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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

1 INTRODUCTION

1.1 The Board of Directors (the "**Board**") of Wenzhou Kangning Hospital Co., Ltd. (the "**Company**") is pleased to announce the consolidated annual results of the Company and its Subsidiaries (collectively, the "**Group**", "**we**" or "**our**") for the financial year ended December 31, 2018 (the "**Reporting Period**") with comparative figures for the preceding financial year ended December 31, 2017.

1.2 The financial statements (the "**Financial Statements**") of the Group for the Reporting Period is prepared in accordance with China Accounting Standards for Business Enterprises.

2 FINANCIAL HIGHLIGHTS

2.1 Principal Financial Data and Indicators

	For the year ended December 31, 2018 *(RMB'000)*	**2017** *(RMB'000)*
Revenue	**745,972**	666,436
Profit before income tax	**106,910**	69,863
Income tax expense	**(31,941)**	(22,027)
Net profit	**74,969**	47,836
Net profit attributable to equity holders of the Company	**80,596**	49,071
Non-controlling interests	**(5,627)**	(1,235)

	As of December 31, 2018 *(RMB'000)*	As of December 31, 2017 *(RMB'000)*
Total assets	**1,840,724**	1,690,401
Total liabilities	**635,451**	579,904
Total equity	**1,205,273**	1,110,497
Equity attributable to equity holders of the Company	**1,120,995**	1,051,835
Non-controlling interests	**84,278**	58,662

3 BUSINESS REVIEW AND OUTLOOK

3.1 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.

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.

3.2 Business Highlights

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.

3.3 Business Outlook

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

(i) Risk relating to high reimbursement amount from public medical insurance. From 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.

4 MANAGEMENT DISCUSSION AND ANALYSIS

4.1 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.

4.1.1 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

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.

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

	For the year ended December 31, 2018	2017
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%).

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.

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%).

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.

4.1.2 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.

4.1.3 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.

4.1.4 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.

4.1.5 Administrative Expenses

During the Reporting Period, administrative expenses of the Group primarily consist of benefits and expenses for the management and administrative staff, 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.

4.1.6 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.

4.1.7 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.

4.1.8 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.

4.1.9 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.

4.1.10 *Non-Operating Income (Expenses) and Other Gains*

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

4.1.11 *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.

4.1.12 *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.

4.2 Financial Position

4.2.1 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

4.2.2 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).

4.2.3 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).

4.2.4 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

4.2.5 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.

4.2.6 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.

4.2.7 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).

4.2.8 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.

4.3 Liquidity and Capital Resources

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

	For the year ended December 31,	
	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)

4.3.1 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.

4.3.2 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.

4.3.3 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.

4.3.4 Significant Investment, Acquisition and Disposal

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

4.4 Indebtedness

4.4.1 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.

4.4.2 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.

4.4.3 Asset Pledge

Wenzhou Guoda, a Subsidiary of the Group, had pledged its completed properties, Phase II of Business Center of Wenzhou Higher Education Mega Center, 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.

4.4.4 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.

4.4.5 Financial Instruments

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

4.4.6 Exposure to Fluctuation in Exchange Rates

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

As of December 31, 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.

4.4.7 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%).

4.4.8 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.

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 announcement 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.

5 SIGNIFICANT EVENTS

5.1 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 register of the members of the Company will be closed from May 19, 2019 to June 18, 2019 (both days inclusive). In order to determine the identity of members who are entitled to attend and vote at the AGM, all transfers 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.

The total 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 calculated 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 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 mean of 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税法) 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, 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 the 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.

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 paid to them with the PRC under the relevant tax agreements, 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 it on behalf of the holders according to the relevant agreed preferential tax treatment. The relevant Shareholders shall 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 on behalf of the holders 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 on behalf of the holders at a rate of 20%.

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

6 PURCHASE, SALE AND 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.

7 REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed the Group's annual results for the financial year ended December 31, 2018 and opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

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

8 COMPLIANCE WITH CG CODE

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

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

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

10 EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in the fifth paragraph headed "Significant Events" above, there is no important event after the Reporting Period to the date of this announcement.

11 AUDITORS AND ACCOUNTING STANDARDS

The financial statements of the Group for the year ended December 31, 2018, which have been prepared in accordance with China Accounting Standards for Business Enterprises have been audited by PricewaterhouseCoopers Zhong Tian LLP ("**PricewaterhouseCoopers**"), who has issued a standard audit report with unqualified opinions on the financial statements. The figures in respect of this announcement have been agreed by PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial report for 2018. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

12 FINANCIAL REPORT

12.1 Accounting Policies

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

The financial statements are prepared on a going concern basis.

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

12.1.1 Adoption of New Accounting Policies

The Ministry of Finance 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 and Accounting Standard for Business Enterprises No. 37 - Presentation of Financial Instruments in 2017. The Group has adopted 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-Recongnisition 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 increase in retained earnings at the beginning of the year of RMB730,742 based on the fair value of relevant equity investments at the effective date of such standard.

During the Reporting Period, due to 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 loss as required by the new standard on financial instruments, resulting in decrease in retained earnings at the beginning of the year of RMB895,043.

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

12.1.2. *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 of 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 has impact primarily on 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.

12.2 Consolidated Annual Financial Information

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

12.2.1 *Consolidated Income Statement*

(All amounts in RMB Yuan unless otherwise stated)

Item	Year Ended December 31, 2018	2017 *(Restated)*
1. Revenue	**745,971,888**	666,435,528
Less: Cost of sales	**(493,729,636)**	(449,331,902)
Taxes and surcharges	**(5,720,201)**	(9,780,313)
Selling and distribution expenses	**(5,141,918)**	(1,752,173)
General and administrative expenses	**(98,001,249)**	(90,180,597)
Research and development expenditure	**(5,733,120)**	(1,573,650)
Finance expenses-net	**(7,171,247)**	(24,262,625)
Asset impairment losses	**(4,823,557)**	(19,104,920)
Credit impairment losses	**(18,695,980)**	—
Add: Other Gain	**8,538,235**	9,417,463
Investment losses	**(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	**7,182,072**	9,814,600
Less: Non-operating expenses	**(6,041,975)**	(13,201,645)
3. Total profit	**106,910,268**	69,862,675
Less: Income tax expenses	**(31,941,040)**	(22,026,917)

Item	Year Ended December 31, 2018	2017 (Restated)
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 (expressed in RMB per share)		
– Basic	**1.10**	0.67
– Diluted	**1.09**	0.67

12.2.2 *Annual Consolidated Balance Sheets*

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	**December 31, 2018**	December 31, 2017 *(Restated)*
Current assets		
Cash at bank and on hand	**187,076,694**	279,334,159
Accounts receivable	**299,750,063**	232,179,323
Other receivables	**58,051,581**	43,447,939
Advance to suppliers	**16,683,839**	11,132,676
Inventories	**20,813,747**	23,532,469
Current portion of non-current assets	**12,688,704**	12,688,704
Total current assets	**595,064,628**	602,315,270
Non-current assets		
Available-for-sale financial assets	**——**	50,000,000
Other non-current financial assets	**50,974,323**	——
Long-term equity investments	**100,321,983**	89,683,865
Investment properties	**128,568,963**	128,568,963
Fixed assets	**444,322,834**	502,649,528
Construction in progress	**131,187,406**	22,290,670
Intangible assets	**185,257,977**	151,842,863
Goodwill	**19,296,005**	4,823,557
Long-term prepaid expenses	**144,386,669**	96,335,653
Deferred tax assets	**33,825,347**	22,571,944
Other non-current assets	**7,517,900**	19,318,211
Total non-current assets	**1,245,659,407**	1,088,085,254
TOTAL ASSETS	**1,840,724,035**	1,690,400,524

LIABILITIES AND OWNERS' EQUITY	**December 31, 2018**	December 31, 2017 *(Restated)*
Current liabilities		
Short-term borrowings	**145,000,000**	90,000,000
Accounts payable	**73,644,717**	83,787,338
Advances from customers	**—**	7,511,284
Contract liability	**2,244,706**	— —
Employee benefits payable	**28,270,410**	23,714,318
Taxes payable	**41,119,676**	34,912,381
Other payables	**129,807,988**	99,796,754
Non-current liabilities due within one year	**63,757,304**	22,751,104
Total current liabilities	**483,844,801**	362,473,179
Non-current liabilities		
Long-term borrowings	**40,000,000**	110,000,000
Long-term payables	**86,645,200**	86,932,300
Deferred income	**10,253,059**	10,556,851
Deferred tax liabilities	**14,707,619**	9,941,379
Total non-current liabilities	**151,605,878**	217,430,530
Total liabilities	**635,450,679**	579,903,709
Owners' equity		
Share capital	**75,500,000**	73,040,000
Capital surplus	**827,379,886**	808,244,186
Less: Treasury Share	**(21,910,000)**	—
Surplus reserve	**29,981,034**	23,710,012
Retained earnings	**210,044,608**	146,840,254
Total equity attributable to owners of the parent company	**1,120,995,528**	1,051,834,452
Non-controlling interests	**84,277,828**	58,662,363
Total owners' equity	**1,205,273,356**	1,110,496,815
TOTAL LIABILITIES AND OWNERS' EQUITY	**1,840,724,035**	1,690,400,524

12.2.3 *Annual Consolidated Statements of Cash Flow*

(All amounts in RMB Yuan unless otherwise stated)

Item	Year Ended December 31, 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	**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, intangible 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)

Item	Year Ended December 31, 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	**237,538,659**	407,163,542
6. Cash and cash equivalents at end of the year	**187,066,694**	237,538,659

12.2.4 *Annual Consolidated Statement of Changes In Equity*

(All amounts in RMB Yuan unless otherwise stated)

	Equity attributable to owners of the parent company						
	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Non-controlling interests	Total owners' equity
Balance at December 31, 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	**–**	**–**	**–**	**–**	**(164,301)**	**–**	**(164,301)**
Balance at January 1, 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 December 31, 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	**–**	**2,372,415**	**–**	**–**	**–**	**–**	**2,372,415**
Transactions with non-controlling Shareholders	**–**	**(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	**–**	**–**	**–**	**–**	**(10,956,000)**	**–**	**(10,956,000)**
Balance at December 31, 2018	**75,500,000**	**827,379,886**	**(21,910,000)**	**29,981,034**	**210,044,608**	**84,277,828**	**1,205,273,356**

	Equity attributable to owners of the parent company					
	Share capital	Capital surplus	Surplus reserve	Retained earnings	Non-controlling interests	Total owners' equity
Balance at January 1, 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 December 31, 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	—	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	—	—	—	(18,260,000)	—	(18,260,000)
Balance at December 31, 2017	73,040,000	808,244,186	23,710,012	146,840,254	58,662,363	1,110,496,815

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

12.3.1 Accounts receivable

	December 31, 2018 RMB	December 31, 2017 RMB
Due from related parties	**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 credit policy, all bills are payable upon issuance.

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

	December 31, 2018 RMB	December 31, 2017 RMB
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

12.3.2 *Accounts payable*

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

	December 31, 2018 RMB	December 31, 2017 RMB
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

12.3.3 *Revenue and cost of sales*

	Year ended December 31, 2018		Year ended December 31, 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

Revenue and cost of sale from main businesses

	Year ended December 31, 2018		Year ended December 31, 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

Revenue and cost of sale from other businesses

	Year ended December 31, 2018		Year ended December 31, 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

12.3.4 *Earnings per Share*

Basic earning per Share

	Year ended December 31,	
	2018	2017
	RMB	RMB
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) Following the approval by the Shareholders at the general meeting on June 13, 2018, the Company issued 2,460,000 ordinary Shares to adopt an Equity Incentive Scheme. Cash dividend of RMB369,000 which has been distributed to the Shareholders with restricted Shares expected to be unlocked in the future has been deducted from the profit attributed to the ordinary Shareholders of the Company when calculating the basic earnings per Share in 2018. In the meanwhile, 2,460,000 restricted Shares are deducted from the outstanding ordinary Shares of the Company.

Diluted earning per Share

Diluted earning per Share is calculated by the profit attributed to the ordinary Shareholders of the Company adjusted by the dilutive potential ordinary Shares divided by the adjusted weighted average number of outstanding ordinary Shares. Throughout the year ended December 31, 2018, the profit attributed to the ordinary Shareholders of the Company is RMB80,595,677 adjusted by the dilutive potential ordinary Shares, the adjusted weighted average number of outstanding ordinary Shares is 73,849,076. The diluted earning per Share of the Company is RMB1.09. The Company didn't have any potential dilutive Shares throughout the year ended December 31, 2017. Accordingly, diluted earning per Share is the same as the basic earnings per Share.

12.3.5 *Income tax expenses*

	Year ended December 31,	
	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 December 31,	
	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 income tax purposes	**3,898,294**	3,741,704
Adjustment of income tax	**2,553,569**	579,395
Super deduction for research and development expenses	**(850,617)**	—
Income not subject to tax	**—**	(42,417)
Tax effect of unrecognised tax losses	**26,321**	415,248
Tax effect of unrecognised temporary differences	**—**	207,837
Utilization of previous unrecognised tax losses	**(414,094)**	(340,519)
Income tax expenses	**31,941,040**	22,026,917

12.3.6 *Dividends*

On March 25, 2019, the Board proposed a final dividend of RMB11,325,000 for the year ended December 31, 2018, which was calculated based on 75,500,000 issued shares of the Company as at December 31, 2018. The proposed dividend is subject to approval by the Shareholders at AGM.

On March 23, 2018, the Board proposed a final dividend of RMB10,956,000 for the year ended December 31, 2017. The proposed dividend was approved by the Shareholder at the annual general meeting for the year 2017 of the Company on June 13, 2018 and the Company paid out the dividend on July 13, 2018.

13 DEFINITIONS

"AGM"	the annual general meeting of the Company for the year 2018 expected to be convened and held on June 18, 2019
"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 Co., Ltd. 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 Stock Exchange of Hong Kong Limited (Stock Code: 2120)
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
"Director(s)"	the Director(s) of the Company

"Geriatric Hospital"	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a wholly owned Subsidiary 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 Stock Exchange of Hong Kong Limited
"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. (菏澤怡寧精神病醫院有限公司 previously known as Heze Yining Hospital Co., Ltd. 菏澤怡寧醫院有限公司), a company established in the PRC with limited liability on April 6, 2017, one of the Company's indirect non-wholly owned Subsidiaries
"HKD" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Huainan Kangning Hospital"	Huainan Kangning Hospital Co., Ltd. (淮南康寧醫院有限公司), 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
"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 Luqiao Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2016, one of the Company's indirect non-wholly owned Subsidiaries
"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
"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 announcement, excludes Hong Kong, Macau and Taiwan
"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 announcement
"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
"RMB"	the lawful currency of the PRC
"Share(s)"	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the domestic share(s) and the H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen Yining Hospital"	Shenzhen Yining Hospital Co., Ltd. (深圳怡寧醫院 previously known as Shenzhen City 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
"Subsidiary" or "Subsidiaries"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
"Supervisor(s)"	the members of the supervisory committee
"Taizhou Kangning Hospital"	Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company's indirect non-wholly owned Subsidiaries
"the Reporting Period"	For the year ended December 31, 2018
"Wenling Nanfang Hospital"	Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd. (溫嶺南方精神疾病專科醫院有限公司), a company established in the PRC with limited liability on June 20, 2018, one of the Company's indirect non-wholly owned Subsidiaries

"Wenzhou Cining Hospital"	Wenzhou Cining Hospital Co., Ltd. (溫州慈寧醫院有限公司), an independent third party established in the PRC with limited liability on January 25, 2006
"Wenzhou Guoda"	Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司), a company established in the PRC with limited liability on February 9, 2002, one of the Company's indirect non-wholly owned Subsidiaries
"Yanjiao Furen Hospital"	Langfang Sanhe Yanjiao Furen Hospital (廊坊三河燕效輔仁醫院, previously known as Yanjiao Furen Hospital of Traditional Chinese and Western Medicine 燕效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 Yanjiao Furen Hospital of Traditional Chinese and Western Medicine 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

By order of the Board
Wenzhou Kangning Hospital Co., Ltd.
GUAN Weili
Chairman

Zhejiang, the PRC
March 25, 2019

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