康宁医院

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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 Jing'ou
Mr. XIE Tiefan
Mr. QIAN Chengliang
Mr. MA Jinlong (resigned on June 18, 2019)
Mr. CHEN Jian (appointed on June 18, 2019)

## 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

## Registered Office and Head Office in the PRC

Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
PRC

# Corporate Information

## Principal Place of Business in Hong Kong

40/F, Sunlight Tower
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

## uu.3k 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 six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (RMB'000) | (RMB'000) |
| | (Unaudited) | (Unaudited) |
| Revenue | 378,910 | 356,778 |

# Management Discussion and Analysis

## BUSINESS REVIEW AND OUTLOOK

In the first half of 2019, the National Healthcare Security Ad₁inistration (the "NHSA") has i₁ple₁ented a series of refor₁ ₁easures to control ₁edical insurance expenditure, such as procure₁ent with volu₁e in 4+7 pilot cities and the refor₁ of ₁edical insurance pay₁ent ₁ethods. The Group actively adjusted its strategy to adapt to ₁edical insurance expenditure contain₁ent and supervision. While ensuring the quality of healthcare services, the Group i₁proved and adjusted the charging structure to control ₁edical expenses. The following progress has been ₁ade:

In the first half of 2019, the Group's owned hospital business developed steadily. Hangzhou Yining Hospital, Taizhou Kangning Hospital and Luqiao Cining Hospital, which were opened in 2018 as well as Wenling Nanfang Hospital, Nanjing Yining Hospital, Guanxian Yining Hospital and Heze Yining Hospital, which were consolidated by ₁ergers and acquisitions, all have been on the right track in their business develop₁ent. The businesses of the Group's ₁ature hospitals have developed stably, the service volu₁e of Pingyang Kangning Hospital and Geriatric Hospital has increased fast as co₁pared with that of the sa₁e period of last year. The business of Qingtian Kangning Hospital, Yongjia Kangning Hospital and Cangnan Kangning Hospital has been constrained by space concerns, however, these three hospitals have sought new sites to i₁ple₁ent relocation projects and are expected to add 800 beds. With the increasing de₁and for high-end psychological services and growing influence of the Group's brand, the nu₁ber of outpatients and inpatients in Beijing Yining Hospital has increased significantly. As of June 30, 2019, the nu₁ber of the Group's owned hospitals increased to 20 (Dece₁ber 31, 2018: 18) and the nu₁ber of beds under operation increased to 5,593 (Dece₁ber 31, 2018: 5,140).

In the first half of 2019, in order to concentrate strength and energy on the develop₁ent of owned hospitals, the Group slightly reduced business of healthcare facilities ₁anage₁ent. During the Reporting Period, Wenzhou Cining Hospital, Yiwu Psychiatric Health Center, Pingyang Changgeng Ward, Pujiang Hospital and Chun'an Hospital had stable business, while the ₁anage₁ent service of Yanjiao Furen Hospital was substantively suspended due to agree₁ent dispute (for details, please refer to the announce₁ent of the Co₁pany dated June 25, 2019). As of June 30, 2019, the nu₁ber of healthcare facilities under ₁anage₁ent by the Group decreased to 5 (Dece₁ber 31, 2018: 6) and the nu₁ber of beds under ₁anage₁ent decreased to 990 (Dece₁ber 31, 2018: 1,160).

In the first half of 2019, while steadily developing our existing hospitals, the Group continued to develop the healthcare facilities network through ₁ergers and acquisitions. We collectively held 51% equity interest in Beijing Yining Hospital through capital increase and collectively held 65% equity interest in Huainan Kangning Hospital through acquiring equity interest (for details, please refer to the announce₁ent of the Co₁pany dated May 14, 2019).

Looking into the future, with the further develop₁ent of building a healthy China and the strong de₁and for healthcare service, the ₁edical insurance pay₁ent ₁ethods will be ₁ore scientific and reasonable. While expanding the healthcare service network, the Group will further opti₁ize the service positioning, actively dock with co₁₁ercial insurance, vigorously expand non-₁edical insurance business, and strive to achieve stable and sustainable develop₁ent of healthcare business.

# Management Discussion and Analysis

## Financial Review

The Group recorded revenue of RMB378.9 ₙillion for the Reporting Period. After excluding the revenue of RMB5.9 ₙillion for property and other business, the revenue of healthcare business aₙounted to RMB373.0 ₙillion, representing an increase of 8.6% as coₙpared with that of the saₙe period of 2018, ₙainly because the revenue froₙ operating the Group's

During the Reporting Period, total revenue of the Group amounted to RMB378.9 million, representing an increase of 6.2% as compared with that of the same period of 2018, of which healthcare business revenue was RMB373.0 million, representing an increase of 8.6% as compared with that of the same period of 2018, mainly due to revenue from operating the Group's owned hospitals increased by 8.8% and management service fee income increased by 5.7%. The proportion of revenue from operating the Group's owned hospitals to healthcare business revenue increased to 96.6% (for the six months ended June 30, 2018: 96.5%), while the proportion of management service fee income to healthcare business revenue decreased to 3.4% (for the six months ended June 30, 2018: 3.5%).

*Revenue and cost of revenue from operating the Group's owned hospitals*

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

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (RMB'000) | (RMB'000) |
| | (Unaudited) | (Unaudited) |
| **Treatment and general healthcare services** | | |
| Revenue | 263,580 | 252,958 |
| Cost of revenue | 197,304 | 149,417 |
| Gross profit | 66,276 | 103,541 |
| **Pharmaceutical sales** | | |
| Revenue | 96,630 | 78,253 |
| Cost of revenue | 82,629 | 65,087 |
| Gross profit | 14,001 | 13,166 |
| **Owned hospitals** | | |
| Revenue | 360,210 | 331,211 |
| Cost of revenue | 279,933 | 214,504 |
| Gross profit | 80,277 | 116,707 |

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB360.2 million, representing an increase of RMB29.0 million as compared with that of the same period of 2018. During the Reporting Period, the gross profit of the Group's owned hospitals decreased by 31.2% as compared with that of the same period of 2018, mainly due to (i) the bed utilization rate was relatively low in newly opened owned hospitals in 2018; (ii) the Group adjusted its internal medical service constructure to adapt to the reform of the medical insurance payment methods; (iii) the substantial increase in employee benefits and expenses brought by the expanding network of medical facilities in the Group;

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

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| Inpatients | | |
| Inpatient bed as at period end | 5,593 | 4,180 |
| Effective inpatient service bed-day capacity | 1,012,333 | 756,580 |
| Utilization rate (%) | 84.9 | 89.5 |
| Number of inpatient bed-days | 859,061 | 676,929 |
| Treatment and general healthcare services revenue attributable to inpatients *(RMB'000)* | 251,945 | 243,876 |
| Average inpatient spending per bed-day on treatment and general healthcare services *(RMB)* | 293 | 360 |
| Pharmaceutical sales revenue attributable to inpatients *(RMB'000)* | 50,926 | 40,556 |
| Average inpatient spending per bed-day on pharmaceutical sales *(RMB)* | 59 | 60 |
| Total inpatient revenue ***(RMB'000)*** | 302,871 | 284,432 |
| Total average inpatient spending per bed-day ***(RMB)*** | 353 | 420 |
| Outpatients | | |
| Number of outpatient visits | 105,986 | 91,613 |
| Treatment and general healthcare services revenue attributable to outpatients *(RMB'000)* | 11,635 | 9,082 |
| Average outpatient spending per visit on treatment and general healthcare services *(RMB)* | 110 | 99 |
| Pharmaceutical sales revenue attributable to outpatients *(RMB'000)* | 45,704 | 37,697 |
| Average outpatient spending per visit on pharmaceutical sales *(RMB)* | 431 | 412 |
| Total outpatient revenue ***(RMB'000)*** | 57,339 | 46,779 |
| Total average outpatient spending per visit ***(RMB)*** | 541 | 511 |
| Total treatment and general healthcare services revenue ***(RMB'000)*** | 263,580 | 252,958 |
| Total pharmaceutical sales revenue ***(RMB'000)*** | 96,630 | 78,253 |

During the Reporting Period, inpatient revenue amounted to RMB302.9 million, representing an increase of 6.5% as compared with that of the same period of 2018, primarily due to: (i) the number of the Group's inpatient bed-days increased by 26.9% arising from the increase of inpatient beds in Geriatric Hospital, Taizhou Kangning Hospital and Hangzhou Yining Hospital; and (ii) the average inpatient spending per bed-day of the Group's owned hospitals decreased by 16.2% caused by reform of medical insurance payment methods. The proportion of inpatient revenue to our revenue from operating owned hospitals decreased to 84.1% (for the six months ended June 30, 2018: 85.9%).

During the Reporting Period, outpatient revenue amounted to RMB57.3 million, representing an increase of 22.6% as compared with that of the same period of 2018, primarily due to: (i) the increase of outpatient visits by 15.7%; and (ii) the increase of the average outpatient spending per visit by 5.9% due to the increased number of high-end patients. The proportion of outpatient revenue to our revenue from operating owned hospitals increased to 15.9% (for the six months ended June 30, 2018: 14.1%), mainly due to the proportion of inpatient revenue to revenue from operating owned hospitals decreased more significantly.

During the Reporting Period, due to the increase of both inpatient and outpatient business of owned hospitals, revenue from treatment and general healthcare services increased by 4.2% as compared with that of the same period of 2018, and decreased to 73.2% of revenue from operating our owned hospitals w 0 -1.556 TD9p3x month[(ended JuTD9pne 30, 20176.44.1;)8

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

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (RMB'000) | (RMB'000) |
| | (Unaudited) | (Unaudited) |

*Manage*ₙ *ent service fee inco*ₙ *e*

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

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (RMB'000) | (RMB'000) |
| | (Unaudited) | (Unaudited) |
| Revenue | 12,800 | 12,1067Fu4996.596 -1 |

## Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB92.0 million, representing a decrease of 28.9% as compared with that of the same period of 2018. The gross profit of healthcare business after excluding the property and other businesses amounted to RMB87.0 million, representing a decrease of 28.9% as compared with that of the same period of 2018. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| Treatment and general healthcare services | 25.1% | 40.9% |
| Pharmaceutical sales | 14.5% | 16.8% |
| Management services | 52.6% | 47.5% |
| Healthcare business | 23.3% | 35.7% |
| Property and other businesses | 85.2% | 51.6% |
| Consolidated gross profit margin | 24.3% | 36.3% |

During the Reporting Period, consolidated gross profit margin of the Group decreased to 24.3% of which the gross profit margin of treatment and general healthcare services decreased by 15.8 percentage points as compared with that of the same period of 2018, mainly due to average inpatient spending per bed-day have decreased, which was caused by medical insurance expenditure containment; the gross profit margin of pharmaceutical sales decreased by 2.3 percentage points as compared with that of the same period of 2018, mainly due to the payment standard for certain drugs have been further cut down, which was caused by implementation of the nationwide lowest drug price linkage in Zhejiang Province from May 1, 2019.

## Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB0.8 million (for the six months ended June 30, 2018: RMB3.4 million), mainly due to the new building of Wenzhou Kangning Hospital is expected to be exempt from property tax for three years from 2019.

## Selling Expenses

During the Reporting Period, the selling expenses of the Group a[illegible]ounted to RMB4.5 [illegible]illion (for the six [illegible]onths ended June 30, 2018: RMB2.6 [illegible]illion), which increased a lot as co[illegible]pared with that of the sa[illegible]e period of 2018, [illegible]ainly because the Group has set up the brand depart[illegible]ent to enhance the Group's brand influence. The selling expenses accounted for 1.2% of the Group's revenue of healthcare business (for six [illegible]onths ended June 30, 2018: 0.7%).

## Administrative Expenses

During the Reporting Period, ad[illegible]inistrative expenses of the Group pri[illegible]arily consist of benefits and expenses for the [illegible]anage[illegible]ent and ad[illegible]inistrative staff, depreciation and a[illegible]ortization, consultancy expenses, travelling expenses and other expenses. The table below sets forth a breakdown of ad[illegible]inistrative expenses of the Group for the periods indicated:

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (RMB'000) | (RMB'000) |
| | (Unaudited) | () |

## Research and Development Expenses

During the Reporting Period, the Group's research and development expenses amounted to RMB2.3 million (for the six months ended June 30, 2018: RMB3.0 million), representing a decrease of 23.3% as compared with that of the same period of 2018. The proportion of research and development expenses to the Group's healthcare business revenue decreased to 0.6% (for the six months ended June 30, 2018: 0.9%), mainly due to RMB0.6 million of it was recorded as intangible assets.

## Finance Expenses – Net

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

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (RMB'000) | (RMB'000) |
| | (Unaudited) | (Unaudited) |
| Interest income | 1,925 | 1,963 |
| Exchange losses | (759) | (355) |
| Borrowing interest expense | (3,520) | (4,135) |
| Interest expense on lease liabilities | (5,706) | – |
| The amortization of unrecognized financial charge | (1,841) | (2,750) |
| Others | (298) | (253) |
| Finance expenses – Net | (10,199) | (5,530) |

During the Reporting Period, the net finance expenses of the Group amounted to RMB10.2 million, representing an increase of RMB4.7 million as compared with that of the same period of 2018, primarily due to: (i) the interest expense on lease liabilities increased by RMB5.7 million caused by adoption of the revised Accounting Standards for Enterprises No. 21- Leases (the "new lease standard"); and (ii) the amortization of unrecognized financial charge decreased by RMB0.9 million as compared with that of the same period of 2018 due to the suspension of management business of Yanjiao Furen Hospital.

## Investment Income/(Losses)

Our investment income/(losses) consist of share of investment income/(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 income/(losses) for the periods indicated:

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (RMB'000) | (RMB'000) |
| | (Unaudited) | (Unaudited) |
| Share of losses of investment accounted for using the equity method | (2,525) | (4,318) |
| Gains arising from disposal of long-term equity investment | 26,074 | – |
| | 23,549 | (4,318) |

During the Reporting Period, our investment income amounted to RMB23.5 million, representing an increase of approximately RMB27.9 million as compared with that of the same period of 2018, mainly due to RMB22.3 million of investment income arising from disposing the equity in Beijing Yining Hospital and transferring from other equity, and RMB3.9 million of investment income from disposing the equity in Huainan Kangning Hospital.

## Assets Impairment Losses and Credit Impairment Losses

During the Reporting Period, assets impairment losses and credit impairment losses increased to RMB10.7 million in total (for the six months ended June 30, 2018: RMB6.9 million), and increased to 2.9% of revenue of healthcare business of the Group (for the six months ended June 30, 2018: 1.7%). As of June 30, 2019 and December 31, 2018, the provisions for bad debts of account receivable of the Group's healthcare business amounted to RMB29.7 million and RMB25.2 million respectively and accounted for 8.0% and 7.8% 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 and losses on scrapping of non-current assets. The table below sets forth a breakdown of our non-operating income, non-operating expenses and other gains for the periods indicated:

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (RMB'000) | (RMB'000) |
| | (Unaudited) | (Unaudited) |
| Derecognition of contractual rights of managing Yanjiao Furen Hospital | 25,666 | – |
| Government grants | 50 | 962 |
| Other non-operating income | 723 | 235 |
| Non-operating income | 26,439 | 1,197 |
| Losses on scrapping of non-current assets | (13,240) | – |
| Donation | (990) | (1,370) |
| Other non-operating expenses | (241) | (721) |
| Non-operating expenses | (14,471) | (2,091) |
| Other gains | 6,567 | 4,254 |

## Income Tax Expense

During the Reporting Period, income tax expense decreased to RMB7.1 million (for the six months ended June 30, 2018: RMB18.3 million), representing a decrease of 61.0% as compared with that of the same period of 2018, mainly due to the decrease of 10.9% of the Group's profits before income tax during the Reporting Period as compared with that of the same period of 2018. For the Reporting Period and the six months ended June 30, 2018, our actual tax rates were 13.5% and 30.9%, respectively. The decrease in actual tax rates during the Reporting Period was mainly due to the unrecognized deferred income tax liability, as the investment income generated from the investment of Beijing Yining Hospital and Huainan Kangning Hospital was a taxable temporary difference related to the investment of the subsidiaries and most likely cannot be taxed.

## 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 six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (RMB'000) | |

# Management Discussion and Analysis

## Financial Position

### Inventory

As of June 30, 2019, inventory balances amounted to RMB23.5 million (as of December 31, 2018: RMB20.8 million), mainly include: (i) the medical inventory and turnover materials amounted to RMB20.9 million (as of December 31, 2018: RMB18.2 million); and (ii) completed properties amounted to RMB2.6 million (as of December 31, 2018: RMB2.6 million), representing Phase II Works of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda. The table below sets forth the details of completed properties held by us during the Reporting Period:

| | |
|---|---|
| Completed properties | 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 June 30, 2019, the balance of accounts receivables amounted to RMB343.1 million (as of December 31, 2018: RMB299.8 million), among which the balance of accounts receivables for healthcare business amounted to RMB343.0 million, representing an increase of 15.3% as compared with that of December 31, 2018, mainly due to the increase of our revenue of healthcare business during the Reporting Period as compared with that of the same period of 2018, which was in line with the increase of business volume of our healthcare facilities.

During the Reporting Period, the accounts receivables turnover days of the Group's healthcare business were 168 days (for the six months ended June 30, 2018: 129 days).

## Other Receivables and Prepayments

As of June 30, 2019, other receivables and prepay[illegible]ents decreased to RMB70.4 [illegible]illion (as of Dece[illegible]ber 31, 2018: RMB74.7 [illegible]illion).

## Investment Properties

As of June 30, 2019, the balance of invest[illegible]ent properties a[illegible]ounted to RMB138.2 [illegible]illion (as of Dece[illegible]ber 31, 2018: RMB128.6 [illegible]illion), representing Phase I Works of Business Center of Wenzhou Higher Education Mega Center (3F & 4F) and Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2F to 11F) held by Wenzhou Guoda. During the Reporting Period, there was no significant change in the fair value of invest[illegible]ent properties. The following table sets out the details of our invest[illegible]ent properties during the Reporting Period:

| | |
|---|---|
| Invest[illegible]ent 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 nu[illegible]ber | Wen Guoyong (2012) No. 3-290602, Wen Guoyong (2012) No. 3-290604, Wen Guoyong (2012) No. 3-290616, Wen Guoyong (2012) No. 3-290617, 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. [illegible].) | 3,722.29 |
| Total floor area (Approx.) (Sq. [illegible].) | 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 properties are freehold properties |
| Invest[illegible]ent property | Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2F to 11F) |

# Management Discussion and Analysis

Address

## Liquidity and Capital Resources

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

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (RMB'000) | (RMB'000) |
| | (Unaudited) | (Unaudited) |
| Net cash generated from operating activities | 4,157 | 25,390 |
| Net cash used in investing activities | (75,880) | (132,285) |
| Net cash generated from/(used in) financing activities | (25,941) | 25,735 |
| Net decrease in cash and cash equivalents | (98,423) | (81,439) |

### Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB4.2 million, primarily consisting of net profit of RMB45.5 million and adjustments of RMB39.2 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 RMB72.2 million. We had cash outflow of RMB20.8 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 RMB75.9 million, primarily due to the amount of RMB63.0 million for purchasing property, plant and equipment, including the amounts paid for the relocation of Qingtian Kangning Hospital and Yongjia Kangning Hospital and the renovation of Phase II of Geriatric Hospital; and the amount of RMB13.0 million paid for investment as a minority shareholder.

### Net Cash Used in Financing Activities

During the Reporting Period, net cash used in financing activities amounted to RMB25.9 million, primarily due to the payment of lease liabilities of RMB47.4 million, while offsetting the net cash inflow of bank borrowings of RMB24.0 million.

### Significant Investment, Acquisition and Disposal

## Indebtedness

### Bank Borrowings

As of June 30, 2019, the balance of bank borrowings of the Group amounted to RMB249.0 million (as of December 31, 2018: RMB225.0 million), primarily attributable to repayment of borrowings of RMB146.0 million and the new borrowings of RMB170.0 million during the Reporting Period.

### Contingent Liabilities

As of June 30, 2019, 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, to the China Zheshang Bank. As of June 30, 2019, the mortgage loan procedures were still in progress.

### Lease Liabilities

The lease liabilities of the Group primarily consist of operating lease arrangements. As of June 30, 2019, the present values of unsettled lease payments under non-cancellable lease agreements were RMB191.3 million.

### Financial Instruments

Financial instruments of the Group consist of accounts receivables, 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.

### 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 for the six months ended June 30, 2019, the Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

### Gearing Ratio

As of June 30, 2019, the Group's gearing ratio (total liabilities divided by total assets) was 37.4% (as of December 31, 2018: 34.5%).

## Employees and Remuneration Policy

As of June 30, 2019, the Group had a total of 2,746 full-time employees (as of December 31, 2018: 2,581 full-time employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB128.1 million (for the six months ended June 30, 2018: RMB96.5 million). The average employees' remuneration is RMB96.2 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 supplementary circular of the Company dated May 30, 2018.

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

After the consideration and approval at the 15th meeting of the second session of Board of the Company convened at August 26, 2019, incentive Shares were granted to the second phase participants. Scope of the second phase participants includes core technical personnel of the Company and other persons who, in the opinion of the Board, shall be incentivized. The grant of the second phase grant scheme comprised of 37 persons, and the total number of Shares granted was 273,161 Shares. As 12 persons voluntarily abstained to subscribe, the actual grant comprised of 25 persons, and the actual aggregate number of Shares granted was 191,022 Shares, representing 0.2530% of total issued share capital of the Company as of date of this interim report. The details are shown as the following table. The Participants shall pay the subscription amounts calculated by the amount of grants multiplied by the grant price (RMB10.47 per Share).

| Category of personnel | Number of persons granted (person) | Number of Shares granted (Share) | Number of grant representing total issued share capital of the Company |
|---|---|---|---|
| Core technical personnel | 19 | 152,818 | 0.2024% |
| Other persons who, in the opinion of the Board, shall be incentivized | 6 | 38,204 | 0.0506% |
| Total | 25 | 191,022 | 0.2530% |

The Shares granted to the participants are restricted Shares of the Co₁pany.

The incentive Shares under the incentive sche₁e co₁prise the reserved part of the Wenzhou Zhenyan Kangning Invest₁ent Manage₁ent L.P. (溫州箴言康寧投資管理合夥企業(有限合夥)) by the first grant shall. Participants shall subscribe for and contribute capital at the grant price and beco₁e a li₁ited partner of the partnership.

The locked-up period of the incentive Shares granted to the participants is 48 ₁onths, calculated fro₁ the date of the participants are granted the incentive Shares.

Incentive Shares under the grant shall be unlocked in one go after 48 ₁onths fro₁ the date of the participants are granted the incentive Shares.

# Corporate Governance and Other Information

## CORPORATE GOVERNANCE

The Board is of the opinion that the Company has complied with all code provisions in the CG Code during the Reporting Period.

## 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. Based on specific enquiries to all Directors and Supervisors, the Directors and the Supervisors have complied with the required standard set out in the Model Code during the period from January 1, 2019 to June 30, 2019. The Company minimizes the scope of insiders before publication of such inside information. 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 file 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 the punishment decisions or transfer them to the judicial organs for handling in accordance with the law, in accordance with the seriousness of the case.

## ACCOUNTING STANDARDS

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

## ACCOUNTING POLICIES

### Accounting Policies

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

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

The financial statements are prepared on a going concern basis.

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

## Adoption of New Accounting Policies

In 2018, the Ministry of Finance issued the new lease standard, and issued "Circular on Revising and Issuing the 2019 Versions of General Corporate Financial Statements Templates" (Cai Kuai [2019] No. 6). The Group's financial statements for the six months ended June 30, 2019 are prepared in accordance with the above standard and circular.

The Group adopted the new lease standard at January 1, 2019. According to the relevant provisions of the new lease standard, the Group has not adjusted the comparative financial statements for 2018.

| Contents and reasons of the modification of accounting policies | The line items affected | The amounts (RMB) affected January 1, 2019 The Group |
|---|---|---|
| For operating lease contracts that existed prior to the initial implementation of the new lease standard, the Group adopts different methods according to the remaining lease period: | Right-of-use assets | 234,963,917 |
| | Lease liabilities | (198,596,521) |
| If the remaining lease period is longer than one year, the Group recognises lease liabilities based on the remaining lease payment and incremental borrowing rate on January 1, 2019 ("dated of initial implementation"). Right-of-use assets are recognised as the same amount as lease liabilities, and are adjusted according to the prepaid rent. | Current portion of non-current liabilities | (26,230,361) |
| | Prepayments | (13,968,903) |
| | Other payable | 3,831,868 |
| If the remaining lease period is less than one year, the Group adopts a simplified method of not recognising the right-of-use assets and lease liabilities, with no significant impact on the financial statements. | | |
| For operating lease contracts with low value that existed prior to the initial implementation of the new lease standard, the Group adopts simplified method of not recognising the right-of-use assets and lease liabilities, with no significant impact on the financial statements. | | |

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

## AUDIT COMMITTEE AND REVIEW OF THE INTERIM REPORT AND THE INTERIM RESULTS

The Co₁pany established the Audit Co₁₁ittee in co₁pliance with Rule 3.21 and Rule 3.22 of the Hong Kong Listing Rules and with written ter₁s of reference in co₁pliance with the CG Code and the roles and the responsibilities delegated to the Audit Co₁₁ittee by the Board. The Audit Co₁₁ittee consists of two independent non-executive Directors, Mr. HUANG Zhi (the chair₁an of the Audit Co₁₁ittee), Mr. GOT Chong Key Clevin, and one non-executive Director, Mr. LIN Lijun. The Audit Co₁₁ittee has reviewed this interi₁ report and the Group's financial infor₁ation for the six ₁onths ended June 30, 2019, and confir₁s that the applicable accounting principles, standards and require₁ents have been co₁plied with, and that adequate disclosures have been ₁ade.

## INTERIM DIVIDEND

The Board does not reco₁₁end the pay₁ent of an interi₁ dividend for the six ₁onths ended June 30, 2019 (for the six ₁onths ended June 30, 2018: nil).

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Co₁pany nor any of its subsidiaries purchased, sold or redee₁ed any of the Co₁pany's listed securities.

## CHANGE IN SUPERVISORS

On June 18, 2019, Mr. CHEN Jian was appointed as an independent Supervisor of the second session of Supervisory Co₁₁ittee of the Co₁pany effective fro₁ June 18, 2019 at the AGM. Due to personal work arrange₁ent, Mr. MA Jinlong resigned as an independent Supervisor of the Co₁pany on June 18, 2019.

## EVENTS AFTER THE REPORTING PERIOD

After the Reporting Period and up to the date of this interi₁ report, the Group has no ₁aterial subsequent event.

## CHANGES IN DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S BIOGRAPHICAL DETAILS

Set out below are the changes in the Directors', the Supervisors' and the chief executives' biographical details between the period of January 1, 2019 to June 30, 2019 and up to the date of this interi*1 report, which are required to be disclosed pursuant to Rule 13.51B of the Hong Kong Listing Rules:

| | | Position held at other members of the Group and term of office | |
|---|---|---|---|
| Name | Member of the Group | Positions held at members of the Group | Term of office |
| Mr. WsW9yiane | | | |

On February 28, 2017, Cangnan Kangning Hospital successfully bidded for the Subject Property at the online judicial auction held by the People's Court of Cangnan County. On July 13, 2017, the Co₁pany has co₁pleted the registration of the transfer of the Subject Property and obtained the real estate title certificate nu₁bered Zhe (2017) Cangnan County Real Estate Title No. 0018361.

On Septe₁ber 12, 2019, Cangnan Kangning Hospital obtained the Proposal for Te₁porary Change of Property Use (《薪쵄改變房屋用途意見書》) issued by Cangnan County Housing and Urban-Rural Develop₁ent Bureau, and signed a relevant agree₁ent with it, agreeing to te₁porarily change the use of the Subject Property as a hospital.

At present, the construction project related to the Subject Property of Cangnan Kangning Hospital is undergoing the final stage of co₁pletion and acceptance. It is expected that, in the second half of 2019, the Subject Property of Cangnan Kangning Hospital will co₁plete its overall relocation and be officially put into use.

Further disclosure will be ₁ade in the Co₁pany's annual report as and when appropriate in relation to the develop₁ents of the above ₁atter.

## Use of Proceeds fro₁ Initial Public Offering

The H Shares were listed on the Main Board of the Hong Kong Stock Exchange on Nove₁ber 20, 2015. The Co₁pany's net proceeds fro₁ the initial public offering a₁ounted to approxi₁ately HK$693.2 ₁illion (equivalent to RMB580.7

# Corporate Governance and Other Information

Save as used above, as of June 30, 2019, the remaining funds of the Company's proceeds were approximately HK$7.7 million, US$1.2 million and RMB2.3 million, which were deposited in a special account opened by the Company in the bank.

The Company will gradually put the above-mentioned net proceeds into use according to the 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:

| | Amount of net proceeds used as of the Latest Practicable Date | | Planned amount of net proceeds used as of December 31, 2019 | |
|---|---|---|---|---|
| Use of net proceeds upon the change | Approximate (RMB million) | Approximate (%) | Approximate (RMB million) | Approximate (%) |
| To expand and ramp up our healthcare facility network and operating capacity | 400.4 | 68.2 | 0.0 | 0.0 |
| To finance renovation and upgrades for Wenzhou Kangning Hospital | 88.3 | 15.0 | 0.0 | 0.0 |
| Research, teaching and personnel training purposes | 41.3 | 7.0 | 0.0 | 0.0 |
| To develop our mobile and online platform for medical consultation and upgrade our information technology infrastructure | 16.1 | 2.7 | 1.3 | 100.0 |
| Working capital and other general corporate purposes | 41.3 | 7.1 | 0.0 | 0.0 |
| Total | 587.4 | 100.0 | 1.3 | 100.0 |

# Corporate Governance and Other Information

## DISCLOSURE OF INTERESTS

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

As of June 30, 2019, the interests and short positions of the Directors, the Supervisors and the chief executives of the Co₁pany in the Shares, underlying Shares and debentures of the Co₁pany or any of its associated corporations (within the ₁eaning of Part XV of the SFO) as notified to the Co₁pany 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 dee₁ed to have under such provisions of the SFO), or as recorded in the register ₁aintained by the Co₁pany under Section 352 of the SFO, or as notified to the Co₁pany 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 | Do₁estic 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 | Do₁estic 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 | Do₁estic 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 Do₁estic Shares and 20,240,000 H Shares (an aggregate of 75,500,000 Shares) issued by the Co₁pany as of June 30, 2019.

(2) Mr. GUAN Weili is the spouse of Ms. WANG Lianyue and therefore, Mr. GUAN Weili is dee₁ed to be interested in the Do₁estic Shares held by Ms. WANG Lianyue, and Ms. WANG Lianyue is dee₁ed to be interested in the Do₁estic 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 Invest₁ent Manage₁ent L.P. ("**Xinshi Kangning**"), which is a li₁ited partnership, and holds approxi₁ately 34.57% in Xinshi Kangning. Therefore, by virtue of Part XV of the SFO, Ms. WANG Hongyue is dee₁ed to be interested in all the Do₁estic Shares held by Xinshi Kangning in the Co₁pany.

Save as disclosed above, as of June 30, 2019, to the knowledge of the Board, none of the Directors, the Supervisors or the chief executives of the Co₁pany had any interests or short positions in the Shares, underlying Shares and debentures of the Co₁pany or any of its associated corporations (within the ₁eaning of Part XV of the SFO) which were required to be: (i) notified to the Co₁pany 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 the chief executives of the Co₁pany were taken or dee₁ed to have under such provisions of the SFO); (ii) recorded in the register kept by the Co₁pany pursuant to Section 352 of the SFO; or (iii) notified to the Co₁pany and the Hong Kong Stock Exchange pursuant to the Model Code.

## Interests of Substantial Shareholders

As of June 30, 2019, according to the register kept by the Co₁pany 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 person/entity (other than the Directors, the Supervisors or the chief executives of the Co₁pany) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Co₁pany and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or ₁ore of the no₁inal value of any class of share capital carrying rights to vote on all circu₁stances at general ₁eetings of the Co₁pany:

| 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 Invest₁ent 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」)) | Do₁estic Shares | Beneficial owner | 15,384,541(L) | 27.84% | 20.38% |
| Guangzhou GL Capital GP L.P. [2] (廣州德福投資諮詢合夥企業(有限合夥)) | Do₁estic Shares | Interest in a controlled corporation | 15,384,541(L) | 27.84% | 20.38% |
| Guangzhou Auto₁obile Group Capital Co., Ltd. [3] (廣汽資本有限公司) | Do₁estic Shares | Interest in a controlled corporation | 15,384,541(L) | 27.84% | 20.38% |
| Mr. XU Yi [4] | Do₁estic Shares | Interest of spouse | 5,527,350(L) | 10.00% | 7.32% |
| Shanghai Tanying Invest₁ent L.P. (上海檀英投資合夥企業(有限合夥)) | Do₁estic Shares | Beneficial owner | 3,253,180(L) | 5.89% | 4.31% |

| 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] |
|---|---|---|---|---|---|
| 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) | 11.77% | 8.62% |
| Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝沛投資有限公司) | Domestic Shares | Beneficial owner | 2,780,000(L) | 5.03% | 3.68% |
| 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 | Person having a security interest<br>Approved lending agent | 1,929,254(L)<br>2,699(L), (P) | 9.53%<br>0.01% | 2.56%<br>0.00% |
| 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% |

| 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] |
|---|---|---|---|---|---|
| OrbiMed Partners Master Fund Li$_{\square}$ited | H Shares | Beneficial owner | 1,279,900(L) | 6.32% | 1.70% |
| Pri$_{\square}$e Capital Manage$_{\square}$ent Co$_{\square}$pany Li$_{\square}$ited | H Shares | Invest$_{\square}$ent $_{\square}$anager | 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)<br>1,143,634(S)* | 5.97%<br>5.65% | 1.60%<br>1.51% |
| UBS Group AG | H Shares | Interest in a controlled corporation | 3,880,900(L) | 19.17% | 5.14% |

Notes:

(L): Long position

(P): Lending Pool

(S): Short position

* Cash settled unlisted derivatives

(1) The shareholding percentages are calculated on the basis of 55,260,000 Do$_{\square}$estic Shares and 20,240,000 H Shares (an aggregate of an) id12) 1.5.44

(6) Mr. ZHAO Yongsheng holds 99.90% equity interest in Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥)). Therefore, by virtue of Part VX of the SFO, Mr. ZHAO Yongsheng is deemed to be interested in all the Domestic Shares held by Shanghai Qiangang Investment 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 Investment 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 Investment 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. (青島金石灝內投資有限公司) 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 Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝內投資有限公司) in the Company by virtue of Part XV of the SFO.

Save as disclosed above, as of June 30, 2019, to the knowledge of the Directors, no other person (other than a Director, a Supervisor or a 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.

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

Zhejiang, the PRC
August 26, 2019

# Consolidated Balance Sheet

As at 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

| ASSETS | Note | 30 June 2019 (Unaudited) | 31 December 2018 (Audited) |
|---|---|---|---|
| Current assets | | | |
| Cash at bank and on hand | 4(1) | 88,643,935 | 187,076,694 |
| Accounts receivable | 4(2) | 343,085,203 | 299,750,063 |
| Other receivables | 4(3) | 63,601,330 | 58,051,581 |
| Advances to suppliers | | 6,773,294 | 16,683,839 |
| Inventories | | 23,496,443 | 20,813,747 |
| Current portion of non-current assets | | 12,688,704 | 12,688,704 |
| Total current assets | | 538,288,909 | 595,064,628 |
| Non-current assets | | | |
| Other non-current financial assets | | 50,974,323 | 50,974,323 |
| Long-term equity investments | 4(4) | 84,166,020 | 100,321,983 |
| Investment properties | 4(5) | 138,214,682 | 128,568,963 |
| Fixed assets | 4(6) | 429,798,060 | 444,322,834 |
| Construction in progress | 4(7) | 128,365,125 | 131,187,406 |
| Right-of-use assets | 4(8) | 262,857,848 | N/A |
| Intangible assets | 4(9) | 119,723,596 | 185,257,977 |
| Goodwill | 4(10) | 47,503,344 | 19,296,005 |
| Long-term prepaid expenses | 4(11) | 159,645,805 | 144,386,669 |
| Deferred tax assets | | 47,483,569 | 33,825,347 |
| Other non-current assets | | 3,209,169 | 7,517,900 |
| Total non-current assets | | 1,471,941,541 | 1,245,659,407 |
| TOTAL ASSETS | | 2,010,230,450 | 1,840,724,035 |

# Balance Sheet

As at 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

| ASSETS | Note | 30 June 2019 (Unaudited) | 31 December 2018 (Audited) |
|---|---|---|---|
| Current assets | | | |
| Cash at bank and on hand | | 59,816,201 | 147,680,587 |
| Accounts receivable | 16(1) | 117,715,778 | 108,177,162 |
| Advances to suppliers | | 4,172,814 | 3,882,154 |
| Other receivables | 16(2) | 620,179,047 | 554,772,707 |
| Inventories | | 9,218,295 | 8,404,245 |
| Current portion of non-current assets | | 12,688,704 | 12,688,704 |
| Total current assets | | 823,790,839 | 835,605,559 |
| Non-current assets | | | |
| Other non-current financial assets | | 50,974,323 | 50,974,323 |
| Long-term equity investments | 16(3) | 263,785,541 | 172,804,786 |
| Fixed assets | | 313,853,097 | 319,978,975 |
| Construction in progress | | 677,195 | 4,508,592 |
| Intangible assets | | 20,521,329 | 96,340,865 |
| Long-term prepaid expenses | | 16,981,095 | 18,656,548 |
| Other non-current assets | | 120,000 | 171,000 |
| Deferred tax assets | | 7,362,210 | 7,665,855 |
| Total non-current assets | | 674,274,790 | 671,100,944 |
| TOTAL ASSETS | | 1,498,065,629 | 1,506,706,503 |

# Balance Sheet

As at 30 June 2019

(All amounts in RMB Yuan unless otherwise stated)

| LIABILITIES AND SHAREHOLDERS' EQUITY | 30 June 2019 (Unaudited) | 31 December 2018 (Audited) |
|---|---|---|
| **Current liabilities** | | |
| Short-term borrowings | 170,000,000 | 105,000,000 |
| Accounts payable | 26,253,479 | 24,081,460 |
| Contract liabilities | 3,767,486 | 779,733 |
| Employee benefits payable | 7,927,922 | 13,395,856 |
| Taxes payable | 10,311,743 | 10,129,626 |
| Other payables | 63,207,188 | 57,248,249 |
| Current portion of non-current liabilities | 51,688,704 | 63,757,304 |
| **Total current liabilities** | 333,156,522 | 274,392,228 |
| **Non-current liabilities** | | |
| Long-term borrowings | 40,000,000 | 40,000,000 |
| Long-term payables | – | 86,645,200 |
| Deferred income | 10,101,163 | 10,253,059 |
| **Total non-current liabilities** | 50,101,163 | 136,898,259 |
| **Total liabilities** | 383,257,685 | 411,290,487 |
| **Shareholders' equity** | | |
| Share capital | 75,500,000 | 75,500,000 |
| Capital surplus | 831,490,826 | 828,931,889 |
| Less: Treasury share | (21,780,000) | (21,910,000) |
| Surplus reserve | 29,981,034 | 29,981,034 |
| Undistributed profits | 199,616,084 | 182,913,093 |
| **Total shareholders' equity** | 1,114,807,944 | 1,095,416,016 |
| **Total liabilities and shareholders' equity** | 1,498,065,629 | 1,506,706,503 |

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 |

| Item | Note | For the six months ended 30 June 2019 (Unaudited) | For the six months ended 30 June 2018 (Unaudited) |
|---|---|---|---|
| 1. Revenue | 4(22) | 378,910,291 | 356,778,081 |
| Less: Cost of sales | 4(22), 4(23) | (286,882,183) | (227,375,436) |
| Taxes and surcharges | | (831,972) | (3,375,006) |
| Selling and distribution expenses | 4(23) | (4,476,806) | (2,570,269) |
| General and administrative expenses | 4(23) | (52,890,346) | (50,950,061) |
| Research and development expenses | | (2,304,024) | – |
| Financial expenses – net | 4(24) | (10,198,874) | (5,530,111) |
| Including: Interest expenses | | (11,068,131) | (6,884,642) |
| Interest income | | 1,925,426 | 1,962,528 |
| Add: Other income | | 6,567,461 | 4,253,548 |
| Investment gains/(losses) | 4(25) | 23,549,073 | (4,318,848) |
| Including: Share of losses of investments in associates | | (2,525,317) | (4,318,848) |
| Less: Credit impairment losses | 4(26) | (10,730,916) | (5,742,669) |
| Asset impairment losses | | – | (1,160,929) |
| Losses on disposal of assets | | (18,587) | (6,378) |
| 2. Operating profit | | 40,693,117 | 60,001,922 |
| Add: Non-operating income | 4(27) | 26,438,682 | 1,197,342 |
| Less: Non-operating expenses | 4(27) | (14,470,650) | (2,091,319) |
| 3. Total profit | | 52,661,149 | 59,107,945 |
| Less: Income tax expenses | 4(28) | (7,119,918) | (18,256,405) |
| 4. Net profit | | 45,541,231 | 40,851,540 |
| Classified by continuity of operations | | | |
| Net profit from continuing operations | | 45,541,231 | 40,851,540 |
| Net profit from discontinued operations | | – | – |
| Classified by ownership of the equity | | | |
| Net profit attributable to shareholders of the Company | | 52,064,124 | 41,986,854 |
| Minority interests | | (6,522,893) | (1,135,314) |
| 5. Total comprehensive income | | 45,541,231 | 40,851,540 |
| Attributable to shareholders of the Company | | 52,064,124 | 41,986,854 |
| Attributable to minority interests | | (6,522,893) | (1,135,314) |
| 6. Earnings per share | | | |
| Basic earnings per share (RMB Yuan) | 4(29) | 0.71 | 0.57 |
| Diluted earnings per share (RMB Yuan) | 4(29) | 0.70 | 0.57 |

The accompanying notei46 Tmc 1 1 Td7.71 /T1_191.41_1 1 Tf 11.229 0 Td  0 Td (4(29))Tj /T1_1 1 Tf 11.229 0 Td (0.73824.8505 141.6

| Item | Note | For the six months ended 30 June 2019 (Unaudited) | For the six months ended 30 June 2018 (Unaudited) |
|---|---|---|---|
| 1. Revenue | 4(22) | 378,910,291 | 356,778,081 |
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| General and administrative expenses | 4(23) | (52,890,346) | (50,950,061) |
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| Less: Credit impairment losses | 4(26) | (10,730,916) | (5,742,669) |
| Asset impairment losses | | – | (1,160,929) |
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## Principal Financial Data and Indicators

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (RMB'000) | (RMB'000) |
| | (Unaudited) | (Unaudited) |
| Revenue | 378,910 | 356,778 |

## CORPORATE GOVERNANCE

The Board is of the opinion that the Company has complied with all code provisions in the CG Code during the Reporting Period.

## 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. Based on specific enquiries to all Directors and Supervisors, the Directors and the Supervisors have complied with the required standard set out in the Model Code during the period from January 1, 2019 to June 30, 2019. The Company minimizes the scope of insiders before publication of such inside information. 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 file 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 the punishment decisions or transfer them to the judicial organs for handling in accordance with the law, in accordance with the seriousness of the case.

## ACCOUNTING STANDARDS

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

## ACCOUNTING POLICIES

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

The financial statements are prepared on a going concern basis.

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

(6) Mr. ZHAO Yongsheng holds 99.90% equity interest in Shanghai Qiangang Investment Management L.P. (j û ] ³ M # ¥ « † 8€ Þ " ¥ « )). Therefore, by virtue of Part VX of the SFO, Mr. ZHAO Yongsheng is deemed to be interested in all the Domestic Shares held by Shanghai Qiangang Investment Management L.P. j( û ] ³ M # ¥ « † 8€ Þ " ¥ « )) in the Company.

(7) Shanghai Shengge Investment Management Co., Ltd. j ( 8 ³ M # Þ " ® ! ) is the general partner of Shanghai Qiangang Investment Management L.P. (j û ] ³ M # ¥ « † 8€ Þ " ¥ « )) and Shanghai Tanying Investment L.P. (j å õ ³ ¥ « † 8€ Þ " ¥ « )). Therefore, by virtue of Part XV of the SFO, Shanghai Shengge Investment Management Co., Ltd. j ( 8 ³ M # Þ " ® ! ) is deemed to be interested in all the Domestic Shares held by Shanghai Qiangang Investment Management L.P. (j û ] ³ M # ¥ « † 8€ Þ " ¥ « )) and Shanghai Tanying Investment L.P. (j å õ ³ ¥ « † 8€ Þ " ¥ « ))in the Company.

(8) Qingdao Jinshi Haorui Investment Co., Ltd. ( ¡ ¥ – i4Š « ³ Þ " ® ! ) is wholly held by Jinshi Investment Co., Ltd. ( – i ³ Þ " ® ! ). Therefore, Jinshi Investment Co., Ltd. (– i ³ Þ " ® ! ) is deemed to be interested in the Domestic Shares held by Qingdao Jinshi Haorui Investment Co., Ltd. ( ¡ ¥ – i4Š « ³ Þ " ® ! ) in the Company by virtue of Part XV of the SFO.

Save as disclosed above, as of June 30, 2019, to the knowledge of the Directors, no other person (other than a Director, a Supervisor or a 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.

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

Zhejiang, the PRC
August 26, 2019

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

The incentive Shares under the incentive scheme comprise the reserved part of the Wenzhou Zhenyan Kangning Investment Management L.P. (] È Î p ¹ ³ M # ¥ « † 8€ Þ " ¥ « • ) by the first grant shall. Participants shall subscribe for and contribute capital at the grant price and become a limited partner of the partnership.

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

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

| ASSETS | Note | 30 June 2019 (Unaudited) | 31 December 2018 (Audited) |
|---|---|---|---|
| Current assets | | | |
| Cash at bank and on hand | | 59,816,201 | 147,680,587 |
| Accounts receivable | 16(1) | 117,715,778 | 108,177,162 |
| Advances to suppliers | | 4,172,814 | 3,882,154 |
| Other receivables | 16(2) | 620,179,047 | 554,772,707 |
| Inventories | | 9,218,295 | 8,404,245 |
| Current portion of non-current assets | | 12,688,704 | 12,688,704 |
| Total current assets | | 823,790,839 | 835,605,559 |
| Non-current assets | | | |
| Other non-current financial assets | | 50,974,323 | 50,974,323 |
| Long-term equity investments | 16(3) | 263,785,541 | 172,804,786 |
| Fixed assets | | 313,853,097 | 319,978,975 |
| Construction in progress | | 677,195 | 4,508,592 |
| Intangible assets | | 20,521,329 | 96,340,865 |
| Long-term prepaid expenses | | 16,981,095 | 18,656,548 |
| Other non-current assets | | 120,000 | 171,000 |
| Deferred tax assets | | 7,362,210 | 7,665,855 |
| Total non-current assets | | 674,274,790 | 671,100,944 |
| TOTAL ASSETS | | 1,498,065,629 | 1,506,706,503 |

| Item | Note | For the six months ended 30 June 2019 (Unaudited) | For the six months ended 30 June 2018 (Unaudited) |
|---|---|---|---|
| 1. Revenue | 4(22) | 378,910,291 | 356,778,081 |
| Less: Cost of sales | 4(22), 4(23) | (286,882,183) | (227,375,436) |
| Taxes and surcharges | | (831,972) | (3,375,006) |
| Selling and distribution expenses | 4(23) | (4,476,806) | (2,570,269) |
| General and administrative expenses | 4(23) | (52,890,346) | (50,950,061) |
| Research and development expenses | | (2,304,024) | – |
| Financial expenses – net | 4(24) | (10,198,874) | (5,530,111) |
| Including: Interest expenses | | (11,068,131) | (6,884,642) |
| Interest income | | 1,925,426 | 1,962,528 |
| Add: Other income | | 6,567,461 | 4,253,548 |
| Investment gains/(losses) | 4(25) | 23,549,073 | (4,318,848) |
| Including: Share of losses of investments in associates | | (2,525,317) | (4,318,848) |
| Less: Credit impairment losses | 4(26) | (10,730,916) | (5,742,669) |
| Asset impairment losses | | – | (1,160,929) |
| Losses on disposal of assets | | (18,587) | (6,378) |
| 2. Operating profit | | 40,693,117 | 60,001,922 |
| Add: Non-operating income | 4(27) | 26,438,682 | 1,197,342 |
| Less: Non-operating expenses | 4(27) | (14,470,650) | (2,091,319) |
| 3. Total profit | | 52,661,149 | 59,107,945 |
| Less: Income tax expenses | 4(28) | (7,119,918) | (18,256,405) |
| 4. Net profit | | 45,541,231 | 40,851,540 |
| Classified by continuity of operations | | | |
| Net profit from continuing operations | | 45,541,231 | 40,851,540 |
| Net profit from discontinued operations | | – | – |
| Classified by ownership of the equity | | | |
| Net profit attributable to shareholders of the Company | | 52,064,124 | 41,986,854 |
| Minority interests | | (6,522,893) | (1,135,314) |
| 5. Total comprehensive income | | 45,541,231 | 40,851,540 |
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| Attributable to minority interests | | (6,522,893) | (1,135,314) |
| 6. Earnings per share | | | |
| Basic earnings per share (RMB Yuan) | 4(29) | 0.71 | 0.57 |
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| LIABILITIES AND SHAREHOLDERS ' EQUITY | 30 June 2019 (Unaudited) | 31 December 2018 (Audited) |
|---|---|---|
| Current liabilities | | |
| Short-term borrowings | 170,000,000 | 105,000,000 |
| Accounts payable | 26,253,479 | 24,081,460 |
| Contract liabilities | 3,767,486 | 779,733 |
| Employee benefits payable | 7,927,922 | 13,395,856 |
| Taxes payable | 10,311,743 | 10,129,626 |
| Other payables | 63,207,188 | 57,248,249 |
| Current portion of non-current liabilities | 51,688,704 | 63,757,304 |
| Total current liabilities | 333,156,522 | 274,392,228 |
| Non-current liabilities | | |
| Long-term borrowings | 40,000,000 | 40,000,000 |
| Long-term payables | – | 86,645,200 |
| Deferred income | 10,101,163 | 10,253,059 |
| Total non-current liabilities | 50,101,163 | 136,898,259 |
| Total liabilities | 383,257,685 | 411,290,487 |
| Shareholders' equity | | |
| Share capital | 75,500,000 | 75,500,000 |
| Capital surplus | 831,490,826 | 828,931,889 |
| Less: Treasury share | (21,780,000) | (21,910,000) |
| Surplus reserve | 29,981,034 | 29,981,034 |
| Undistributed profits | 199,616,084 | 182,913,093 |
| Total shareholders' equity | 1,114,807,944 | 1,095,416,016 |
| Total liabilities and shareholders' equity | 1,498,065,629 | 1,506,706,503 |

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 |

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

The incentive Shares under the incentive scheme comprise the reserved part of the Wenzhou Zhenyan Kangning Investment Management L.P. (] È Î p ¹ ³ M # ¥ « † 8€ Þ " ¥ « • ) by the first grant shall. Participants shall subscribe for and contribute capital at the grant price and become a limited partner of the partnership.

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

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

## CORPORATE GOVERNANCE

The Board is of the opinion that the Company has complied with all code provisions in the CG Code during the Reporting Period.

## 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. Based on specific enquiries to all Directors and Supervisors, the Directors and the Supervisors have complied with the required standard set out in the Model Code during the period from January 1, 2019 to June 30, 2019. The Company minimizes the scope of insiders before publication of such inside information. 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 file 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 the punishment decisions or transfer them to the judicial organs for handling in accordance with the law, in accordance with the seriousness of the case.

## ACCOUNTING STANDARDS

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

## ACCOUNTING POLICIES

### Accounting Policies

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The financial statements are prepared on a going concern basis.

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

## CORPORATE GOVERNANCE

The Board is of the opinion that the Company has complied with all code provisions in the CG Code during the Reporting Period.

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