,695,980)
Depreciation and amortisation	(61,347,664)	(1,614,392)	(62,962,056)
Profit before income tax	114,489,149	(7,578,881)	106,910,268
Income tax expense	(30,702,453)	(1,238,587)	(31,941,040)
Net profit	83,786,696	(8,817,468)	74,969,228
Total assets	1,658,588,239	182,135,796	1,840,724,035
Total liabilities	(508,418,135)	(127,032,544)	(635,450,679)
Investment in associates	100,321,983	—	100,321,983
Additions of non-current assets (i)	135,248,334	(540,025)	134,708,309

(i) The amount exclude the financial assets, long-term equity investment and deferred tax asstes.

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

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

8. Related parties and related party transactions

(1) General information of the Company

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

(2) The information of the subsidiaries

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

(3) The information of other related party

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

	Relationship
Yiwu Jingwei	Not-for profit organisation invested and council members nominated by the Company
Zhejiang Tianqu Environment Construction Co., Ltd.	Non-controlling shareholders of subsidiaries
Shandong Furen Hospital Management Co., Ltd.	Non-controlling shareholders of subsidiaries
Xu Chenfa	Non-controlling shareholders of subsidiaries
Chen Xianfa	Non-controlling shareholders of subsidiaries
Qu Kaisheng	Non-controlling shareholders of subsidiaries
Huang Chen	Non-controlling shareholders of subsidiaries
Yanjiao Furen Hospital	Not-for profit organisation invested and council members nominated by the Company
Other Individuals	the near relative of directors, supervisors and senior managements

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

8. Related parties and related party transactions (continued)

(4) Related party transactions

(a) Pricing policies

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

(b) Revenue from providing healthcare and management services

	Year ended 31 December	
	2018	2017
Yiwu Jingwei	**3,000,000**	2,250,000
Yanjiao Furen Hospital	**373,624**	—
Other Individuals	**548,306**	222,485
	3,921,930	2,472,485

(c) Rental expenses

	Year ended 31 December	
	2018	2017
Zhejiang Tianqu Environment Construction Co., Ltd.	**1,037,328**	—
Other Individuals	**—**	28,800
	1,037,328	28,800

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

8. Related parties and related party transactions (continued)

(4) Related party transactions (continued)

(d) Payments on behalf of related parties

	Year ended 31 December	
	2018	2017
Hangzhou Anken Information Technology	**—**	1,652,193
Non-for-profit organisation established by the Company	**1,312,205**	2,666,365
Beijing Yining Hospital	**179,057**	506,213
Yiwu Mental Health Center	**—**	1,701,300
Chengdu Yining Hospital	**2,665,101**	35,438
Chongqing Hechuan Kangning Hospital Co., ltd	**—**	66,958
Huainan Kangning Hospital	**911,600**	—
Yanjiao Furen Hospital	**9,319,230**	—
	14,387,193	6,628,467

(e) Payments by the related parties on behalf of the Group

	Year ended 31 December	
	2018	2017
Hangzhou Anken Information Technology	**90,226**	—
Chen Xianfa	**—**	300,000
Qu Kaisheng	**—**	864,945
	90,226	1,164,945

(f) Payments for related parties on organization costs

	Year ended 31 December	
	2018	2017
Hangzhou City Yuhang District Yining Disabled Nursing Center	**—**	100,000

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

8. Related parties and related party transactions (continued)

(4) Related party transactions (continued)

(g) Key management compensation

	Year ended 31 December	
	2018	2017
Salaries and bonus	**4,163,800**	4,128,977
Share-based payment expense	**459,935**	412,805
	4,623,735	4,541,782

(h) Accepting the guarantee

	Year ended 31 December	
	2018	2017
Guan Weili\Wang Lianyue\Wang Hongyue	**185,000,000**	252,000,000
Guan Weili\Wang Lianyue	**—**	44,000,000
	185,000,000	296,000,000

(i) Transfer of assets

	Year ended 31 December	
	2018	2017
Guan Weilu	**1,730,715**	—

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

8. Related parties and related party transactions (continued)

(5) **Balances with related parties** (continued)

(a) Receivables

	31 December 2018		31 December 2017	
	Balances	**Provision for bad debts**	Balances	Provision for bad debts
Accounts receivable				
Yiwu Mental Health Center	**5,250,000**	**(420,000)**	2,250,000	(112,500)
Yanjiao Furen Hospital	**1,499,917**	**(142,573)**	—	—
	6,749,917	**(562,573)**	2,250,000	(112,500)
Other receivables				
Beijing Yining Hospital	**179,057**	**(8,953)**	—	—
Chengdu Yining Hospital	**6,183,117**	**(309,156)**	955,686	(83,315)
Huainan Kangning Hospital	**911,600**	**(45,580)**	—	—
Yanjiao Furen Hospital	**7,012,380**	**(350,619)**	—	—
Not-for-profit organisations established by the Group	**3,684,137**	**(184,207)**	2,438,181	(98,458)
	17,970,291	**(898,515)**	3,393,867	(181,773)

Notes to the Financial Statements

For the year ended 31 December 2018
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8. Related parties and related party transactions (continued)

(5) **Balances with related parties** (continued)

(b) Payables

		31 December 2018	31 December 2017
Long-term Payables	Yanjiao Furen Hospital	**86,645,200**	—
Other Payables	Hangzhou Anken InformationTechnology	**124,453**	34,227
	Chen Xianfa	**—**	300,000
	Qu Kaisheng	**4,274,945**	4,274,945
	Huang Chen	**2,159,583**	—
	Shandong Yi Ning Hospital Management Co., Ltd.	**14,700,000**	—
	Shandong Furen Hospital Management Co., Ltd.	**3,015,289**	—
	Xu Chengfa	**500,000**	—
	Zhejiang Tianqu Environment Construction Co., Ltd.	**2,137,083**	—
	Yiwu Mental Health Center	**—**	15,000,000
		26,911,353	19,609,172

Notes to the Financial Statements

For the year ended 31 December 2018
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8. Related parties and related party transactions (continued)

(6) Key management compensation

(a) Emoluments of the directors, supervisor and senior management of the Company

As for 2018, The compensation paid to key management for employee services is shown below :

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

Notes to the Financial Statements

For the year ended 31 December 2018
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8. Related parties and related party transactions (continued)

(6) Key management compensation (continued)

(a) Emoluments of the directors, supervisor and senior management of the Company (continued)

As for 2017, The compensation paid to key management for employee services is shown below.

Name	Fees	Salaries	Contributions to pension plans	Bonus	Other staff welfare expenses	Total
Executive directors(i)						
Guan Weili	—	396,435	21,722	69,416	33,530	521,103
Wang Lianyue	—	324,435	21,722	69,416	33,530	449,103
Wang Hongyue	—	181,635	21,722	69,416	29,210	301,983
Non- Executive directors(i)						
Lin Lijun	—	—	—	—	—	—
Yang Yang	—	—	—	—	—	—
Independent directors						
Ge Chuangji	70,000	—	—	—	—	70,000
Zhuang Yiqiang	70,000	—	—	—	—	70,000
Huang Zhi	70,000	—	—	—	—	70,000
Supervisiors						
Sun Fangjun	—	120,435	—	69,013	—	189,448
Xie Tiefan	—	47,829	9,408	52,067	10,566	119,870
Huang Jinou	—	—	—	—	—	—
Qian Chengliang	—	—	—	—	—	—
Ma Jinlong	—	—	—	—	—	—
Total	210,000	1,070,769	74,574	329,328	106,836	1,791,507

Notes to the Financial Statements

For the year ended 31 December 2018
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8. Related parties and related party transactions (continued)

(6) Key management compensation (continued)

(a) Emoluments of the directors, supervisor and senior management of the Company (continued)

	For our company or subsidiary Providing Director Services		For our company or subsidiary Providing other Services		Total	
	2018	2017	**2018**	2017	**2018**	2017
Compensation	**—**	—	**1,271,184**	1,272,189	**1,271,184**	1,272,189

(i) There is no waiver of remuneration by directors in 2018 (2017: Nill)

Other welfare mainly include housing funds.

(7) The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 included one directors (2017: one)whose emouluments were reflected in the analysis shown in the table above. The emoluments payable to the remaining four (2017: four) individuals during the year are as follows:

	Year ended 31 December	
	2018	2017
Salaries, bonus and other allowance	**2,395,124**	2,309,187
Contributions to pension plans	**140,795**	40,664
	2,535,919	2,349,851

The emoluments fell within the following bands

	Year ended 31 December	
	2018	2017
Range:		
RMB0 – 500,000	**—**	—
RMB500,000 – 1,000,000	**4**	4

Notes to the Financial Statements

For the year ended 31 December 2018
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9. Share-based payment

(a) The Restricted Shares Scheme I

As at 31 December 2018, the Company has implemented the following share incentive plan for employees: Following the shareholders' approval on 21 July 2014, the Company has adopted an employee share incentive plan.

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

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

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

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

    (i) The employees with 12 month vesting period resigning before the expiration of the selling restricted period do not have to withdraw from the LLP but their equity is freezed. After the expiration of the selling restricted period, the general partner or the third party designated by the general partner acquire their equity shares.

    (ii) The employees with 36 month vesting period resigning within 12 months after listing, the same rule as above will be applied. If resigning between 12 month and 36 month, the general partner or the third party designated by the general partner acquire the equity share. The purchase price is set at 60% of the average stock price of 20 transaction days preceding the day approval for the resignation.

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For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

9. Share-based payment (continued)

(a) The Restricted Shares Scheme I (continued)

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

The above transaction was considered as equity-settled share-based payment to employees. The fair value of the Company's shares granted to employees on grant date, 21 July 2014, as determined by a professional valuation firm, was RMB5,869,000. Share-based payment expense of RMB 412,805 was recognized for the year ended 31 December 2018 (2017: RMB 412,805).

(b) The Restricted Shares Scheme II

On 13 June 2018, Wenzhou Kangning Hospital held its annual shareholders' meeting of 2017 and approved the "Wenzhou Kangning Hospital Equity Payment Plan 2018", which authorized the board of directors to handle the company's employee share incentive plan. The Board of Directors of the Group reviewed and approved 'the proposal on the granting of incentive stocks to incentive objects' on 28 June 2018 and 20 August 2018.

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

(1) Instruments granted under the Scheme: Wenzhou Kangning Hospital prapared to establish five employee share ownership platforms including Wenzhou Zhenyan Kangning Investment Management Partnership(Limited Liabilities Partnership), Wenzhou Jiamei Kangning Investment Management Partnership(Limited Liabilites Partnership), Wenzhou Enquan Kangning Investment Management Partnership(Limited Liabilites Partnership), Wenzhou Jiate Kangning Investment Management Partnership(Limited Liabilites Partnership) and Wenzhou Shouwang Kangning Investment Management Partnership(Limited Liabilites Partnership) to issue 2,460,000 domestic shares (accounted for 3.37% of the total equity before issuance and 3.26% of the total equity after issuance) at issue price of RMB 10.47 per share. As at 31 December 2018, employees paid out RMB21,910,000, of which RMB2,460,000 was recognised in equity and RMB19,450,000 in capital reserve -share premium.

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

Notes to the Financial Statements

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9. Share-based payment (continued)

(b) The Restricted Shares Scheme II (continued)

(3) The approach of revenue realization

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

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

(4) Repurchase clause

Unlocked share of incentive stock is repurchased by the general partner of the partnership at the price of payment of contribution. The cash dividend received by the motivator during the lock-in period will be deducted from the repurchase price. The Company will repurchase and cancel the unregistered or unlocked incentive stock from the partnership at RMB10.47 per share 12 months after the expiration of incentive plan lock-in period.

The Group regards the above transactions as share-based payment accounting in exchange for services provided by employees in equity settlement. Its fair value of RMB29,655,655 was determined according to the difference between the fair value of the transferred equity on the date of grant (20 August 2018) and the subscription amount of the incentive object. As of 31 December 2018, the related cost was RMB1,959,610.

At the same time, the company regards the employee's subscription as inventory stock due to the above terms of repurchase and recognises an obligation of repurchase for the restricted shares at RMB21,910,000 (Note4(23)).

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10. Commitments

(1) Capital commitments

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

	31 December 2018	31 December 2017
Buildings, machinery and equipments	**146,163,230**	81,578,700
Intangible assets	**698,000**	654,970
	146,861,230	82,233,670

(2) Operating lease commitments

The future minimum lease payments due under the signed irrevocable operating leases contracts are summarised as follows:

	31 December 2018	31 December 2017
Within 1 year	**18,222,418**	24,701,992
1 to 2 years	**23,233,247**	30,390,094
2 to 3 years	**25,196,169**	29,861,213
Over 3 years	**208,298,211**	249,229,427
	274,950,045	334,182,726

(3) External investment commitments

As at 31 December 2018, there are no external investment commitments in the Group.

11. Events after the balance sheet date

(1) Pursuant to the resolution of the Board of Directors on 25 March 2019, the Company prepared to declare a cash dividend of RMB11,325,000, being RMB 0.15 per share for issued and outstanding shares of 75,500,000. The proposal is pending shareholders' approval and not recognized as liabilities in this financial statement.

(2) On 4 March 2019, the Group contributed RMB 166,233,000 to increase the share of Beijing Yining Hospital, of which RMB11,339,200 was recognised in equity and the rest in capital reserve. The share of Zhejiang Kangning in Beijing Yining Hospital has increased to 51% after this transaction, gaining control of Beijing Yining Hospital, and Beijing Yining Hospital will be converted into a subsidiary. Up to the date of the approval of the financial statements, the apportionment assessment of the fair value of the purchase consideration to the identifiable assets and liabilities of Beijing Yining Hospital is still in process.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

12. Financial risk

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

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB.The Group's finance department at its headquarter is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, to reduce foreign exchange risk to the greatest extent.

As at 31 December 2018 and 31 December 2017, the foreign currency financial assets hold by the Group was analysed below(presented in RMB):

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

	31 December 2017		
	HKD	USD	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	142,173,662	14,995,675	157,169,337

As at 31 December 2018, had RMB strengthened/weakened by 3% against the HKD while all other variables had been held constant, the Group's profit after tax for the year would have been approximately RMB 766,439(31 December 2017: RMB3,198,907) lower/higher for various financial assets and liabilities denominated in HKD.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

12. Financial risk (continued)

(1) Market risk (continued)

(b) Interest rate risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings from banks. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2018, The Group's long-term interest bearing borrowings were mainly RMB-denominated with fixed rates, amounting to RMB 80,000,000(31 December 2017: RMB110,000,000).

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

As at 31 December 2018, the Group has no long-term borrowing at floating interest rates (As at 31 December 2017, if the long-term borrowing rate calculated by floating interest rate increased or decreased by 50 basis points while all other variables held constant, the net profit of the Group would stay stable for the period.(2017: RMB 14,328).

(2) Credit risk

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

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

The Group, being a provider of healthcare services to patients, has a highly diversified customer base, without any single customer contributing material revenue. However, the Group has concentrated debtors portfolio, as majority patients will claim their medical bills from governments' social insurance schemes. Certain patients' costs will be reimbursed by other government bodies. The reimbursement from these organisations may take one to six months or not fully reimbursed. The Group has policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective organisations' policies and within reimbursement limits, provided fulfilling all ethics and moral responsibilities as healthcare provider. The Group also has controls to closely monitor the patients' billings and claim status to minimum the credit risk. For those balance not covered by social insurance scheme, the management assessed the collectability based on historical patterns and data.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

12. Financial risk (continued)

(2) Credit risk (continued)

Other receivables include the guarantee and deposit of the lease contract, employees deposit, prepayment for the employees social insurance, the loan to third party and receivables from the related-party. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.after considering their credit status and the guarantees they provided.

Long-term receivables is the depoist of payment to project contractors and the directors of the Company believe that there is no material credit risk

(3) Liquidity risk

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

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarter. The Group's finance department at its headquarter monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and cash equivalent to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowings facilities from major financial institutions so that The Group does not breach borrowings limits or covenants on any of its borrowings facilities to meet the short-term and long-term liquidity requirements.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

12. Financial risk (continued)

(3) Liquidity risk (continued)

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

	31 December 2017				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Accounts payable	83,787,338	—	—	—	83,787,338
Other payables	99,796,754	—	—	—	99,796,754
Long-term payables	22,751,104	5,797,800	21,109,900	126,524,400	176,183,204
Bank borrowings	126,419,260	43,800,000	41,905,205	—	212,124,465
	332,754,456	49,597,800	63,015,105	126,524,400	571,891,761

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

	31 December 2018		31 December 2017	
	Bank borrowings	**Other borrowings**	Bank borrowings	Other borrowings
Within 1 year	**185,000,000**	**6,496,800**	90,000,000	6,000,000
1 - 2 years	**40,000,000**	**—**	—	—
2 - 5 years	**—**	**5,440,000**	—	—
Over 5 years	**—**	**—**	110,000,000	—
	225,000,000	**11,936,800**	200,000,000	6,000,000

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

13. Fair value estimates

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

As at 31 December 2018 and 31 December 2017, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	31 December 2018		
	Level 1	**Level 2**	**Level 3**
Financial assets -			
Available-for-sale financial assets	—	—	**50,974,323**
Non-financial assets			
Investment properties	—	—	**128,568,963**
Total assets	—	—	**179,543,286**

	31 December 2017		
	Level 1	**Level 2**	**Level 3**
Financial assets -			
Available-for-sale financial assets	—	—	50,000,000
Non-financial assets			
Investment properties	—	—	128,568,963
Total assets	—	—	178,568,963

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

13. Fair value estimates

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

The Group engaged Wenzhou Huaxin Assets Valuation Co.,Ltd to determine the fair value of the investment properties and the method of valuation adopted is the income based method. The input value adopted were the growth rate of rental, the return on rental and vacancy rate. Refer to Note 2(27)(a)(iii) for details.

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

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

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

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

14. Capital management

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

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

The Group's total capital is calculated as 'owners' equity' as shown in the consolidated statement of financial position. The Group is not subject to external mandatory capital requirements.

As at 31 December 2018 and 31 December 2017, the Group's gearing ratio is as follows:

	31 December 2018	31 December 2017
Gearing ratio	**34.52%**	34.31%

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements

(1) Accounts receivable

	31 December 2018	31 December 2017
Due from the third parties	**118,533,802**	98,105,432
Less: Provision for bad debts	**(10,356,640)**	(5,811,088)
	108,177,162	92,294,344

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

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

	31 December 2018	31 December 2017
Within 1 year	**90,659,674**	85,480,286
1 - 2 years	**21,053,851**	12,013,228
2 - 3 years	**6,814,718**	552,334
Over 3 years	**5,559**	59,584
	118,533,802	98,105,432

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(1) Accounts receivable (continued)

(a) Provision for bad debts

(i) As at 31 December 2018, no provision for bad bedts of accont receviables was made individually.

(ii) As at 31 December 2018, the aging analysis of accounts receivable based on the billing date by group is as follows:

	31 December 2018		
	Balance	Provision for bad debts	
	Amount	Estimated credit loss during the survival period	Amount
Not overdue – unbilled	6,493,620	1%	64,936
Within 3 months	48,710,059	5%	2,435,503
Within 1 year	35,455,995	6%	2,127,360
1 - 2 years	21,053,851	11%	2,315,923
2 - 3 years	6,814,718	50%	3,407,359
Over 3 years	5,559	100%	5,559
Total	118,533,802	9%	10,356,640

(iii) Accrued provision for bad debts during this period is RMB 5,075,345 with no reversed or recovered provision.

(b) The actual amount of accounts receivable write-off is RMB 1,043,956 , and the provision for bad debts is mainly for Medical insurance deduction.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(2) Other receivables

	31 December 2018	31 December 2017 (Restated)
Receivable from related parties	**552,370,656**	430,644,831
Dividend receivable	**—**	18,000,000
Prepayments	**2,866,522**	11,462,532
Deposit and guarantee	**704,200**	845,243
Others	**966,927**	245,216
	556,908,305	461,197,822
Less: Provision for bad debts	**(2,135,598)**	(2,289,783)
	554,772,707	458,908,039

(a) Bad debt and relavent balance statement

	The First Stage Expected Credit Loss within 12 months(Comprehensive)		The Third Stage Expected Credit loss within entire stage (Credit Losted)		Total
	Balance	Provision for bad debt	Balance	Provision for bad debt	Provision for bad debt
31 December 2017	440,774,664	812,710	2,423,158	1,477,073	2,289,783
Addition	113,977,526	112,858	—	—	112,858
Reversal	—	—	(267,043)	(267,043)	(267,043)
31 December 2018	**554,752,190**	**925,568**	**2,156,115**	**1,210,030**	**2,135,598**

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(2) Other receivables (continued)

(a) Bad debt and relavent balance statement (continued)

(i) As at 31 December 2018, the analyse of other receivables on the first stage was as follow:

	Balance	Expected Credit Loss rate within 12 months	Provision for bad debt
by group:			
Prepayments	710,408	7%	49,729
Receivable from related parties-outside the Group	16,900,889	5%	845,044
Receivable from related parties-inside the Group	535,469,766	—	—
Deposit and guarantee	704,200	3%	21,126
Others	966,927	1%	9,669
	554,752,190		925,568

(ii) As at 31 December 2018, there was no other receivables on the second stage.

(iii) As at 31 December 2018, the analyse of other receivables on the third stage was as follow:

	Balance	Expected Credit Loss rate within survival period	Provision for bad deb
individual basis :			
Guoxiu Hong and Honggen Min i)	2,156,115	56%	1,210,030

i) As at 31 December 2018, the lawsuit was still in court proceedings. The management of the Group considered that the receivable was in the third stage and recognised provision for bad debts on the receivable.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(2) Other receivables (continued)

(b) The provision accrued for the year ended 31 December 2018 was RMB112,858 and received RMB267,043 of other receivables in third stage.

(3) Long-term equity investment

	31 December 2018	31 December 2017
Subsidiaries(a)	**139,727,432**	102,972,928
Associates (b)	**33,077,354**	21,767,344
	172,804,786	124,740,272

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

(a) Subsidiaries

	31 December 2017	Increase	30 December 2018	Provision for impairment	Cash dividends declared in the current period
Qingtian Kangning Hospital	1,000,000	—	1,000,000	—	—
Yongjia Kangning Hospital	1,000,000	19,000,000	20,000,000	—	18,000,000
Cangnan Kangning Hospital	1,000,000	10,000,000	11,000,000	—	—
Yueqing Kangning Hospital	1,000,000	—	1,000,000	—	—
Judicial Forensic Center	500,000	—	500,000	—	—
Shenzhen Yining Medical Investment Co.,ltd	10,000,000	—	10,000,000	—	—
Linhai Kangning Hospital	1,600,000	—	1,600,000	—	—
Langfang Yining Hospital Management Co.,ltd	10,000,000	—	10,000,000	—	—
Zhejiang Huangfeng Co.,ltd	26,872,928	7,754,504	34,627,432	—	—
Zhejiang Kangning	50,000,000	—	50,000,000	—	—
	102,972,928	36,754,504	139,727,432	—	18,000,000

* As at 31 December 2018, the amount of investment that the Company has not paid to Zhejiang Huangfeng Co., ltd was RMB 2,159,583.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(3) Long-term equity investment (continued)

(b) Associates

		The change in the Year ended 31 December 2018				
	31 December 2017	Initial investment	Decrease	Share of net profit/(loss) under equity method	31 December 2018	The closing amount of provision for impairment
Hangzhou Anken Information Technology	6,874,892	—	—	(1,082,727)	5,792,165	—
Shandong Yining Hospital	14,892,452	—	—	392,737	15,285,189	—
Hangzhou Anken Consulting	—	12,000,000	—	—	12,000,000	—
	21,767,344	12,000,000	—	(689,990)	33,077,354	—

(4) Fixed assets

	Bulidings	Medical equitment	Motor vehicles	Electronic and other equitment	Total
Cost					
31 December 2017	323,545,373	33,940,924	3,266,928	16,004,963	376,758,188
Purchase	2,949,765	4,897,786	—	1,985,103	9,832,654
Transfered from construction in progress	332,312	—	—	—	332,312
Disposal and retirement	(3,063,574)	(3,667,836)	(190,092)	(64,757)	(6,986,259)
31 December 2018	323,763,876	35,170,874	3,076,836	17,925,309	379,936,895
Accumulated depreciation					
31 December 2017	20,649,426	17,817,818	1,937,967	8,907,541	49,312,752
Charge for the year	8,998,588	4,660,581	320,153	2,053,020	16,032,342
Disposal and retirement	(1,670,012)	(3,477,941)	(180,587)	(58,634)	(5,387,174)
31 December 2018	27,978,002	19,000,458	2,077,533	10,901,927	59,957,920
Net book value					
31 December 2018	295,785,874	16,170,416	999,303	7,023,382	319,978,975
31 December 2017	302,895,947	16,123,106	1,328,961	7,097,422	327,445,436

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(4) Fixed assets (continued)

The depreciation charged during the year ended 31 December 2018 was RMB 16,032,342 (Year ended 31 December 2017: RMB 9,421,670) and the amount charged to cost of sales and general and administrative was RMB 13,301,539 and RMB 2,730,803, respectively (Year ended 31 December 2017: RMB 6,147,687and RMB 3,273,983).

As at 31 December 2018 and at 31 December 2017, the Company had no fixed assets pledged.

During the year ended 31 December 2018, the cost of fixed assets transferring from construction in progress was RMB 332,312(the Year ended 31 December 2017: RMB 262,482,835).

(5) Construction in progress

(a) The change of construction in progress

Project name	31 December 2017	**Increase in the year ended 31 December 2018**	Transfer to fixed assets/ long-term prepaid expenses	**31 December 2018**	Accumulative amount of capitalised borrowings costs	Including: Borrowings costs capitalised in the year ended 31 December 2018	Capitalisation rate
The decoration project of Wenzhou Kangning Hospital	3,294,872	**8,838,609**	(7,624,889)	**4,508,592**	–	–	–

As at 31 December 2018 and 31 December 2017, the management of the Company considered that there did not exitst the objective evidence that indicated the construction in progress was impaired and no provision for impairment was required.

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(6) Intangible assets

	Land use rights	Software	Contractual right to provide management service	Total
Cost				
31 December 2017	23,602,729	3,238,650	93,146,600	119,987,979
Addition	—	899,440	—	899,440
31 December 2018	23,602,729	4,138,090	93,146,600	120,887,419
Accumulated amortisation				
31 December 2017	3,808,329	1,971,364	12,969,500	18,749,193
Addition	472,055	609,253	4,716,053	5,797,361
31 December 2018	4,280,384	2,580,617	17,685,553	24,546,554
Net book value				
31 December 2018	19,322,345	1,557,473	75,461,047	96,340,865
31 December 2017	19,794,400	1,267,286	80,177,100	101,238,786

The amortisation charge during the year ended 31 December 2018 was RMB5,797,361(Year ended 31 December 2017: RMB 5,710,705) and the amount charges to cost of sales and general and administrative RMB 4,932,198 and RMB 865,163, respectively (Year ended 31 December 2017: RMB 4,877,530and RMB 833,175).

As at 31 December 2018 and 31 December 2017, the Company had no intangible assets pledged.

Notes to the Financial Statements

For the year ended 31 December 2018
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15. Notes to the Company's financial statements (continued)

(7) Provision for assets impairment

	31 December 2017	Change in accounting policy	1 January 2018	Addition	Decrease: Recovery	Decrease: Written-off	30 June 2018
Provision for accounts receivable	5,811,088	**514,163**	6,325,251	**5,075,345**	—	(1,043,956)	10,356,640
Provision for other receivables	2,289,783	**—**	2,289,783	**112,858**	(267,043)	—	2,135,598
	8,100,871	**514,163**	8,615,034	**5,188,203**	(267,043)	(1,043,956)	12,492,238

(8) Capital surplus

	31 December 2017	Increase	Decrease	**30 June 2018**
Share premium	760,572,782	21,297,256	—	**781,870,038**
Other capital surplus	—	—	—	**—**
– Share-based payment (Note 9)	5,720,813	2,372,415	(1,847,256)	**6,245,972**
– Others	40,815,879	—	—	**40,815,879**
	807,109,474	23,669,671	(1,847,256)	**828,931,889**

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(9) Retained earning

	Year ended 31 December	
	2018	2017
Retained earnings at beginning of year(before adjustment)	**137,084,775**	108,895,141
Adjustment	**345,120**	—
Retained earnings at beginning of year(after adjustment)	**137,429,895**	108,895,141
Add: Net profit attributable to shareholders of the parent company	**62,710,220**	51,610,704
Less: Appropriation to statutory surplus reserve	**(6,271,022)**	(5,161,070)
Ordinary share dividends payable	**(10,956,000)**	(18,260,000)
Retained earnings at end of the year	**182,913,093**	137,084,775

Pursuant to the shareholders' approval on 13 June 2018, the Company declared a 2017 final cash dividend of RMB10,956,000, being RMB 0.15 per share for issued and outstanding shares of 73,040,000. As at 31 December 2018, the dividends had been paid.

Pursuant to the resolution of the Board of Directors on 25 March 2019, the Company prepared to declare a cash dividend of RMB11,325,000, being RMB 0.15 per share for issued and outstanding shares of 75,500,000. The proposal is pending shareholders' approval and not recognized as liabilities in this financial statement(Note 11).

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(10) Revenue and cost of sales

	Year ended 31 December 2018		Year ended 31 December 2017	
	Revenue	**Cost**	Revenue	Cost
Main businesses	**353,371,156**	**230,191,852**	314,348,295	199,812,811
Other businesses	**795,683**	**—**	468,385	—
	354,166,839	**230,191,852**	314,816,680	199,812,811

(a) Revenue and cost of sale from main operations

	Year ended 31 December 2018		Year ended 31 December 2017	
	Revenue	**Cost**	Revenue	Cost
Pharmaceutical sales	**95,855,967**	**81,667,345**	85,428,437	72,246,421
Treatments and general healthcare services	**244,567,918**	**137,943,217**	209,275,034	117,659,072
Management service fee	**12,947,271**	**10,581,290**	19,644,824	9,907,318
	353,371,156	**230,191,852**	314,348,295	199,812,811

(b) Revenue and cost of sales from other operations

	Year ended 31 December 2018		Year ended 31 December 2017	
	Revenue	**Cost**	Revenue	Cost
Rental income	**97,199**	**—**	—	—
Others	**698,484**	**—**	468,385	—
	795,683	**—**	468,385	—

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(11) Financial expenses-net

	Year ended 31 December 2018	2017 (Restated)
Net exchange (gain)/loss	**(4,073,649)**	14,930,009
Interest income	**(1,955,764)**	(3,020,272)
Interest expense	**5,296,137**	9,179,420
Less: capitalised interest	**—**	(4,309,845)
The amortization of unrecognized financial expenses(i)	**5,510,700**	5,464,500
Others	**420,685**	335,964
	5,198,109	22,579,776

(i) The amount represented the unwinding of discount on long-term payables being calculated using effective interest rate method.(Note 4(26))

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(12) Expenses by nature

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

	Year ended 31 December	
	2018	2017
Employee and welfare benefits	**109,340,101**	90,770,757
Pharmaceutical and medical consumables used	**103,704,494**	91,143,082
Depreciation of fixed assets	**16,032,342**	9,421,670
Amortisation of intangible assets	**5,797,361**	5,710,705
Amortisation of long-term prepayment	**4,709,375**	6,636,136
Operating lease expenses	**2,245,763**	4,957,206
Canteen expenditure	**8,733,336**	7,560,759
Consumables	**5,400,825**	6,553,056
Outsourcing expenses	**1,107,951**	1,304,688
Testing fee	**4,479,612**	2,329,731
Consulting expense	**6,494,091**	7,081,608
Auditor's remuneration		
Auditor's fee-audit service	**3,000,000**	4,050,000
Non-audit service	**70,096**	68,000
Promotion expenses	**1,419,359**	885,822
Travel and transportation expenses	**3,935,064**	2,826,790
Office expenses	**3,804,624**	2,513,992
Share-based payment(Note 9)	**2,372,415**	412,805
Others	**6,823,512**	5,063,726
	289,470,321	249,290,533

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(13) Credit impairment losses

	Year ended 31 December 2018	2017
Credit impairment losses for accounts receivable	**5,075,345**	—
Credit impairment losses for other receivables	**(154,185)**	—
Total	**4,921,160**	—

(14) Investment income

	Year ended 31 December 2018	2017 (Restated)
Dividends	**18,000,000**	18,000,000
Share of net gains or losses of investees under the equity method	**(689,990)**	(180,333)
Net gains or loss arising from disposal of long-term equity investment	**—**	350,000
Interest income during the holding of creditor's rights	**490,898**	948,872
	17,800,908	19,118,539

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB Yuan unless otherwise stated)

15. Notes to the Company's financial statements (continued)

(15) Income tax expenses

	Year ended 31 December	
	2018	2017
Current income tax	**17,267,982**	12,928,308
Deferred income tax	**(2,410,323)**	(293,947)
	14,857,659	12,634,361

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

	Year ended 31 December	
	2018	2017
Profit before tax	**77,567,879**	64,245,065
Income tax expenses calculated at the effect tax rate of 25%	**19,391,970**	16,061,266
Expenses not deductible for tax purposes	**584,775**	638,531
Tax deduction of research and development expenditure	**(850,617)**	—
Adjustment of income tax	**231,531**	476,981
Income not subject to tax	**(4,500,000)**	(4,542,417)
Income tax expenses	**14,857,659**	12,634,361

Definitions

"AGM"	the annual general meeting of the Company for the year 2018 to be convened and held on June 18, 2019
"Articles"	the articles of association of the Company, as amended, modified or supplemented from time to time
"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), an associate company of the Company established in the PRC with limited liability on August 17, 2015 and is held as to 40% by the Group
"Board of Directors" or "Board"	the board of directors of the Company
"Cangnan Kangning Hospital"	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company's wholly owned subsidiaries
"Chengdu Yining Hospital"	Chengdu Yining Hospital Co., Ltd. (成都怡寧醫院有限公司, previously known as Chengdu Renyi Hospital Company Limited (成都仁一醫院有限公司)), an associate company of the Company established in the PRC with limited liability on June 29, 2010 and is held as to 24% by the Group
"Chengdu Yining Ward"	the psychiatric healthcare department of Chengdu Yining Hospital
"Chun'an Hospital"	Chun'an Huangfeng Kang'en Hospital (淳安黃鋒康恩醫院)
"Company" or "Wenzhou Kangning Hospital"	Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2120)
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
"Controlling Shareholders"	has the meaning ascribed to it under the Hong Kong Listing Rules and in this annual report, refers to Mr. GUAN Weili and Ms. WANG Lianyue
"CSRC"	the China Securities Regulatory Commission
"Director(s)"	the director(s) of the Company

Definitions

"Domestic Share(s)"	ordinary Share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted Shares which are currently not listed or traded on any stock exchange
"Geriatric Hospital"	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), one of the wholly owned subsidiaries indirectly held by the Company, 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 subsidiaries
"Guanxian Yining Hospital"	Guanxian Yining Hospital Co., Ltd. (冠縣怡寧醫院有限公司), a company established in the PRC with limited liability on March 1, 2017, one of the Company's indirect non-wholly owned subsidiaries
"H Share(s)"	overseas listed foreign invested ordinary Share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Hong Kong Stock Exchange
"Hangzhou Cining Hospital"	Hangzhou Cining Hospital Co., Ltd. (杭州慈寧醫院有限公司), a company established in the PRC with limited liability on November 18, 2017, one of the Company's indirect wholly owned subsidiaries
"Hangzhou Yining Hospital"	Hangzhou Yining Hospital Co., Ltd. (杭州怡寧醫院有限公司), a company established in the PRC with limited liability on August 25, 2016, one of the Company's indirect non-wholly owned subsidiaries
"Heze Yining Hospital"	Heze Yining Psychiatric Hospital Co., Ltd. (菏澤怡寧神病醫院有限公司 , previously known as Heze Yining Hospital Co., Ltd. (菏澤怡寧醫院有公司)), a company established in the PRC with limited liability on April 6, 2017, one of the Company's indirect non-wholly owned subsidiaries
"HK$" or "HKD" or "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

Definitions

"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), an associate company of the Company established in the PRC with limited liability on September 22, 2017 and is held as to 45% by the Company
"Langfang Yining Hospital"	Langfang Yining Hospital Co., Ltd. (廊坊怡寧醫院有限公司, previously known as Langfang Yining Hospital Management Co., Ltd. (廊坊市怡寧醫院管理有限公司)), a company established in the PRC with limited liability on December 2, 2015, one of the Company's wholly owned subsidiaries
"Latest Practicable Date"	April 23, 2019, being the latest practicable date for inclusion of certain information in this annual report prior to its publication
"Linhai Kangning Hospital"	Linhai Kangning Hospital Co., Ltd. (臨海康寧醫院有限公司), a company established in the PRC with limited liability on February 2, 2015, one of the Company's non-wholly owned subsidiaries
"Luqiao Cining Hospital"	Taizhou Luqiao Cining Hospital Co., Ltd. (台州市路橋慈寧醫院有限公司，previously known as Taizhou Yining Hospital Co., Ltd.（台州市路橋怡寧醫院有限公司）), a company established in the PRC with limited liability on December 12, 2016, one of the Company's indirect non-wholly owned subsidiaries
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"Nanjing Yining Hospital"	Nanjing Yining Hospital Co., Ltd. (南京怡寧醫院有限公司), a company established in the PRC with limited liability on June 22, 2018, one of the Company's indirect non-wholly owned subsidiaries
"Nomination Committee"	the nomination committee of the Board
"Non-Competition Agreement"	the non-competition agreement dated May 11, 2015 entered into by the Company and the controlling shareholders

Definitions

"Pingyang Changgeng Ward"	the psychiatric healthcare department of Pingyang Changgeng Hospital Co., Ltd. (平陽縣長庚醫院有限責任公司精神科)
"Pingyang Kangning Hospital"	Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the Company's indirect wholly owned subsidiaries
"PRC" or "China"	the People's Republic of China which, for the purpose of this annual report, excludes Hong Kong, Macau and Taiwan
"PRC Company Law"	the Company Law of the People's Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Twelfth National People's Congress of the PRC on December 28, 2013 and effective on March 1, 2014 (as amended, supplemented or otherwise modified from time to time)
"Proposed Final Dividend"	the proposed final dividend distribution plan of RMB0.15 per Share (inclusive of applicable tax) for the year ended December 31, 2018 subject to the approval by the Shareholders at the AGM as described under the section headed "Dividend" of this annual report
"Prospectus"	the prospectus of the Company dated November 10, 2015
"Pujiang Hospital"	Pujiang Huangfeng Psychiatric Specialty Hospital (浦江黃鋒精神專科醫院)
"Qingtian Kangning Hospital"	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011, one of the Company's wholly owned subsidiaries
"Quzhou Yining Hospital"	Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司), a company established in the PRC with limited liability on November 20, 2015, one of the Company's indirect non-wholly owned subsidiaries
"The Reporting Period" or "Reporting Period"	the year ended December 31, 2018
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	the lawful currency of the PRC

Definitions

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	Share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen Yining Hospital"	Shenzhen Yining Hospital Co., Ltd. (深圳怡寧醫院, previously known as Shenzhen Yining Hospital Co., Ltd. (深圳市怡寧醫院有限公司)), a company established in the PRC with limited liability on September 22, 2014, one of the Company's indirect non-wholly owned subsidiaries
"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, one of the Company's indirect non-wholly owned subsidiaries
"Strategy and Risk Management Committee"	the strategy and risk management committee of the Board
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"substantial shareholder(s)"	has the meaning ascribed thereto in the Hong Kong Listing Rules
"Supervisor(s)"	the members of the Supervisory Committee
"Supervisory Committee"	the Company's Supervisory Committee established pursuant to the PRC Company Law
"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

Definitions

"Wenzhou Cining Hospital"	Wenzhou Cining Hospital Co., Ltd. (温州慈寧醫院有限公司), an independent third party established in the PRC with limited liability on January 25, 2006
"Wenzhou Guoda"	Wenzhou Guoda Investment Co., Ltd. (温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
"Yueqing Kangning Hospital"	Yueqing Kangning Hospital Co., Ltd. (樂清康寧醫院有限公司), a company established in the PRC with limited liability on September 3, 2013, one of the Company's wholly owned subsidiaries
"Yongjia Kangning Hospital"	Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2012, one of the Company's wholly owned subsidiaries
"%"	percentage ratio

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