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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[Note] (retired on June 18, 2020)
Mr. HUANG Zhi[Note] (retired on June 18, 2020)
Mr. GOT Chong Key Clevin[Note] (retired on June 18, 2020)
Mr. ZHAO Xudong (appointed on June 18, 2020)
Ms. ZHONG Wentang (appointed on June 18, 2020)
Mr. LIU Ning (appointed on June 18, 2020)

Audit Committee

Ms. ZHONG Wentang *(Chairman)*
Mr. LIU Ning
Mr. YANG Yang

Nomination Committee

Mr. LIU Ning *(Chairman)*
Mr. ZHAO Xudong
Mr. GUAN Weili

Remuneration Committee

Mr. ZHAO Xudong *(Chairman)*
Ms. ZHONG Wentang
Mr. LIU Ning

Strategy and Risk Management Committee

Mr. GUAN Weili *(Chairman)*
Ms. ZHONG Wentang
Mr. LIN Lijun

Supervisory Committee

Mr. SUN Fangjun *(Chairman)*
Ms. HUANG Jing'ou
Mr. XIE Tiefan
Mr. QIAN Chengliang
Mr. CHEN Jian

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
the PRC

Note:

On June 18, 2020, Mr. CHONG Yat Keung retired as an independent non-executive Director, the chairman of the Remuneration Committee and the member of the Nomination Committee of the Company; Mr. HUANG Zhi retired as an independent non-executive Director, the chairman of the Audit Committee, the member of the Remuneration Committee and the member of the Strategy and Risk Management Committee of the Company; and Mr. GOT Chong Key Clevin retired as an independent non-executive Director, the chairman of the Nomination Committee and the member of the Audit Committee of the Company.

Corporate Information

Principal Place of Business in Hong Kong

40/F, Dah Sing Financial Centre
248 Queen's Road East
Wanchai
Hong Kong

H Share Registrar

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

Stock Code

2120

Company's Website

www.knhosp.cn

Investor Relations

Telephone:	(86) 577 8877 1689
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Financial Highlights

Principal Financial Data and Indicators

	For the year ended December 31,				
	2020	2019	2018	2017	2016
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Revenue	1,031,284	860,692	745,972	666,436	415,408
Profit before income tax	87,904	55,523	106,910	69,863	92,139
Income tax expenses	(28,949)	(17,295)	(31,941)	(22,027)	(26,588)
Net profit	58,955	38,228	74,969	47,836	65,551
Net profit attributable to Shareholders of the Company	70,000	57,289	80,596	49,071	68,832
Non-controlling interests	(11,045)	(19,061)	(5,627)	(1,235)	(3,281)

	As of December 31,				
	2020	2019	2018	2017	2016
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Total assets	2,248,947	2,117,352	1,840,724	1,690,401	1,603,382
Total liabilities	934,523	855,843	635,451	579,904	562,012
Total equity	1,314,424	1,261,509	1,205,273	1,110,497	1,041,370
Equity attributable to Shareholders of the Company	1,211,846	1,164,484	1,120,995	1,051,834	1,008,383
Non-controlling interests	102,578	97,025	84,278	58,662	32,987

Chairman's Statement

Dear Shareholders,

2020 was an extraordinary and challenging year for the Group. In the face of the sudden global Coronavirus Disease 2019 (the "COVID-19 epidemic"), the Group consistently adhered to the core of "

Management Discussion and Analysis

Business Review and Outlook

Psychiatric Specialized Medical Service Industry in China

With the development of social economy and the transformation of people's lifestyles, the support of national policies and the increasing demand for treatment of psychiatric disorders, private psychiatric specialized hospitals in China have been developing rapidly since the 21st century. In March 2015, the State Council promulgated the "Outline of the National Medical and Healthcare Service System Plan (2015-2020)", which proposed to further optimize the allocation of psychiatric medical and healthcare resources, with professional psychiatric healthcare institutions as the main part, psychiatry departments of general hospitals as the auxiliary part and primary medical and healthcare institutions and community rehabilitation agencies for psychiatric illness as the basis, to establish a sound psychiatric healthcare service system and network. Benefiting from policy encouragement to the psychiatric medical industry, the private psychiatric specialized hospitals play increasingly significant roles in the overall psychiatric specialized medical services with its market size expanding and its outpatients and inpatients keeping growing.

At present, the distribution of psychiatric medical resources in China shows large regional differences. The unreasonable structure of resource distribution affects the fairness and efficiency of the provision of psychiatric medical service. Medical and healthcare resources are generally concentrated in large cities and large public hospitals, which caused uneven distribution of psychiatric specialized medical resources. Although the number and quality of medical workers in psychiatric healthcare in China have increased and improved in recent years, they are still insufficient compared to developed countries. The income of institutional staff is generally low due to factors such as overall medical standards.

On August 17, 2019, the National Healthcare Security Administration issued the Guiding Opinions on Improving the Policies on the Pricing of "Internet +" Medical Services and Medical Insurance Payment (《關於完善「互聯網+」醫療服務價格和醫保支付政策的指導意見》), which specifies that the pricing of "Internet +" medical services shall be incorporated into the pricing policies of existing medical services for uniform management. On February 17, 2020, the Integrated Group of Joint Mechanism of the State Council on Prevention and Control of COVID-19 issued the Circular on Strengthening Medical Treatment and Management of Patients with Severe Mental Disorders during the COVID-19 (《關於加強新冠肺炎疫情期間嚴重精神障礙患者治療管理工作的通知》) (Fei Yan Ji Zhi Zong Fa [2020] No. 70), which requires that mental health medical institutions shall implement the prevention and control of COVID-19, prevent in-hospital infection as well as improve the medical care for patients with severe mental disorders diagnosed with COVID-19 and the management, treatment and community care for patients with severe mental disorders who stay at home. Meanwhile, the government introduces favourable policies on Internet healthcare frequently, and requires that the restrictions on the coverage of Internet treatment shall be further relaxed on the premise of ensuring medical safety and quality to include eligible Internet healthcare services in the coverage of medical insurance reimbursement. Most psychiatric diseases need long-term medication as well as continuous psychological consultation and psychotherapy, thus an Internet treatment model is more appropriate, and the Internet treatment, access to medical insurance, prescription outflow and other key development points of Internet treatment are all in a record prosperous period driven by policies.

Management Discussion and Analysis

Business Review and Outlook

Business Review

In 2020, facing the challenges of downward economic growth caused by the COVID-19 epidemic outbreak and stricter government regulation over healthcare and medical insurance, the Group has gone all out to implement the COVID-19 epidemic prevention and control and actively fulfilled its social responsibilities. Meanwhile, the Group consistently adhered to the core of "standardizing hospital management and improving medical quality", made more investments in research and innovation and continued to explore the transformation and upgrade of its business model. Specifically speaking, it has made the following progress:

In 2020, the Group's owned hospitals business grew healthily and steadily. The business of Geriatric Hospital, Quzhou

Management Discussion and Analysis

In 2020, while developing its business, the Group continued to strengthen the connotation construction and improve its overall competitiveness. First, the Group promoted its brand through the sub-specialty construction. Second, it continued to increase its investments in science and education as well as innovation to facilitate the upgrade of its research capabilities. Third, it optimized its human resources to provide a strong support for the development of the Group.

During the early stage of COVID-19 epidemic in 2020, the governments of various cities have implemented emergency prevention and control measures to restrict the travelling of public, which, to a certain extent, affected the healthcare services revenue of the Group in the first quarter of 2020. In addition, the Group made a provision for goodwill impairment losses of RMB8.0 million as the business volume of Beijing Yining Hospital was lower than expected due to the COVID-19 epidemic prevention and control measures.

As the COVID-19 epidemic was under effective control in China and the Group continued to take proactive measures such as facilitating the resumption of work and production and conducting Internet healthcare business, the business of the Group started to recover in the second quarter of 2020, and achieved significant growth as a whole during the Reporting Period. In light of its robust cash flows from operating activities, the Group does not expect any liquidity pressures under the current COVID-19 epidemic.

Business Highlights

In 2020, Yelimi Company was qualified as a high-tech enterprise and established a mechanism of industry-education integration and school-enterprise cooperation by entering into contracts with universities, thus robustly empowering the sustainable development of the Group. In addition, the approval of a post-doctorate work station in Zhejiang Province and

Management Discussion and Analysis

(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 a valid period

Management Discussion and Analysis

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,	
	2020	2019
	(RMB'000)	(RMB'000)
Treatment and general healthcare services		
Revenue	755,879	587,874
Cost of revenue	506,496	441,786
Gross profit	249,383	146,088
Pharmaceutical sales		
Revenue	222,587	205,616
Cost of revenue	194,544	174,398
Gross profit	28,043	31,218
Owned hospitals		
Revenue	978,466	793,490
Cost of revenue	701,040	616,184
Gross profit	277,426	177,306

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB978.5 million, representing an increase of RMB185.0 million as compared with 2019, mainly due to the increase in revenue from operating Wenzhou Kangning Hospital, Cangnan Kangning Hospital, Yueqing Kangning Hospital, Linhai Kangning Hospital, Pingyang Kangning Hospital, Changchun Kanglin Psychological Hospital and Geriatric Hospital and the addition of two owned hospitals, namely, Wenzhou Cining Hospital and Chun'an Hospital as compared with that of 2019. During the Reporting Period, the gross profit of the Group's owned hospitals increased by 56.5% as compared with 2019, mainly due to the increase in inpatient bed-days and average inpatient spending per bed-day.

Management Discussion and Analysis

During the Reporting Period, outpatient revenue amounted to RMB133.9 million, representing an increase of 6.9% as compared with 2019, primarily due to the increase of outpatient visits by 22.3% and the decrease in average outpatient spending per visit by 12.5%. The proportion of outpatient revenue to our revenue from operating owned hospitals decreased to 13.7% (2019: 15.8%).

During the Reporting Period, due to the increase of both inpatient and outpatient business, revenue from treatment and general healthcare services increased by 28.6% as compared with 2019, and increased to 77.3% of revenue from operating owned hospitals (2019: 74.1%); revenue from pharmaceutical sales increased by 8.3% as compared with 2019, accounting for 22.7% of revenue from operating owned hospitals (2019: 25.9%), of which: the ratio of inpatient pharmaceutical sales to total inpatient revenue decreased to 14.6% (2019: 16.5%), the ratio of outpatient pharmaceutical sales to total outpatient revenue decreased to 74.3% (2019: 76.1%).

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

	For the year ended December 31,	
	2020	2019
	(RMB'000)	(RMB'000)
Pharmaceuticals and consumables used	247,235	222,516
Employee benefits and expenses	240,185	206,523
Depreciation of right-of-use assets	31,203	29,860
Depreciation and amortization	75,906	62,804
Canteen expenses	42,653	35,940
Testing fees	24,081	17,325
Others	39,777	41,216
Cost of revenue of owned hospitals	701,040	616,184

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB701.0 million, representing an increase of 13.8% as compared with 2019, which was lower than the increase in revenue from owned hospitals. It was mainly due to: (i) the increase of 11.1% in pharmaceuticals and consumables expenses relating to the increase of pharmaceutical sales revenue; (ii) the increase of 16.3% in employee benefits and expenses arising from the increase in beds in operation of owned hospitals; (iii) depreciation of right-of-use assets increased by 4.5% as compared with that of 2019; and (iv) the depreciation and amortization increased by 20.9% as compared with that of 2019, mainly caused by the expansion of the healthcare facilities' network.

Management Discussion and Analysis

From the cost structure perspective, the proportion of pharmaceuticals and consumables used in the cost of revenue of owned hospitals decreased to 35.3% (2019: 36.1%). The proportion of employee benefits and expenses to cost of revenue of owned hospitals increased to 34.3% (2019: 33.5%). The proportion of the depreciation of right-of-use assets together with depreciation and amortization to cost of revenue of owned hospitals was 15.3% (2019: 15.0%). During the Reporting Period, the change of the cost structure was immaterial as compared with that of 2019.

Revenue from other healthcare related business

The revenue from other healthcare related business of the Group mainly includes revenue from management and consulting business, revenue from sales of pharmaceuticals and medical devices and revenue from information technology business, etc. During the Reporting Period, revenue from the other healthcare related business of the Group amounted to RMB38.1 million, of which management and consulting business revenue was RMB16.8 million (2019: RMB21.7 million); revenue from sales of pharmaceuticals and medical devices was RMB12.0 million.

Revenue from the property business

The Group's revenue of the property business includes property leasing income, property sales income, etc. During the Reporting Period, revenue of the property business decreased to RMB14.7 million (2019: RMB39.7 million), mainly due to the sales income of RMB3.9 million from disposal of investment property by Wenzhou Guoda during the Reporting Period (2019: RMB32.6 million).

Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB302.6 million, representing an increase of 48.0% as compared with 2019. The gross profit of the owned hospitals businesses amounted to RMB277.4 million, representing an increase of 56.5% as compared with 2019. 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,	
	2020	2019
Treatment and general healthcare services	33.0%	24.9%
Pharmaceutical sales	12.6%	15.2%
Owned hospitals businesses	28.4%	22.3%
Property and other businesses	47.6%	40.5%
Consolidated gross profit margin	29.3%	23.8%

During the Reporting Period, consolidated gross profit margin of the Group increased to 29.3% (2019: 23.8%), of which the gross profit margin of treatment and general healthcare services increased by 8.1 percentage points as compared with that of 2019. The gross profit margin of pharmaceutical sales decreased by 2.6 percentage points as compared with that of 2019.

Management Discussion and Analysis

Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB5.4 million (2019: RMB5.2 million).

Management Discussion and Analysis

Finance Expenses – Net

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

Management Discussion and Analysis

Gains from Change in Fair Value

During the Reporting Period, gains from change in fair value increased to RMB6.6 million, mainly due to the increase in the fair value of other non-current financial assets.

Credit Impairment Losses

During the Reporting Period, credit impairment losses decreased to RMB23.1 million (2019: RMB29.3 million). Credit impairment losses for accounts receivable amounted to RMB23.3 million (2019: RMB20.4 million), accounting for 2.3% of the Group's total revenue (2019: 2.4%). As at December 31, 2020 and 2019, the provisions for bad debts of accounts receivables of the Group's owned hospitals businesses amounted to RMB30.3 million and RMB21.4 million respectively and accounted for 9.3% and 7.1% of total accounts receivables of the owned hospitals businesses at the corresponding time.

Asset Impairment Losses

During the Reporting Period, asset impairment losses amounted to RMB8.0 million, which was due to the impairment of goodwill arising from the acquisition of Beijing Yining Hospital by the Group as a result of the COVID-19 epidemic.

Non-Operating Income (Expenses)

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

	For the year ended December 31,	
	2020	2019
	(RMB'000)	(RMB'000)
Derecognition of contractual rights of managing Yanjiao Furen Hospital	–	25,666
Government grants	59	2,755
Other non-operating income	850	968
Non-operating income	909	29,389
Losses on scrapping of non-current assets	436	13,240
Donation expenses	8,537	2,987
Other non-operating expenses	1,928	3,486
Non-operating expenses	10,902	19,713

During the Reporting Period, the non-operating income of the Group decreased to RMB0.9 million, primarily due to the one-off income generated from the derecognition of the management contract rights of Yanjiao Furen Hospital during 2019; during the Reporting Period, the non-operating expenses of the Group decreased to RMB10.9 million, primarily due to the decrease of losses on scrapping of non-current assets.

Management Discussion and Analysis

Income Tax Expense

During the Reporting Period, income tax expense increased to RMB28.9 million (2019: RMB17.3 million), representing an increase of 67.4% as compared with 2019. As for the years of 2020 and 2019, our actual tax rates were 32.9% and 31.1%, respectively.

Financial Position

Inventory

As of December 31, 2020, inventory balances amounted to RMB37.5 million (as of December 31, 2019: RMB23.6 million),

Management Discussion and Analysis

Investment Properties

As of December 31, 2020, the balance of investment properties amounted to RMB107.8 million (as of December 31, 2019: RMB110.9 million), representing Phase I Works of Business Center of Wenzhou Higher Education Mega Center (Room 302, Room 303 and Room 304) and Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2/F to 11/F) held by Wenzhou Guoda. During the Reporting Period, there was no significant change in the fair value of the investment properties. Set out in the following table are the details of the investment properties held by us at the end of the Reporting Period:

Investment property	Phase I Works of Business Center of Wenzhou Higher Education Mega Center (Room 302, Room 303 and Room 304)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	1,959.41
Total floor area (Approx.) (Sq. m.)	6,766.36
Usage	Non-residential
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2053, and the related properties are freehold properties
Investment property	Phase II Works of Business Center of Wenzhou Higher Education Mega Center (2/F to 11/F)
Address	Southeast corner of Wenzhou Higher Education Mega Center, Chashan Street, Wenzhou City, Zhejiang Province, the PRC
Interests of the Group	75%
Land area (Approx.) (Sq. m.)	6,602.26
Total floor area (Approx.) (Sq. m.)	11,850.34
Usage	Commercial, office and hotel
Whether a freehold property	Nature of the land is state-owned land, the expiry date of the land use right is January 29, 2053, and the related properties are freehold properties

Other Non-current Financial Assets

As of December 31, 2020, the balance of other non-current financial assets amounted to RMB57.4 million (as of December 31, 2019: RMB51.3 million). During the Reporting Period, the fair value of other non-current financial assets increased by RMB6.1 million, mainly due to the increase in fair value of Jinpu Fund invested by the Group.

Right-of-use Assets

As of December 31, 2020, right-of-use assets amounted to RMB227.6 million (as of December 31, 2019: RMB235.3 million).

Management Discussion and Analysis

Accounts Payables

As of December 31, 2020, accounts payables decreased to RMB69.6 million (as of December 31, 2019: RMB75.6 million).

Contract Liability

As of December 31, 2020, contract liability increased to RMB13.0 million (as of December 31, 2019: RMB8.6 million).

Other Payables

As of December 31, 2020, other payables decreased to RMB76.6 million (as of December 31, 2019: RMB133.3 million).

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,	
	2020	2019
	(RMB'000)	(RMB'000)
Net cash generated from operating activities	199,656	111,290
Net cash used in investing activities	(186,320)	(140,531)
Net cash generated from financing activities	22,052	7,762
Net increase/(decrease) in cash and cash equivalents	35,141	(22,115)

Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB199.7 million, primarily consisting of net profit of RMB59.0 million, adjustments of RMB31.1 million for asset impairment losses and credit impairment losses and adjustments of RMB123.8 million for depreciation and amortisation of various assets. Changes in working capital resulted in cash outflow of RMB44.5 million. We had cash outflow of RMB21.3 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 RMB186.3 million, primarily due to the amount of RMB188.0 million for purchasing property, plant and equipment, ,( )]TJ0 Tc 0.091 Tw 0 -1.556 TD(impairment lossedes

Management Discussion and Analysis

Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities amounted to RMB22.1 million.

Significant Investment, Acquisition and Disposal

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

Indebtedness

Bank Borrowings

As of December 31, 2020, the balance of bank borrowings of the Group amounted to RMB426.5 million (as of December 31, 2019: RMB310.0 million), primarily attributable to repayment of borrowings of RMB290.0 million and an increase in borrowings of RMB406.5 million during the Reporting Period.

Contingent Liability

As of December 31, 2020, the Group had no contingent liability or guarantees that would have a material impact on the financial position or operation of the Group.

Asset Pledge

The Group did not have any asset pledge during the Reporting Period.

Lease Liabilities

The lease liabilities of the Group primarily consist of operating lease arrangements. As of December 31, 2020, the present values of unsettled lease payments under non-cancellable lease agreements, after deducting an amount of RMB32.5 million which is due within one year, were RMB189.8 million.

Financial Instruments

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

Management Discussion and Analysis

As of December 31, 2020, the Group has not used any derivative financial instruments to hedge against its exposure to currency risks. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

Gearing Ratio

As of December 31, 2020, the Group's gearing ratio (total liabilities divided by total assets) slightly increased to 41.6% (as of December 31, 2019: 40.4%), mainly due to an increase of bank borrowings.

Employees and Remuneration Policy

As of December 31, 2020, the Group had a total of 3,338 full-time employees (as of December 31, 2019: 2,845 full-time employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB339.10 million (2019: RMB288.7 million). The average employees' remuneration is RMB105.6 thousand per year (including social medical insurance scheme and housing grant scheme borne by the Group). The remuneration is determined with reference to the salary level in the same industry and the qualifications, experience and performance of an employee.

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

After the consideration and approval at the 2017 AGM, and confirmation at the 8th meeting of the second session of the Board of the Company held on August 20, 2018, the actual first grant comprised of 165 persons, 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 the Board of the Company convened on August 26, 2019, incentive Shares were granted to the second phase participants. The second phase participants include core technical personnel of the Company and other persons who, in the opinion of the Board, shall be incentivized. The grant of the second phase grant scheme comprised of 37 persons, and the total number of Shares granted was 273,161 Shares. As 14 persons voluntarily abstained to subscribe, the actual grant comprised of 23 persons, and the actual aggregate number of Shares granted was 180,516 Shares, representing 0.2391% of total issued share capital of the Company at the grant date. The details are shown as the following table. The participants shall pay the subscription amounts calculated by the amount of grants multiplied by the grant price (RMB10.47 per Share).

Report of the Board

The Board is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2020.

Principal Activities

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

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

Business Review

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

Financial Highlights and Results

The operating results and summary of assets and liabilities of the Group for the year ended December 31, 2020 are set out in the "Financial Highlights" of this annual report. The Group's financial results for the year ended December 31, 2020 are set out in the consolidated statement of comprehensive income of this annual report.

Investor Relations

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

Environmental Policies

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

Report of the Board

Compliance with Relevant Laws and Regulations

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

Laws and regulations that have a significant impact on the operation of the Group include but are not limited to the Mental Health Law of the PRC (《中華人民共和國精神衛生法》), the Law of the People's Republic of China on the Promotion of Basic Medical and Health Care (《中華人民共和國基本醫療衛生與健康促進法》) (to take effect on June 1, 2020), the Management Regulations of Medical Institutions (《醫療機構管理條例》) and the Rules for the Implementation of Management Regulations of Medical Institutions (《醫療機構管理條例實施細則》).

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

The Company and its employees have been exercising their best endeavours to strictly follow the applicable rules, laws and industry standards. The Directors are not aware of any breach of laws or regulations which have a significant impact on the Group in 2020 nor are they aware of any litigation or cases of corruption, bribery, extortion, fraud and money laundering involving the Group during the Reporting Period.

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

Permitted Indemnity Provision

For the year ended December 31, 2020, the Group has no permitted indemnity provision.

Use of Proceeds from Initial Public Offering

The H Shares were listed on the Main Board of the Hong Kong Stock Exchange on November 20, 2015. The Company's net proceeds from the initial public offering amounted to approximately HK$693.2 million (equivalent to RMB580.7 million) after deducting underwriting commissions and all related expenses. On March 30, 2017 and March 23, 2018, the Board considered and approved the resolutions regarding the change in the use of the net proceeds, respectively. The Company used all the proceeds according to the use of the proceeds disclosed in the Prospectus dated November 10, 2015 and considered and approved by the Board.

Report of the Board

Dividend

The Board does not recommend the payment of a final dividend for the year ended December 31, 2020.

Tax Reduction or Exemption

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

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

Report of the Board

Share Capital

Details of the movements in the share capital of the Company during the Reporting Period are set out in "Notes to the Financial Statements 4 – note (30) to the consolidated financial statements" of this annual report.

Reserves

Details of movements in the reserves of the Group during the Reporting Period are set out in the "Consolidated Statement of Changes in Shareholder's Equity and Notes to the Financial Statements 4 – notes (31), (32) and (33) to the consolidated financial statements" of this annual report.

Distributable Reserves

As of December 31, 2020, the distributable reserves of the Group were RMB319.4 million.

Report of the Board

Debentures in Issue

For the year ended December 31, 2020, the Group did not issue any debentures.

Equity-linked Agreements

For the year ended December 31, 2020, no equity-linked agreements were entered into by the Group, or existed.

Donations

For the year ended December 31, 2020, the charitable contributions and other donations made by the Group amounted to approximately RMB8.5 million in aggregate.

Subsidiaries

Details of the Company's principal subsidiaries as of December 31, 2020 are set out in "Notes to the Financial Statements – Interests in other entities – Interest in subsidiaries – Structure of the Group" of this annual report.

Directors

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

Executive Directors

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

Report of the Board

Supervisors

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

Mr. SUN Fangjun *(Chairman)*
Ms. HUANG Jing'ou
Mr. XIE Tiefan
Mr. QIAN Chengliang
Mr. CHEN Jian

Business Review and Analysis of Key Indicators of Financial Performance

For business review and analysis of key indicators of financial performance of the Group for the year ended December 31, 2020, please refer to the sections of "Financial Highlights" and "Management Discussion and Analysis" in this annual report.

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

Save as disclosed in "Notes to the Financial Statements – Related parties and related party transactions" of this annual report, no transaction, arrangement or contracts of significance to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries, was a party and in which a Director or a Supervisor, or any entity connected with any Director or Supervisor, had a material interest, whether directly or indirectly, subsisted as of December 31, 2020 or at any time during the Reporting Period.

Controlling Shareholders' Interests in Contracts of Significance

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

Management Contracts

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

Report of the Board

Non-competition Agreement

Pursuant to the Non-competition Agreement, each of the Controlling Shareholders has agreed not to, and to procure that his/her respective close associate(s) (as appropriate) (other than the Group) not to, either directly or indirectly, compete with the Group'

Report of the Board

Name of Directors	Class of Shares	Nature of Interest	Number of Shares	Total Number of Shares	Approximate Percentage in Shares of the Same Class[1]	Approximate Percentage of the Company's Total Issued Share Capital[1]
Mr. GUAN Weili	Domestic Shares	Beneficial owner	18,350,250(L)	22,144,750(L)	40.07%	29.68%
		Interest of spouse	3,794,500(L)[2]			
Ms. WANG Lianyue	Domestic Shares	Beneficial owner	3,794,500(L)	22,144,750(L)	40.07%	29.68%
		Interest of spouse	18,350,250(L)[2]			
Ms. WANG Hongyue	Domestic Shares	Beneficial owner	3,984,350(L)	5,527,350(L)	10.00%	7.41%
		Interest in a controlled corporation	1,543,000(L)[3]			
	H Shares	Beneficial owner	309,000(L)	309,000(L)	1.60%	0.41%

Notes:

(L): Long position

(1) The shareholding percentages are calculated on the basis of 55,260,000 Domestic Shares and 19,340,000 H Shares (an aggregate of 74,600,300 Shares) issued by the Company as at December 31, 2020.

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

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

Save as disclosed above, as at December 31, 2020, to the knowledge of the Board, none of the Directors, the Supervisors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, the Supervisors and chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) or recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Report of the Board

Interests of Substantial Shareholders

As at December 31, 2020, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons/entities (other than the Directors, the Supervisors or chief executives of the Company) had an interest or short position which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class[1]	Approximate Percentage of the Company's Total Issued Share Capital[1]
Guangzhou GL Capital Investment Fund L.P. ("Defu Fund") (廣州德福股權投資基金合夥企業(有限合夥)(「**德福基金**」))	Domestic Shares	Beneficial owner	15,384,541(L)	27.84%	20.62%

Report of the Board

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class[1]	Approximate Percentage of the Company's Total Issued Share Capital[1]
Citigroup Inc.	H Shares	Person having a security interest in shares	1,345,792(L)	6.96%	1.80%
OrbiMed Advisors LLC	H Shares	Investment manager	1,454,000(L)	7.52%	1.95%
OrbiMed Capital LLC	H Shares	Investment manager	2,150,900(L)	11.12%	2.88%
OrbiMed Partners Master Fund Limited	H Shares	Beneficial owner	1,279,900(L)	6.62%	1.72%
Prime Capital Management Company Limited	H Shares	Investment manager	2,118,088(L)	10.95%	2.84%
OrbiMed Partners II, L.P.	H Shares	Beneficial owner	1,052,000(L)	5.44%	1.41%
UBS Group AG	H Shares	Interest in a controlled corporation	4,035,096(L)	20.86%	5.41%

Notes:

(L): Long position

(1) The shareholding percentages are calculated on the basis of 55,260,000 Domestic Shares and 19,340,300 H Shares (an aggregate of 74,600,300 Shares) issued by the Company as of December 31, 2020.

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

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

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

(5) Shanghai Lejin Investment L.P. (

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Report of the Board

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

Save as disclosed above, as at December 31, 2020, to the knowledge of the Directors, no other person (other than a Director, a Supervisor or chief executive of the Company) had, or was deemed or taken to have interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

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

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

Connected Transaction

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

Report of the Board

Purchase, Sale or Redemption of Listed Securities

In order to further promote the healthy and stable long-term development of the Company and to protect the interests of general investors effectively, during the Reporting Period, the Company repurchased a total of 899,700 H Shares on the Hong Kong Stock Exchange, with an aggregate cash consideration (excluding expenses) of HK$15,888,990. Details of the repurchase are as follows:

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

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

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

Pre-emptive Rights

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

Bank Borrowings

Details of the bank borrowings of the Group as of December 31, 2020 are set out in "Notes to the Financial Statements 4 – notes (19) and (26) to the consolidated financial statements" of this annual report.

Charge on Assets

Details of the charge on assets of the Group as of December 31, 2020 are set out in "Notes to the Financial Statements 4 – notes (19) and (26) to the consolidated financial statements" of this annual report.

Report of the Board

Corporate Governance

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

Sufficiency of Public Float

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

Closure of the Register of Members

For determining the entitlement to attend and vote at the AGM

The register of members of the Company will be closed from June 15, 2021 to June 18, 2021, both days inclusive, during which period no transfer of the Shares will be effected. In order to determine the identity of Shareholders who are entitled to attend and vote at the AGM, all Share transfer documents accompanied by the relevant Share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on June 11, 2021.

Important Events after the Reporting Period

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

Audit Committee

The Audit Committee of the Board of Directors of the Company has reviewed the Company's and the Group's 2020 annual results, and the audited consolidated financial statements for 2020 prepared in accordance with the China Accounting

Report of the Board

Auditor

The financial statements for the year ended December 31, 2020 have been audited by PricewaterhouseCoopers Zhong Tian LLP.

The Company has not changed its auditor in the past three years.

For and on behalf of the Board
GUAN Weili
Chairman

Zhejiang, the PRC
April 16, 2021

Report of the Supervisory Committee

To the Shareholders:

In 2020, the Supervisory Committee based on the attitude of safeguarding the interests of the Company, all Shareholders and employees, and in compliance with the relevant laws, regulations and the Articles, carried out work with the principle of honesty, duly performed its supervisory functions, and effectively supervised the performance of duties of Directors, chief executives and other senior management members of the Company, which played a positive role in standardized operation and development of the Company.

During the Reporting Period, each member of the Supervisory Committee prudently reviewed the Company's operation and development plans, carried out cautious supervision and inspection on the lawful operation, financial condition, actual use of proceeds, related party transactions, the equity incentive plan of employees and other matters of the Company, and provided reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they have complied with the laws, regulations and the Articles and are in the interests of the Shareholders.

The Supervisory Committee considers that the Directors, the chief executives and other senior management members of the Company are able to strictly observe their fiduciary duties, to act diligently, to exercise their authority faithfully in the best interests of the Company and to work in accordance with the Articles. As of the date of approval of this report, none of the Directors and chief executives and other senior management members of the Company had been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of the Shareholders and employees of the Company, or have breached any laws and regulations or the Articles.

In 2021, the Supervisory Committee will continue to satisfy his or her supervision responsibilities, further promote the standardized operation of the Company, constantly pay attention to the implementation of the Company's major strategies, and keep abreast of the major decision-making matters and legitimacy of each decision-making procedure of the Company, so as to improve the Company's corporate governance structure and protect the rights and interests of the Company and Shareholders.

For and on behalf of the Supervisory Committee
SUN Fangjun
Chairman

Zhejiang, the PRC
April 16, 2021

Corporate Governance Report

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

The Board

Board Composition

The Board currently comprises eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The brief biographical details of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" of this annual report. The overall management and supervision of the Company's operation and the function of formulating overall business strategies were vested in the Board. The terms of office of the Directors shall be effective from the date of the consideration and approval at the 2019 AGM, and shall expire on the date of expiration of the third session of the Board.

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

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

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

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

Corporate Governance Report

Role and Function of and Delegation by the Board

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

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

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

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

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

Chairman and Chief Executives

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

Relationship between Directors and Chief Executives

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

Corporate Governance Report

Role and Function of the Senior Management

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

Changes in Information of Directors, Supervisors and Chief Executives

On June 18, 2020, Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue were re-elected as the executive Directors of the third session of the Board, Mr. YANG Yang and Mr. LIN Lijun were re-elected as the non-executive Directors of the third session of the Board, Mr. ZHAO Xudong, Ms. ZHONG Wentang and Mr. LIU Ning were elected as the independent non-executive Directors of the third session of the Board. The terms of office of above executive Directors, non-executive Directors and independent non-executive Directors took effect from June 18, 2020. On June 18, 2020, Mr. CHONG Yat Keung retired as an independent non-executive Director, the chairman of the Remuneration Committee and the member of the Nomination Committee of the Company; Mr. HUANG Zhi retired as an independent non-executive Director, the chairman of the Audit Committee, the member of the Remuneration Committee and the member of the Strategy and Risk Management Committee of the Company; and Mr. GOT Chong Key Clevin retired as an independent non-executive Director, the chairman of the Nomination Committee and the member of the Audit Committee of the Company.

On June 18, 2020, Ms. HUANG Jing'ou was re-elected as the Shareholder representative Supervisor of the third session of the Supervisory Committee, and Mr. QIAN Chengliang and Mr. CHEN Jian were re-elected as the independent Supervisors of the third session of the Supervisory Committee. The third session of the Supervisory Committee also comprises two employee representative Supervisors who were re-elected at the employee representatives meeting of the Company on May 14, 2020, namely Mr. SUN Fangjun and Mr. XIE Tiefan. The terms of office of above Shareholder representative Supervisor, independent Supervisors and employee representative Supervisors took effect from June 18, 2020.

Save as disclosed above, for the Reporting Period, there had not been other changes in Directors, Supervisors or Chief Executives of the Company.

Corporate Governance Report

Induction of and Continuous Professional Development for Directors

During the Reporting Period, the Company focused on the continuing professional development of the Directors by

Corporate Governance Report

Accounting Standards

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

ACCOUNTING POLICIES

Accounting Policies

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

Changes of Significant Accounting Policies

The changes of significant accounting policies are set out in "Notes to the Financial Statements – Significant changes in accounting policies" of this annual report.

Attendance at Board Meetings and General Meetings

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

Corporate Governance Report

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

Name of Directors	Number of Board meetings convened/attended
Executive Directors	
Mr. GUAN Weili *(Chairman)*	10/10
Ms. WANG Lianyue	10/10
Ms. WANG Hongyue	10/10
Non-executive Directors	
Mr. YANG Yang	10/10
Mr. LIN Lijun	10/10
Independent Non-executive Directors	
Mr. CHONG Yat Keung (retired on June 18, 2020)	5/5
Mr. HUANG Zhi (retired on June 18, 2020)	5/5
Mr. GOT Chong Key Clevin (retired on June 18, 2020)	5/5
Mr. ZHAO Xudong (appointed on June 18, 2020)	5/4
Ms. ZHONG Wentang (appointed on June 18, 2020)	5/5
Mr. LIU Ning (appointed on June 18, 2020)	5/5

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

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

Corporate Governance Report

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

Name of Directors	Number of general meetings convened/attended
Executive Directors	
Mr. GUAN Weili *(Chairman)*	2/2
Ms. WANG Lianyue	2/2
Ms. WANG Hongyue	2/2
Non-executive Directors	
Mr. YANG Yang	2/2
Mr. LIN Lijun	2/2
Independent Non-executive Directors	
Mr. CHONG Yat Keung (retired on June 18, 2020)	2/2
Mr. HUANG Zhi (retired on June 18, 2020)	2/2
Mr. GOT Chong Key Clevin (retired on June 18, 2020)	2/2
Mr. ZHAO Xudong (appointed on June 18, 2020)	0/0
Ms. ZHONG Wentang (appointed on June 18, 2020)	0/0
Mr. LIU Ning (appointed on June 18, 2020)	0/0

Board Committees

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

Audit Committee

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

Corporate Governance Report

As at the date of this report, the Audit Committee consists of two independent non-executive Directors, Ms. ZHONG Wentang (chairman of the Audit Committee) and Mr. LIU Ning, and one non-executive Director, Mr. YANG Yang. Six Audit Committee meetings were held during the Reporting Period to, among other matters, review annual results for the year 2019 and interim results for the year 2020 of the Group.

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

Directors	Number of meetings convened/ attended
Ms. ZHONG Wentang *(Chairman)* (appointed on June 18, 2020)	3/3
Mr. LIU Ning (appointed on June 18, 2020)	3/3
Mr. YANG Yang (appointed on June 18, 2020)	3/3
Mr. HUANG Zhi (retired on June 18, 2020)	3/3
Mr. GOT Chong Key Clevin (retired on June 18, 2020)	3/3
Mr. LIN Lijun (retired on June 18, 2020)	3/3

Nomination Committee

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

According to the nomination policy for Directors, the Nomination Committee shall submit recommendations and relevant materials of the directorial candidate(s) to the Board for consideration, and the Board will decide whether to propose such candidate(s) to the general meeting for election. Nomination by the Nomination Committee shall be based on merit and having due regard for the benefits of diversity of the Board. The ultimate decision will be based on merit and contribution that the selected candidate(s) will bring to the Company's development.

During the Reporting Period, the Company re-elected the members of the Board, for which the Nomination Committee actively performed its duties. With the joint efforts of all parties, the re-election of members of the Board was successfully completed.

Corporate Governance Report

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

Directors	Number of meetings convened/attended
Mr. ZHAO Xudong *(Chairman)* (appointed on June 18, 2020)	0/0
Ms. ZHONG Wentang (appointed on June 18, 2020)	0/0
Mr. LIU Ning (appointed on June 18, 2020)	0/0
Mr. CHONG Yat Keung (retired on June 18, 2020)	1/1
Mr. HUANG Zhi (retired on June 18, 2020)	1/1
Mr. YANG Yang (retired on June 18, 2020)	1/1

The primary goal of the Group

Corporate Governance Report

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

Directors	Number of meetings convened/attended
Mr. GUAN Weili *(Chairman)*	1/1
Ms. ZHONG Wentang (appointed on June 18, 2020)	0/0
Mr. LIN Lijun (appointed on June 18, 2020)	0/0
Mr. HUANG Zhi (retired on June 18, 2020)	1/1
Mr. YANG Yang (retired on June 18, 2020)	1/1

Board Diversity Policy

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

The Current Composition of the Board

Age	Gender	Years of service as Director
31 – 50 years (3 persons)	Female (37.5%)	1 – 5 years (4 persons)
51 – 60 years (4 persons)		
61 years and above (1 person)	Male (62.5%)	6 – 10 years (4 persons)

Corporate Governance Functions

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

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

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

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

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

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

Corporate Governance Report

During the Reporting Period, the Board, through its special committees, performed the following corporate governance functions: (1) modified the Articles in accordance with regulatory requirements; (2) enhanced the training for Directors and senior management and their professional development; (3) reviewed the code of conduct for Directors, Supervisors and employees; (4) continuously assessed and optimized corporate governance and performed their duties in strict compliance with all of the requirements of corporate governance; and (5) reviewing the corporate governance report.

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

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended December 31, 2020 which gives a true and fair view of the status of the Company and the Group and of the Group's results and cash flows. The Directors also acknowledge their responsibilities to ensure that the consolidated financial statements of the Group are published in a timely manner. The management of the Company has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements, which are submitted to the Board for approval. The Company provides all members of the Board with the latest materials of the Company's results, status and prospects.

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

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

Risk Management and Internal Control

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

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

Corporate Governance Report

The Board reviews the effectiveness of the Group's risk management and internal control system one time per year and are satisfied with the adequacy and effectiveness of the system of risk management and internal control of the Group for the year ended December 31, 2020. There were no matters of material concerns relating to finance, operation or compliance controls.

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

Senior Management's Remuneration

The details of the Company's senior management are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report, whose remuneration band for the year ended December 31, 2020 is as below:

Remuneration band (RMB)	Number of individuals
0-550,000	4
550,001-1,100,000	2

Auditor's Remuneration

For the year ended December 31, 2020, the Group's statutory auditor, PricewaterhouseCoopers Zhong Tian LLP, provided annual audit services. During the year ended December 31, 2020, the total fee paid/payable in respect of audit and non-audit services provided by the Group's auditors is set out below:

Audit services	RMB80,000
Non-audit services	RMB24,500

Corporate Governance Report

Joint Company Secretaries

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

During the Reporting Period and up to the date of this annual report, Ms. Ng has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules. Mr. Wang attended relevant training relating to the roles, functions and duties of directors of a listed company in Hong Kong and was from time to time updated with training materials provided by the external lawyers during the Reporting Period, and he has also undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules. They will continue to attend relevant professional training in compliance with Rule 3.29 of the Hong Kong Listing Rules for the year ended December 31, 2021.

Communication with Shareholders and Investor Relations

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

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

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

Shareholders' Rights

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

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

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

Corporate Governance Report

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

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

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

If the Supervisory Committee fails to publish the notice of an EGM within the specified period, it shall be deemed that the Supervisory Committee does not convene or preside over a general meeting. Shareholders who individually or jointly hold

Corporate Governance Report

Procedures for Directing Shareholders' Enquiries to the Board

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

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

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

Change in Constitutional Documents

During the Reporting Period, the Articles was amended twice.

The proposal was considered and approved at the 2020 first extraordinary general meeting by way of a special resolution on March 9, 2020. According to the relevant requirements of Reply from the State Council on Matters relating to Applicable Requirements on Adjustment of Notice Period of General Meetings convened by Overseas Listed Companies (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》) issued by the State Council on October 17, 2019 (Guo Han [2019] No. 97), and taking into account the actual conditions of the Company, the Board considered and approved, among other things, the proposal in relation to amendments to the Articles. The revised Articles became effective from March 9, 2020, and has been published on the websites of the Hong Kong Stock Exchange and the Company. For details, please refer to the Company's announcements dated January 22, 2020 and March 9, 2020.

The proposal was considered and approved at the second meeting of the third session of the Board of the Company on July 20, 2020. The proposed General Mandate to the Board to Partially Repurchase H Shares was considered and approved at the first extraordinary general meeting for the year 2020, the first Domestic Shareholders' Class Meeting for the year 2020 and the first H Shareholders' Class Meeting for the year 2020 of the Company by way of a special resolution on March 9, 2020. The Board completed the partial repurchase and cancellation of H Shares within the scope of authority, and amended the Articles accordingly. The revised Articles became effective from July 20, 2020, and has been published on the websites of the Hong Kong Stock Exchange and the Company. For details, please refer to the Company's announcements dated January 22, 2020, March 9, 2020 and July 20, 2020.

Corporate Governance Report

Dividend Policy

The Company has formulated its dividend policy. Where the Company distributes its after-tax profits of the current year, it shall allocate 10% of the profits as the Company's statutory common reserve. The Company may make no more allocation should the accumulative balance of the Company's statutory common reserve account for more than 50% of the Company's registered capital. Should the accumulative balance of the Company's statutory common reserve be insufficient to make up for the losses of the Company of the previous year, the current year's profits shall first be used for making up such losses before the statutory common reserve is allocated according to the provisions of the preceding paragraph. After the Company has allocated the statutory common reserve from the after-tax profits, it may allocate a discretionary common reserve from the after-tax profits, upon a resolution being made by the general meeting. After the Company has made up for the losses and has allocated statutory common reserve, it shall distribute the remaining profits to the shareholders based on their shareholding ratios, except for distribution made not based on the shareholding ratios as provided in the Articles of Association. Should the general meeting distribute the profits to the shareholders before the losses has been made up and the statutory common reserves has been allocated, in violation of the provisions of the preceding paragraph, the profits thus distributed in violation of such provisions must be returned to the Company. No profit shall be distributed in respect of the shares of the Company being held by the Company.

The Company may distribute dividends in one of the following forms (or in more than two forms simultaneously):

(1) cash;

(2) share;

(3) other methods permitted by laws, administrative regulations, departmental rules and regulations, and the regulatory rules of the place(s) of listing.

The Company shall pay cash dividends and other payments in RMB to domestic Shareholders. Such payments made by the Company to holders of foreign Shares shall be denominated and declared in RMB and paid in HKD. Such HKD required for the Company's payment of cash dividends and other payments to the holders of foreign Shares shall be handled pursuant to the relevant provisions of the administration of foreign exchange of the State.

The Board shall be authorized by way of an ordinary resolution passed by the general meeting to implement the dividend distribution of the Company.

Directors, Supervisors and Senior Management

Ms. WANG Hongyue (王紅月), aged 48, is our executive Director and our chief financial officer. She is primarily responsible for the overall financial management and capital investment of the Company. She joined the Company in January 1996 and worked in our finance department from January 1996 to December 1999. She became the head of our finance department in January 2000. Ms. Wang was appointed as an executive Director in April 2013 and after the Company was converted into a joint stock limited liability company, she was appointed as an executive Director again and as chief financial officer in September 2014. Ms. Wang also served as our Supervisor from September 2011 to April 2013. Prior to joining the Company, from July 1994 to December 1995, she worked in the finance department of Wenzhou City Kangning Medicine Wholesale Company of Longwan District (溫州市龍灣區康寧醫藥批發公司), which engages in the medicine wholesale business, where she was responsible for accounting work. Ms. Wang graduated from Online Education College of Xi'an Jiaotong University (西安交通大學網絡教育學院), through long-distance education, with a bachelor's degree in accounting in July 2007. She graduated from Shanghai University of Finance and Economics with a master's degree in EMBA in May 2017. Ms. Wang is the sister of Ms. WANG Lianyue, the spouse of Mr. XU Yi and the sister-in-law of Mr. GUAN Weili.

Non-executive Directors

Mr. YANG Yang (楊揚), aged 65, is our non-executive Director. He is primarily responsible for overseeing the corporate development and strategic planning of the Company. He joined the Company in April 2015 and has served as our non-executive Director since then. Since January 2019, Mr. Yang has been serving as a director of GL China Equity HK Management Limited, where he is primarily responsible for corporate operation and investments. Since January 2010, Mr. Yang has also been serving as a director of GL Capital Investments Hong Kong Limited (德福資本投資香港有限公司), a company engaging in private equity services for investment business, where he is primarily responsible for hospital management and investments. Prior to joining the Company, from May 1988 to December 2009, Mr. Yang served as the general manager of Long Nice Industries Limited (長立實業有限公司), a company in Hong Kong engaging in the business of trading and the provision of investment services, where he was primarily responsible for businesses involving investment, foreign trade and manufacturing. Mr. Yang graduated from the Naval College of the Chinese People's Liberation Army (中國人民解放軍海軍學院) in Nanjing in March 1982, majoring in operational commanding.

Directors, Supervisors and Senior Management

Mr. LIN Lijun (林利軍), aged 48, is our non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board. Mr. Lin joined the Company in June 2017 and has served as our non-executive Director since then. Since April 2016, Mr. Lin has been a director of Yintech Investment Holdings Limited (銀科投資控股有限公司), a company listed on the NASDAQ Stock Market (ticker symbol: YIN.US) engaging in the provision of spot service for bulk commodity, where he is primary responsible for monitoring the strategic development of company. Since March 2016, he has been a director of TANSH Global Food Group (國際天食集團有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 03666.HK) engaging in the operation of mid-to-high end Chinese cuisine full-service chain restaurants, where he is primary responsible for monitoring the strategic development of company. Since

Directors, Supervisors and Senior Management

director in World Association of Cultural Psychiatry. Since April 2014, he has been serving as a Chinese honorary chairman in German-Chinese Academy of Psychotherapy. Since May 2019, he has been serving as a vice chairman in Chinese Association for Mental Health and the honorary director in the Professional Committee of Psychotherapy and Psychological Consultation. Since September 2014, he has been serving as a deputy director in Psychosomatic Medicine Branch, Chinese Medical Association. Since November 2019, he has been serving as a deputy director in Psychosomatic Medicine Professional Branch, Chinese Medical Doctor Association. Mr. Zhao graduated from Kunming Medical University (formerly known as Kunming Medical College) with a bachelor's degree in medicine in July 1983. In August 1988, he graduated from Sichuan University (formerly known as West China University of Medical Sciences) with a master's degree in medicine. In November 1993, he graduated from Heidelberg University in Germany with a doctoral degree in medicine.

Ms. ZHONG Wentang (鐘文堂), aged 32, has been serving as a partner at the Department of Compliance Consultation, Shanghai Infaith Consulting Co., Ltd. (上海信公企業管理諮詢有限公司) since February 2019, a company engaging in providing consultation services for listed companies, and is mainly responsible for business in compliance consultation. From February 2016 to February 2019, Ms. Zhong served as a senior consultation manager and consultation business director successively in Shanghai Infaith Consulting Co., Ltd., mainly responsible for business in compliance consultation. From October 2012 to February 2016, she served as an auditor and senior auditor successively in PricewaterhouseCoopers Zhong Tian CPAs Limited Company, mainly responsible for finance and audit for internal control. Ms. Zhong graduated from Fudan University in Shanghai with a bachelor's degree in sociology in June 2012.

Mr. LIU Ning (劉寧), aged 59, has been serving as the vice chairman of Winning Health Technology Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange (stock code: 300253.SZ) with focus on medical and health informatization) since April 2004, mainly responsible for the company's overall management. Since February 2018, he has been serving as the chairman of Kxhealth Medical Technology (Shanghai) Co., Ltd. (快享醫療科技(上海)有限公司), mainly responsible for the overall management of the company. Since July 2018, he has been serving as an executive director of Beijing Winning Health Technology Co., Ltd. (北京衛寧健康科技有限公司), mainly responsible for the overall management of the company. Since October 2019, he has been serving as an executive director of Shanghai Weixin Technology Co., Ltd. (上海衛心科技有限公司), mainly responsible for the overall management of the company. From April 1991 to April 2004, he successively served as a technician of the United States Hewlett-Packard (HP) Company and a director and vice president of Shanghai Kingstar Winning Medical Information Technology Co., Ltd. (上海金仕達衛寧醫療信息技術有限公司). Mr. Liu graduated from Fudan University in Shanghai in June 1985 with a bachelor's degree in applied mechanics. He graduated from Fudan University in Shanghai in June 1988 with a master's degree in applied mathematics. He was qualified for holding senior engineer as evaluated by the Qualification Review Committee for Senior Professional Technical Positions of Shanghai High-tech Achievements Transformation of Engineering Series (上海市工程系列高新技術成果轉化類高級專業技術職務任職資格評審委員會) in May 2000.

Directors, Supervisors and Senior Management

SUPERVISORS

Mr. SUN Fangjun (孫方俊), aged 70, is chairman of the Supervisory Committee. He is primarily responsible for supervising our daily operations and management. Mr. Sun joined the Company in May 2011 and served as the vice president of the Company from May 2011 to September 2014. He was appointed as chairman of the Supervisory Committee in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from April 1996 to October 2010, Mr. Sun worked at the Health Bureau of Lucheng District, Wenzhou (溫州市鹿城區衛生局) where he was primarily responsible for medical administrative management. From April 1992 to April 1996, he was the president of Wenzhou Hongqi Hospital (溫州市紅旗醫院), a local hospital in Wenzhou, where he was primarily responsible for the overall operations of the hospital. From August 1988 to April 1992, he served as the vice president of the Eighth People's Hospital of Wenzhou (溫州市第八人民醫院), a local hospital in Wenzhou, where he was primarily responsible for various medical affairs. Mr. Sun graduated from Jixi Medical School in Heilongjiang Province (黑龍江省雞西衛校) with a secondary vocational diploma in Jixi City, Heilongjiang Province in August 1974, where he majored in medicine. He was accredited as chief physician in internal medicine by Wenzhou Municipal Bureau of Personnel (溫州市人事局) in January 1995.

Ms. HUANG Jingou (黃靖歐), aged 42, is our Supervisor. She is primarily responsible for supervising our daily operations and management. Ms. Huang joined the Company in April 2013 and has served as our Supervisor since then. She was again appointed as a Supervisor in September 2014 after the Company was converted into a joint stock limited liability company. Since November 2011, Ms. Huang has been serving as the investment director of GL Capital Group (德福資本), which is a company engaging in private equity investment, where she is primarily responsible for investment. Prior to joining the Company, from August 2009 to November 2011, she served as the project director of the China Medical Board (美國中華醫學基金會), which is a trust foundation in the U.S. focusing on medical charity affairs, where she was primarily responsible for project implementation. From June 2003 to December 2006, she was an attorney at Woo Kwan Lee & Lo (胡關李羅律師行) where she was primarily responsible for various legal affairs. Ms. Huang graduated from Sun Yat-Sen University (中山大學) in Guangzhou with a bachelor's degree in law in July 2001.

Directors, Supervisors and Senior Management

Mr. CHEN Jian (陳建), aged 35, is our independent Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Chen joined the Company in June 2019 and has served as our independent Supervisor since then. Since April 2019, Mr. Chen has served as the member of the Third Council of Zhejiang Huafu Charitable Foundation (浙江省華福慈善基金). He is mainly responsible for exploring innovative models and inviting young people to join in the development of philanthropy. Since February 2016, he has served as the executive director of Jiuguo Investment Management (Shanghai) Co., Ltd. (九果投資管理(上海)有限公司) (a company engaged in investment management and business management consulting), mainly responsible for searching and screening of innovative projects and liaising roadshows with resources. He has been the executive director of Shangyantang Science and Technology (Shanghai) Co., Ltd. (尚妍堂科技(上海)股份有限公司) (a company engaged in science and technology promotion and application services) since June 2015. He is mainly responsible for research and development promotion, investment and financing of science and technology projects. He has also been the supervisor of Guochuang Enterprise Management (Shanghai) Co., Ltd (果創企業管理(上海)有限公司). (a company engaged in business management and technology incubator operation) since April 2015. He is mainly responsible for supervising its legitimate and compliance operation and participating in the preparation and construction of offshore technology incubator established in Shanghai Yangshan Free Trade Zone, cooperating with the introduction of overseas technology projects by Kechuang No.1 of the Free Trade Zone. Mr. Chen graduated from Oujiang College of Wenzhou University (溫州大學甌江學院) in June 2009 with a bachelor's degree in literature, majoring in Chinese language and literature.

Mr. QIAN Chengliang (錢成良), aged 68, is our independent Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Qian joined the Company in June 2017 and has served as our independent Supervisor since then. Prior to joining the Company, from May 2007 to May 2012, he served as a deputy officer at the Standing Committee of Wenzhou Municipal People's Congress (溫州市人大常委會). From February 2003 to April 2007, he served as a vice mayor of Wenzhou. From October 1996 to January 2003, he served as a member of Standing Committee and officer of the organization division in Lishui (麗水市委常委). From November 1995 to September 1996, he served as an executive deputy officer of the organization division of the municipal committee of the Communist Party in Wenzhou.

Mr. XIE Tiefan (謝鐵凡), aged 41, is a Supervisor. He is primarily responsible for monitoring our compliance with laws and regulations. Mr. Xie joined the Company in May 2000 and from May 2010 to September 2014, he held a variety of positions in the Company including the deputy director of the information department, the deputy director of the equipment department, the director of the equipment department and material purchasing department manager, where he was primarily responsible for equipment purchase and management. He was appointed as a Supervisor in September 2014 after the Company was converted into a joint stock limited liability company. Mr. Xie graduated from the Open University of China (中央廣播電視大學) with an associate degree in finance in Beijing in December 2004. He graduated from Jinggangshan University in Jiangxi Province (江西省井岡山大學) with a bachelor's degree in biomedical engineering in January 2016. Mr. Xie was accredited as assistant engineer by the Wenzhou Municipal Bureau of Personnel (溫州市人事局) in December 2007.

Directors, Supervisors and Senior Management

SENIOR MANAGEMENT

Mr. ZHOU Chaoyi (周朝毅), aged 59, is our vice general manager. He is primarily responsible for assisting the general manager in managing the infrastructure of our Company. Mr. Zhou joined the Company in February 2005 and has served as our vice general manager since then. He was appointed as our vice general manger in September 2014 again after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from November 1995 to December 2004, Mr. Zhou served as the vice president of Wenzhou Cardiovascular Hospital (溫州心血管醫院) which is a local hospital in Wenzhou, where he was primarily responsible for logistics. From May 1990 to October 1995, Mr. Zhou served as the assistant to president and section chief (科長) of human resources and security section at Wenzhou Traditional Chinese Medicine Hospital (溫州市中醫院) which is a local hospital in Wenzhou, where he was primarily responsible for human resources and security. From January 1986 to April 1990, Mr. Zhou served as the human resource officer and deputy office director-general at Wenzhou Qigong Sanatorium (溫州市氣功療養院) in Wenzhou, where he was primarily responsible for human resources and youth work organization. Mr. Zhou completed the advanced study class (高級研修班) for modern health management at Zhejiang University in Hangzhou, Zhejiang Province in June 2014. Mr. Zhou was accredited as radiologist by Wenzhou Municipal Bureau of Health (溫州市衛生局) in December 1989 and was accredited as clinical assistant medical practitioner by Zhejiang Health Bureau (浙江省衛生廳) in April 2000. Mr. Zhou was accredited as senior business operator by Wenzhou Municipal Human Resources and Social Security Bureau in November 2015.

Mr. YE Minjie (葉敏捷), aged 47, is our vice general manager. He is primarily responsible for assisting the general manager in the management of scientific researching and teaching, and international cooperation of the Company. He joined the Company in October 2013 as the vice president. Mr. Ye was appointed as our vice general manger in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from July 1994 to September 2013, he was the section chief (科長) at Wenzhou Mental Hospital (溫州市精神病院), which is a local hospital in Wenzhou, where he was primarily responsible for scientific research and teaching. Mr. Ye graduated from Xinxiang Medical College (新鄉醫學院) with a master's degree in psychiatry and mental health in Xinxiang, Henan Province in July 2007. He was accredited as chief physician in psychiatry by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in January 2014.

Mr. XU Yi (徐誼), aged 46, is our vice general manager. He is primarily responsible for assisting the general manager in the facility and information technology of the Company. Mr. Xu joined the Company in October 2002 and served as the section chief (科長) in the logistics department from October 2002 to March 2009, where he was primarily responsible for logistics management. From April 2009 to September 2014, he served as our vice president, where he was primarily responsible for assisting the president in the overall management and logistics of the Company. He was appointed as our vice general manger in September 2014 after the Company was converted into a joint stock limited liability company. Prior to joining the Company, from April 1999 to September 2002, he was a teacher at the Party School of Wenzhou Municipal Committee of the Communist Party of China (中共溫州市委黨校), where he was primarily responsible for teaching information technology courses. Mr. Xu graduated from the Beijing Institute of Economics and Management (北京經濟管理職業學院) with a college diploma in art design through long-distance education in July 2005. Mr. Xu is the spouse of Ms. WANG Hongyue and the brother-in-law of MR. GUAN Weili and Ms. WANG Lianyue.

Directors, Supervisors and Senior Management

Ms. ZHANG Feixue (章飛雪), aged 51, is our vice general manager. She is primarily responsible for the operation of the hospitals in Taizhou of the Company. Ms. Zhang joined the Company in February 2004 and served as the head of the nursing department from February 2004 to October 2009, where she was primarily responsible for the management of nursing. From November 2009 to September 2010, she served as the head of the education department and the out-patient department, where she was primarily responsible for management. From October 2010 to March 2015, Ms. Zhang served as the vice president of the Company and was primarily responsible for assisting the president in managing nursing affairs. Ms. Zhang has been serving as the vice general manager of the Company since March 2015. Prior to joining the Company, Ms. Zhang held various positions at the Fifth People's Hospital of Yueqing (樂清市第五人民醫院): from October 1995 to January 2004, she served as the head of the nursing department, where she was primarily responsible for hospital nursing management, and from January 1993 to September 1995, she served as an emergency head nurse, where she was primarily responsible for emergency nursing management. Ms. Zhang graduated from Beijing University of Chinese Medicine (北京中醫藥大學) with a bachelor's degree in nursing through long-distance education in July 2005. Ms. Zhang obtained the certificate of advanced study class for modern health management at Zhejiang University (浙江大學現代衛生管理高級研修班) in Hangzhou, Zhejiang Province in November 2014. Ms. Zhang completed the master of public administration courses at Zhejiang Normal University (浙江師範大學) in Jinhua, Zhejiang Province in June 2017. She was accredited as senior nurse by the Human Resources and Social Security Bureau of Zhejiang Province (浙江省人力資源和社會保障廳) in November 2013.

Mr. WANG Jian (王健), aged 36, is our vice general manager and the secretary to our Board. He is primarily responsible for overseeing public affairs and investment relationship, brand building, corporate financing and listing-related matters. Mr. Wang joined the Company in July 2014 and has served as the secretary to our Board since then. Mr. Wang was appointed as the secretary to our Board again in September 2014 after the Company was converted into a joint stock limited liability company. Mr. Wang was appointed as our vice general manger in June 2017. Prior to joining the Company, from June 2009 to July 2014, he served as a staff member (科員) and a senior staff member (副主任科員) in the CSRC Xiamen Regulatory Bureau (中國證監會廈門監管局) where he was primarily responsible for monitoring the corporate governance and information disclosure supervision of listed companies in the Xiamen area. From February 2008 to March 2009, he was a senior auditor at Ernst & Young Hua Ming LLP (安永華明會計師事務所 (特殊普通合夥)), where he was primarily responsible for audit work. From August 2005 to February 2008, he served as an auditor and a senior auditor at PricewaterhouseCoopers Zhong Tian CPAs Limited Company, where he was primarily responsible for audit work. Mr. Wang obtained a bachelor's degree in management from Guanghua School of Management at Peking University (北京大學光華管理學院) in Beijing in July 2005, where he majored in business administration. Mr. Wang was recognized as a non-practicing certified public accountant (註冊會計師非執業會員) by the Chinese Institute of Certified Public Accountants in April 2010 and was granted the legal professional qualification certificate by the Ministry of Justice of the PRC in March 2014.

Directors, Supervisors and Senior Management

Mr. JIN Weiguang (金偉光), aged 54, is our vice general manager. He is primarily responsible for the Company's foreign investment and administrative management. Mr. Jin joined the Company in May 2015 and served as the vice general manager of Shenzhen Yining Hospital from May 2015 to May 2017, where he was primarily responsible for operation functions. Mr. Jin served as the chief investment officer of the Company since May 2017 and he was appointed as the vice general manager of the Company in November 2018. Prior to joining the Company, from August 1987 to April 2015, he served in Wenzhou Municipal Health Bureau (溫州市衛生局), mainly responsible for planning, finance, infrastructure, price, statistics, equipment, drugs, consumables, social medical and other management works, concurrently serving as director of the planning finance department of Wenzhou Municipal Health Bureau from April 2009 to April 2015. From March 2002 to March 2009, he served as deputy head of office and deputy director of the planning finance department of Wenzhou Municipal Health Bureau. Mr. Jin graduated from the Correspondence College of the Party School of the Central Committee of CPC (中央黨校函授學院) in December 1997, majoring in economic management. He graduated from the regional economic postgraduate course of Zhejiang Normal University (浙江師範大學區域經濟研究生課程進修班) in August 2002. He graduated from the Australian Training Course on Health Administration (Medical Quality Management) (澳大利亞衛生行政管理(醫療質量管理)培訓班) in November 2003. He also graduated from the Public Administration Seminar of Zhejiang University (浙江大學公共管理研修班) in November 2004.

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

Directors/Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
GUAN Weili	Qingtian Kangning Hospital	Executive director	From April 2011 to present
	Cangnan Kangning Hospital	Executive director	From June 2012 to present
	Yongjia Kangning Hospital	Executive director	From December 2012 to present
	Yueqing Kangning Hospital	Executive director	From September 2013 to present
	Shenzhen Yining Hospital	Executive director	From September 2014 to present
	Beijing Yining Hospital	Chairman	From August 2015 to present
	Geriatric Hospital	Executive director	From November 2015 to present
	Pingyang Kangning Hospital	Executive director	From November 2015 to present
	Shenzhen Yining Medical Investment Co., Ltd.	Executive director, General manager	From September 2015 to present
	Quzhou Yining Hospital	Chairman	From November 2015 to present
	Wenzhou Lucheng Yining Hospital Co., Ltd.	Chairman, General manager	From April 2020 to present

Directors, Supervisors and Senior Management

Directors/Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
WANG Lianyue	Yiwu Kangning Hospital Management Co., Ltd.	Executive director, Manager	From January 2017 to present
	Qingtian Kangning Hospital	Manager	From December 2018 to present
	Beijing Yining Hospital	Director	From May 2019 to present
	Zhejiang Dening Pharmaceutical Co., Ltd.	Chairman	From June 2019 to September 2019
	Hangzhou Yining Nursery Service Co., Ltd.	Executive director, General manager	From December 2020 to present
WANG Hongyue	Cangnan Kangning Hospital	Supervisor	From June 2012 to present
	Quzhou Yining Hospital	Director	From November 2015 to present
	Pingyang Kangning Hospital	Supervisor	From November 2015 to present
	Zhejiang Huangfeng Hospital Management Co., Ltd.	Director	Form August 2016 to present
	Wenzhou Guoda	Director	From July 2016 to present
	Hangzhou Cining Hospital	Supervisor	From November 2017 to present
	Zhejiang Yining Health Technology Co., Ltd.	Director	From November 2018 to April 2019
	Zhejiang Yining Health Technology Co., Ltd.	Executive director	From April 2019 to present
	Zhejiang Yining Health Technology Co., Ltd.	General manager	From April 2019 to March 2020
	Zhejiang Dening Pharmaceutical Co., Ltd.	Director	From June 2019 to present
	Huainan Kangning Hospital	Supervisor	From June 2019 to present
	Changchun Kanglin Psychological Hospital	Chairman	From December 2019 to present
	Wenzhou Lucheng Yining Hospital Co., Ltd.	Supervisor	From April 2020 to present
	Beijing Yining Hospital	Director, Manager	From May 2020 to present
	Wenzhou Cining Hospital	Chairman	From June 2020 to December 2020

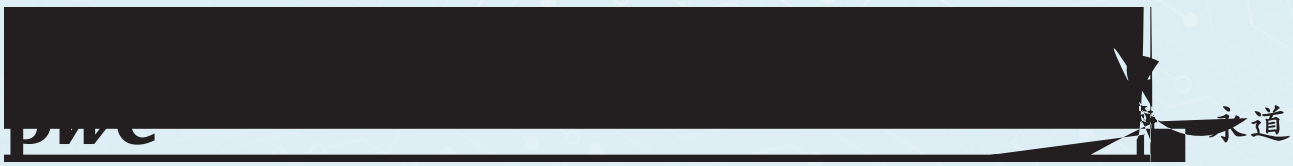
Directors, Supervisors and Senior Management

Directors/Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
XU Yi	Qingtian Kangning Hospital	Supervisor	From April 2011 to present
	Yueqing Kangning Hospital	Supervisor	From September 2013 to present
	Shenzhen Yining Hospital	Supervisor	From September 2014 to present
	Geriatric Hospital	Supervisor	From November 2015 to present
	Beijing Yining Hospital	Supervisor	From August 2015 to present
	Shenzhen Yining Medical Investment Co., Ltd.	Supervisor	From September 2015 to present
	Quzhou Yining Hospital	Supervisor	From November 2015 to present
	Langfang Yining Hospital	Supervisor	From December 2015 to August 2020
	Zhejiang H	Supervisor	From December 2015 to present
	Quzhou Yining Hospital	Supervisor	From December 2015 to present

Directors, Supervisors and Senior Management

Directors/Senior Management	Members of the Group	Positions Held at Members of the Group	Term of Office
ZHOU Chaoyi	Wenzhou Guoda	Chairman	From July 2016 to present
	Yiwu Kangning Hospital Management Co., Ltd.	Supervisor	From January 2017 to present
	Hangzhou Yining Hospital	General manager	From April 2019 to present
WANG Jian	Quzhou Yining Hospital	Director	From November 2015 to present
	Hangzhou Yining Hospital	Director	From April 2017 to present
	Wenzhou Kangning Hospital Hangzhou Branch	Person in charge	From April 2017 to present
	Heze Yining Hospital	Director	From April 2017 to July 2019
	Zhejiang Yining Health Technology Co., Ltd.	Director	From November 2018 to April 2019
	Nanjing Yining Hospital	Director	From July 2018 to present
	Wenling Nanfang Hospital	Chairman, manager	From January 2019 to present
	Huainan Kangning Hospital	Director	From June 2019 to present
	Heze Yining Hospital	Director	From July 2019 to March 2020
	Wenzhou Lucheng Yining Hospital Co., Ltd.	Director	From April 2020 to present
	Zhejiang Yining Health Technology Co., Ltd.	Manager	From March 2020 to present
	Yining Psychology Internet Hospital	Executive director, General manager	From March 2020 to present
ZHANG Feixtor anager	From iespitalFrd(Director)Tj11.654 0 Td(Supervisor)Tj72.25 0 Td(Manager)Tj11.2[illegible] Co., Ltd.	From Jin72(General manager)Tj72.25 0 Td(Manager)Tj11.2[illegible]	From Jin72(General manager)Tj72.25 0 Td(Manager)Tj11.2[illegible]

Auditor's Report



Auditor's Report

Key Audit Matters

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

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

- Assessment for goodwill impairment of healthcare service
- Assessment for the impairment of contractual rights to provide management service

Auditor's Report

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Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment for goodwill impairment of healthcare service Refer to Note 2(18) "Impairment of long-term assets", Note 2(18)(a)(iv) "Critical accounting estimates and key	

Auditor's Report

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
We paid special attention to this matter because goodwill has significant impact on the consolidated financial statements, and assessment of goodwill impairment involves significant judgements and estimates on the present value of future cash flows of healthcare service from management, which is subject to high estimate uncertainty and special inherent risk.	We also compared the current year budgets of these hospitals with their actual operating results to assess the existence of management bias in terms of cash flow forecasts. We reviewed the sensitivity analysis on the above key assumptions to assess the extent to which adverse changes in key assumptions, either individually or in aggregate, would impact the impairment amount of goodwill. We checked the calculation accuracy of the present value of future cash flows expected to be derived from each asset group. Based on results of above work performed, we found management's significant judgements and estimates involved in the assessment for impairment of goodwill allocated to healthcare service are supported by available audit evidence.
Assessment for the impairment of contractual rights to provide management service	
Refer to Note 2(18) "Long-term asset impairment", Note 2(28)(a)(i) "Critical accounting estimates and key assumptions", and Note 4(13) "Intangible assets" to the financial statements. As at 31 December 2020, the carrying amount of contractual rights to provide management service by Wenzhou Kangning Hospital amounted to RMB30,323,021. For the year ended 31 December 2020, the actual operating results of hospitals under management did not meet the budgets, which suggested there was an indication that contractual rights to provide management service might be impaired, management was therefore required to perform an impairment assessment.	We obtained an understanding of the internal control and assessment procedures related to the assessment for the impairment of contractual rights to provide management service adopted by management, and assessed the inherent risk of misstatements by taking into consideration the level of uncertainty and other inherent risk factors (e.g. the complexity and subjectivity of estimates and management bias in making accounting estimates or the sensitivity to misstatement arising from fraud). We evaluated and tested the internal control related to the impairment of contractual rights to provide management service in Wenzhou Kangning Hospital, including the control over the manner of making key assumptions by management.

Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter

Auditor's Report

Other Information

Management of Wenzhou Kangning Hospital is responsible for the other information. The other information comprises all of the information included in 2020 annual report of Wenzhou Kangning Hospital other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.eiwb-h.5(dred to reand,nce)Tj0 Tw 0 -1.556

Auditor's Report

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

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

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

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

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

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

- Evaluate the overall presentation (including the disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Wenzhou Kangning Hospital to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Auditor's Report

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

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

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

PricewaterhouseCoopers Zhong Tian LLP	Signing CPA	Chen Zhiming (Engagement Partner)
Shanghai, the People's Republic of China 26 March 2021	Signing CPA	Chen Yi

Consolidated Balance Sheet

As at 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2020	31 December 2019
Current assets			
Cash at bank and on hand	4(1)	206,499,564	176,030,550
Financial assets held for trading		–	30,000,000
Accounts receivable	4(2)	321,407,965	310,520,612
Other receivables	4(3)	63,435,813	63,317,366
Advances to suppliers	4(4)	11,927,882	5,366,020
Inventories	4(5)	37,508,471	23,568,236
Current portion of non-current assets	4(6)	–	12,688,704
Total current assets		640,779,695	621,491,488
Non-current assets			
Long-term equity investments	4(7)	93,726,511	89,943,193
Other non-current financial assets	4(8)	57,404,918	51,281,869
Investment properties	4(9)	107,804,936	110,856,100
Fixed assets	4(10)	533,743,384	552,490,802
Construction in progress	4(11)	134,941,286	72,180,620
Right-of-use assets	4(12)	227,568,279	235,312,149
Intangible assets	4(13)	162,536,728	130,298,128
Goodwill	4(14)	71,605,598	54,346,633
Long-term prepaid expenses	4(15)	153,550,840	151,083,314
Deferred tax assets	4(16)	46,576,821	46,275,930
Other non-current assets	4(17)	18,708,451	1,791,629
Total non-current assets		1,608,167,752	1,495,860,367
TOTAL ASSETS		2,248,947,447	2,117,351,855

Consolidated Balance Sheet

As at 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2020	31 December 2019
Current liabilities			
Short-term borrowings	4(19)	312,500,000	250,000,000
Notes payable		36,080	–
Accounts payable	4(20)	69,573,927	75,554,960
Contract liability	4(21)	12,965,170	8,562,126
Employee benefits payable	4(22)	42,785,133	36,063,277
Taxes payable	4(23)	49,046,555	33,430,060
Other payables	4(24)	76,603,400	133,348,712
Current portion of non-current liabilities	4(25)	35,540,617	79,741,922
Total current liabilities			

Tn of non-current liabilities8,680,000

Company Balance Sheet

As at 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2020	31 December 2019
Current assets			
Cash at bank and on hand		118,136,805	101,280,806
Financial assets held for trading		–	30,000,000
Accounts receivable	16(1)	78,544,241	99,205,315
Advances to suppliers		1,931,488	750,172
Other receivables	16(2)	521,673,904	564,146,603
Inventories		10,374,364	8,901,212
Current portion of non-current assets		–	12,688,704
Total current assets		730,660,802	816,972,812
Non-current assets			
Other non-current financial assets	4(8)	57,404,918	51,281,869
Long-term equity investments	16(3)	453,843,360	337,636,659
Fixed assets	16(4)	299,191,394	310,260,258
Construction in progress		3,144,167	113,599
Right-of-use assets		–	800,963
Intangible assets	16(5)	22,383,643	20,255,734
Long-term prepaid expenses		17,188,510	18,875,432
Other non-current assets		556,900	709,800
Deferred tax assets		7,655,891	8,347,166
Total non-current assets		861,368,783	748,281,480
TOTAL ASSETS		1,592,029,585	1,565,254,292

Company Balance Sheet

As at 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2020	31 December 2019
Current liabilities			
Short-term borrowings		310,000,000	250,000,000
Accounts payable		32,572,146	38,432,798
Contract liability		3,480,240	2,806,872
Employee benefits payable		15,629,766	15,571,352
Taxes payable		8,267,931	5,976,133
Other payables		25,329,546	64,891,712
Current portion of non-current liabilities		–	52,688,704
Total current liabilities		395,279,629	430,367,571
Non-current liabilities			
Long-term borrowings		38,000,000	–
Lease liabilities		–	766,159
Provisions		–	2,000,000
Deferred income		9,645,475	9,949,267
Deferred tax liabilities		1,607,649	76,887
Total non-current liabilities		49,253,124	12,792,313
Total liabilities		444,532,753	443,159,884
Shareholders' equity			
Share capital	4(30)	74,600,300	75,500,000
Capital surplus	16(7)	828,516,606	834,663,559
Less: Treasury stock	9(b)(1)	(23,311,144)	(21,721,144)
Surplus reserve	4(32)	36,593,229	33,189,321
Retained earnings	16(8)	231,097,841	200,462,672
Total shareholders' equity		1,147,496,832	1,122,094,408
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,592,029,585	1,565,254,292

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

Legal representative:
GUAN Weili

Principal in charge of accounting:
WANG Hongyue

Head of accounting department:
XU Qunyan

Consolidated Income Statement

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2020	2019
1. Revenue	4(34)	1,031,283,760	860,691,729
Less: Cost of sales	4(34), 4(36)	(728,701,852)	(656,184,564)
Taxes and surcharges	4(35)	(5,413,866)	(5,226,869)
Selling and distribution expenses	4(36)	(8,072,345)	(7,977,677)
General and administrative expenses	4(36)	(125,062,445)	(123,338,942)
Research and development expenses	4(36)	(20,972,502)	(6,018,107)
Financial expenses – net	4(37)	(22,821,708)	(23,488,174)
Including: Interest expenses		(26,557,119)	(26,563,406)
Interest income		4,677,222	4,477,337
Add: Other income	4(38)	9,264,825	10,392,548
Investment (losses)/income	4(39)	(7,665,311)	24,336,266
Including: Share of losses of associates		(7,727,019)	(3,403,144)
Gains from changes in fair value	4(40)	6,599,223	1,917,462
Credit impairment losses	4(41)	(23,125,756)	(29,256,324)
Asset impairment losses	4(42)	(8,011,603)	–
Gains from disposal of assets		596,700	–
2. Operating profit		97,897,120	45,847,348
Add: Non-operating income	4(43)	909,040	29,388,527
Less: Non-operating expenses	4(44)	(10,901,945)	(19,713,068)
3. Total profit		87,904,215	55,522,807
Less: Income tax expenses	4(45)	(28,948,671)	(17,295,189)

Consolidated Income Statement

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2020	2019
4. Net profit		58,955,544	38,227,618
Classified by continuity of operations			
Net profit from continuing operations		58,955,544	38,227,618
Net profit from discontinued operations		–	–
Classified by ownership of the equity			
Net profit attributable to shareholders of the parent company		70,000,134	57,289,394
Non-controlling interests		(11,044,590)	(19,061,776)

Company Income Statement

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2020	2019
1. Revenue	16(9)	417,163,187	384,606,640
Less: Cost of sales	16(9), 16(11)	(275,030,115)	(273,030,710)
Taxes and surcharges		(3,102,082)	(2,991,699)
Selling and distribution expenses	16(11)	(2,321,386)	(2,488,613)
General and administrative expenses	16(11)	(54,661,422)	(62,554,461)
Research and development expenses	16(11)	(15,876,537)	(3,579,462)
Financial expenses – net	16(10)	(2,113,701)	(7,745,071)
Including: Interest expenses		(16,578,305)	(9,057,076)
Interest income		15,041,897	2,427,741
Add: Other income		4,253,758	7,463,067
Investment (losses)/income	16(12)	(8,096,928)	755,472
Including: Share of losses of associates		(8,158,636)	(632,938)
Gains from changes in fair value		6,123,049	307,546
Credit impairment losses	16(13)	(7,493,110)	(14,531,928)
Asset impairment losses	16(3)	(10,847,608)	–
2. Operating profit		47,997,105	26,210,781
Add: Non-operating income		798,824	27,796,894
Less: Non-operating expenses		(4,062,518)	(11,408,985)
3. Total profit		44,733,411	42,598,690
Less: Income tax expenses	16(14)	(10,694,334)	(10,515,824)
4. Net profit		34,039,077	32,082,866
Classified by continuity of operations			
Net profit from continuing operations		34,039,077	32,082,866
Net profit from discontinued operations		–	–
5. Total comprehensive income		34,039,077	32,082,866

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

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

Consolidated Cash Flow Statement

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2020	2019

Consolidated Cash Flow Statement

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2020	2019
3. Cash flows from financing activities			
Cash received from capital contributions		23,361,500	12,345,000
Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries		21,771,500	12,345,000
Cash received from borrowings		406,492,970	270,000,000
Cash received relating to other financing activities		–	11,960,000
Sub-total of cash inflows		429,854,470	294,305,000
Cash repayments of borrowings		(290,000,000)	(185,000,000)
Cash payments for distribution of dividends or interest expenses		(17,109,612)	(29,036,189)
Cash paid relating to other financing activities		(100,692,478)	(72,507,242)
Sub-total of cash outflows		(407,802,090)	(286,543,431)
Net cash flows from financing activities		22,052,380	7,761,569
4. Effect of foreign exchange rate changes on cash and cash equivalents		(248,021)	(635,428)
5. Net increase/(decrease) in cash and cash equivalents		35,140,715	(22,114,744)
Add: Cash and cash equivalents at the beginning of the year	4(47)(a)	164,951,950	187,066,694
6. Cash and cash equivalents at the end of the year	4(47)(a)(d)	200,092,665	164,951,950

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

Company Cash Flow Statement

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2020	2019
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		430,696,545	388,982,589
Cash received relating to other operating activities		64,986,508	11,809,899
Sub-total of cash inflows		495,683,053	400,792,488
Cash paid for goods and services		(161,484,999)	(125,886,385)
Cash paid to and on behalf of employees		(135,403,738)	(124,597,846)
Payments of taxes and surcharges		(9,282,581)	(18,265,441)
Cash paid relating to other operating activities		(30,870,989)	(56,689,406)
Sub-total of cash outflows		(337,042,307)	(325,439,078)
Net cash flows used in operating activities		158,640,746	75,353,410
2. Cash flows from investing activities			
Cash received from disposal of investments		49,000,000	447,095
Cash received from returns on investments		96,370	1,526,505
Cash received relating to other investing activities		3,750,000	–
Sub-total of cash inflows		52,846,370	1,973,600
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(38,292,840)	(22,007,144)
Cash paid to acquire investments		(158,247,608)	(210,750,000)
Cash paid relating to other investing activities		(5,370,000)	–
Sub-total of cash outflows		(201,910,448)	(232,757,144)
Net cash flows used in investing activities		(149,064,078)	(230,783,544)

Company Cash Flow Statement

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2020	2019
3. Cash flows from financing activities			
Cash received from capital contributions		1,590,000	–
Cash received from borrowings		348,000,000	250,000,000
Cash received relating to other financing activities		–	10,000,000
Sub-total of cash inflows		349,590,000	260,000,000
Cash repayments of borrowings		(300,000,000)	(145,000,000)
Cash payments for distribution of dividends or interest expenses		(16,486,881)	(18,296,586)
Cash paid relating to other financing activities		(14,507,167)	(265,816)
Sub-total of cash outflows		(330,994,048)	(163,562,402)
Net cash flows from financing activities		18,595,952	96,437,598
4. Effect of foreign exchange rate changes on cash		(248,021)	(635,428)
5. Net increase/(decrease) in cash and cash equivalents		27,924,599	(59,627,964)
Add: Cash and cash equivalents at the beginning of the year		90,212,206	149,840,170
6. Cash and cash equivalents at the end of the year		118,136,805	90,212,206

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

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

		Equity attributable to shareholders of the parent company						
	Note	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Non-controlling interests	Total shareholders' equity
Balance at 1 January 2020		75,500,000	824,715,445	(21,721,144)	33,189,321	252,800,715	97,024,925	1,261,509,262
Movements for the year ended 31 December 2020								
Total comprehensive income								
Net profit		–	–	–	–	70,000,134	(11,044,590)	58,955,544
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders		–	1,590,000	(1,590,000)	–	–	21,771,500	21,771,500
Share-based payment included in shareholders' equity	9	–	5,887,603	–	–	–	–	5,887,603
Transactions with non-controlling shareholders	4(31)	–	(13,813,742)	–	–	–	(19,879,038)	(33,692,780)
Repurchase of shares	4(31)	(899,700)	(13,624,556)	–	–	–	–	(14,524,256)
Others	4(31)	–	(188,221)	–	–	–	–	(188,221)
Business combination involving enterprise not under common control	5(1)	–	–	–	–	–	15,905,745	15,905,745
Profit distribution								
Appropriation for surplus reserve		–	–	–	3,403,908	(3,403,908)	–	–
Profit distribution to shareholders	4(33)	–	–	–	–	–	(1,200,000)	(1,200,000)
Balance at 31 December 2020		74,600,300	804,566,529	(23,311,144)	36,593,229	319,396,941	102,578,542	1,314,424,397

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

Others 4(31)

	Note	Equity attributable to shareholders of the parent company					Non-controlling interests	Total shareholders' equity
		Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings		
Balance at 1 January 2019		75,500,000	827,379,886	(2135,0,000)	29,981,034	2,0,044,608	84,277,828	1,205,273,356
Movements for the year ended 31 December 2019								
Total comprehensive income								
Net profit		–	–	–	–	57,289,394	(19,061,776)	38,227,618
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders		–	–	–	–	–	12,345,000	12,345,000
Share-based payment included in shareholders' equity	9	–	5,920,526	–	–	–	–	5,920,526
Transactions with non-controlling shareholders		–	(3,690,389)	–	–	–	(4,969,611)	(8,660,000)
Capital withdrawal by shareholders		–	(188,856)	188,856	–	–	–	–
Others		–	(4,705,722)	–	–	–	(2,152,086)	(6,857,808)
Business combination involving enterprise not under common control		–	–	–	–	–	26,585,570	26,585,570
Profit distribution								
Appropriation for surplus reserve		–	–	–	3,208,287	(3,208,287)	–	–
Profit distribution to shareholders	4(33)	–	–	–	–	(11,325,000)	–	(11,325,000)
Balance at 31 December 2019		75,500,000	824,715,445	(21,721,144)	33,189,321	252,800,715	97,024,925	1,261,509,262

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

Legal representative:
GUAN Weili

Principal in charge of accounting:
WANG Hongyue

Head of accounting department:
XU Qunyan

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

	Note	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Total shareholders' equity
Balance at 1 January 2020		75,500,000	834,663,559	(21,721,144)			

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019
(All amounts in RMB Yuan unless otherwise stated)

	Note	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Total shareholders' equity
Balance at 1 January 2019		75,500,000	828,931,889	(21,910,000)	29,981,034	182,913,093	1,095,416,016
Movements for the year ended 31 December 2019							
Total comprehensive income							
Net profit		–	–	–	–	32,082,866	32,082,866
Capital contribution and withdrawal by shareholders							
Capital withdrawal by shareholders		–	(188,856)	188,856	–	–	–
Share-based payment included in shareholders' equity	9	–	5,920,526	–	–	–	5,920,526
Profit distribution							
Appropriation for surplus reserve		–	–	–	3,208,287	(3,208,287)	–
Profit distribution to shareholders		–	–	–	–	(11,325,000)	(11,325,000)
Balance at 31 December 2019		75,500,000	834,663,559	(21,721,144)	33,189,321	200,462,672	1,122,094,408

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

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

1 General information

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

On 15 October 2014, the Company was converted into a joint stock limited liability company and renamed as Wenzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股弁皂茖畾榣).

The principle activities of the Company and its subsidiaries ("the Group") are operating psychiatric hospitals and providing management services to hospitals in the PRC.

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

During the reporting period, many affiliated hospitals of the Group (Note 5) entered the stage of full operation. Meanwhile, the Group continued to invest in associates (Note 4(7)) and provided management services to other hospitals (Note 4(13)) to expand its medical network.

Please refer to Note "5. Changes in the consolidation scope" and Note "6. Interests in other entities" for the consolidation scope and the changes in the consolidation scope for the consolidated financial statements for the current year.

The financial statements were authorised for issue by the Board of Directors of the Company on 26 March 2021.

2 Summary of significant accounting policies and accounting estimates

Key judgements and critical accounting estimates and key assumptions applied by the Group on the determination of significant accounting policies are set out in Note 2(28).

(1) Basis of preparation

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

The financial statements are prepared on a going concern basis.

The new *Hong Kong Companies Ordinance* became effective on 3 March 2014. Certain disclosures in the financial statements have been adjusted in accordance with requirements therein.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

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

The financial statements of the Company for the year ended 31 December 2020 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and the company's financial position of the Company as at 31 December 2020 and their financial performance, cash flows and other information for the year then ended.

(3) Accounting year

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

(4) Recording currency

The Company's recording currency is Renminbi (RMB). The recording currency of the Company's subsidiaries is determined based on the primary economic environment in which they operate. All the Company's subsidiaries operate within the PRC and their recording currency is RMB. The financial statements are presented in RMB.

(5) Business combinations

Business combinations involving enterprises not under common control

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

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(6) Preparation of consolidated financial statements

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(7) Cash and cash equivalents

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

(8) Foreign currency translation

Foreign currency transactions

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

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

(9) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument.

(a) Financial assets

(i) Classification and measurement

Based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, financial assets are classified as: (1) financial assets at amortised cost; (2) financial assets at fair value through profit or loss.

The financial assets are measured at fair value at initial recognition. Related transaction costs that are attributable to the acquisition of the financial assets are included in the initially recognised amounts, except for the financial assets at fair value through profit or loss, the related transaction costs of which are recognised directly in profit or loss for the current period. Accounts receivable or notes receivable arising from sales of products or rendering of services (excluding or without regard to significant financing components) are initially recognised at the consideration that is entitled to be charged by the Group as expected.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment

For financial assets measured at amortised cost such as accounts receivable and other receivables, the Group recognises loss provisions on the basis of expected credit losses ("ECL").

Giving consideration to reasonable and supportable information on past events, current conditions and forecasts of future economic conditions, as well as the default risk weight, the Group recognises the ECL as the probability-weighted amount of the present value of the difference between the cash flows receivable from the contract and the cash flows expected to collect.

As at each balance sheet date, the ECL of financial instruments at different stages are measured respectively. 12-month ECL provision is recognised for financial instruments in Stage 1 that have not had a significant increase in credit risk since initial recognition; lifetime ECL provision is recognised for financial instruments in Stage 2 that have had a significant increase in credit risk yet without credit impairment since initial recognition; and lifetime ECL provision is recognised for financial instruments in Stage 3 that have had credit impairment since initial recognition.

For the financial instruments with lower credit risk on the balance sheet date, the Group assumes there is no significant increase in credit risk since initial recognition and recognises the 12-month ECL provision.

For the financial instruments in Stage 1, Stage 2 and with lower credit risk, the Group calculates the interest income by applying the effective interest rate to the gross carrying amount (before deduction of the impairment provision). For the financial instrument in Stage 3, the interest income is calculated by applying the effective interest rate to the amortised cost (after deduction of the impairment provision from the gross carrying amount).

For accounts receivables, irrespective of whether a significant financing component exists, the Group measures the loss provision according to lifetime ECL.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment (continued)

In case the ECL of an individually assessed financial asset cannot be evaluated with reasonable cost, the Group divides the receivables into certain groupings based on credit risk characteristics, and calculates the ECL for the groupings. Basis for determine groupings is as follows:

Accounts receivable grouping	Receivables from medical service
Other receivables grouping	Loans to third parties
Other receivables grouping	Advances
Other receivables grouping	Receivables from related parties
Other receivables grouping	Deposits and guarantees
Other receivables grouping	Others

With consideration to historical credit loss experience, current conditions and forecasts of future economic conditions, the Group prepares the cross-reference between the number of overdue days of accounts receivable and the lifetime ECL rate, and calculates the ECL of accounts receivable that are classified into groupings.

Based on the exposure at default and the 12-month/lifetime ECL rate, the Group calculates the ECL of other receivables that are classified into groupings with consideration to historical credit losses experience, the current conditions and forecasts of future economic conditions.

The Group recognises the loss provision made or reversed into profit or loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(9) Financial instruments (continued)

(a) Financial assets (continued)

(iii) Derecognition

A financial asset is derecognised when: (i) the contractual rights to the cash flows from the financial

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(11) Long-term equity investments

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

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

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

(a) Determination of investment costs

For long-term equity investments acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

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

(b) Subsequent measurement and recognition of profit or loss

Long-term equity investments accounted for using the cost method are measured at initial investment cost. Cash dividend or profit distribution declared by the investees is recognised as investment income in profit or loss for the current period.

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

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(12) Investment properties

Investment properties, including land use rights that have already been leased out, buildings that are held for the purpose of leasing and buildings that are being constructed or developed for fueuWc t0ce of le, thatm ofr fdr the .0340.00 Inve

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(13) Fixed assets

(a) Recognition and initial measurement of fixed assets

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

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

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(15) Borrowing costs (continued)

For the specific borrowings obtained for the acquisition or construction of an asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment atinose borrowings during the capitalisation period.

For general borrowings utilised for the acquisition and construction atian asset qualifying for capitalisation, the capitalised amount of the general borrowings is determined by the weighted average of the excess of accumulated capital expenditure over capital expenditure of the special borrowings multiplied by the weighted average effective interest rate of the utilised general borrowings. The effective interest rate is the interest rate at which the future cash flows of the borrowings over the estimated life or a shorter applicable period are discounted into the initial recognised amount of the borrowings.

(16) Intangible assets

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

(i) Land use rights

Land use rights are amortised on the straight-line basis over their approved use period of 40 – 50 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

(ii) Software use fees

Software use fees are amortised on a straight-line basis over the estimated useful lives of 5 years.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(16) Intangible assets (continued)

(iii) Contractual right to provide management services

Contractual rights to provide management service are the rights to manage a hospital, which are subsequently measured at costs (the amounts paid to acquire such rights) less accumulated amortisation and any accumulated impairment losses.

Contractual rights to provide management service are amortised on a straight-line basis over the contractual terms as below:

	Contractual terms
Pujiang Huangfeng Psychiatric Hospital ("Pujiang Hospital")	30 years
Chun'an Huangfeng Kangen Hospital ("Chun'an Hospital")	30 years
Yiwu Mental Health Centre ("Yiwu Health Centre")	20 years

(iv) Licences

Licences acquired through asset acquisition and business combinations are recognised at fair value at the date of asset acquisition. These licences have limited useful life and are subsequently measured at cost less accumulated amortisation. Licences are amortised on a straight-line basis over the estimated useful lives of 5 to 15 years.

(v) Trademark rights

Trademark rights are amortised on the straight-line basis over their estimated useful life of 10 years.

(vi) Periodical review of useful life and amortisation method

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

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(16) Intangible assets (continued)

(vii) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at the end of the project.

Expenditure on the planned investigation, evaluation and selection for research on medical systems and software is expenditure on the research phase, which is recognised in profit or loss for the current period in which it is incurred. Expenditure on design and test for the final application of medical systems and software before mass production is expenditure on the development phase, which is capitalised only if all of the following conditions are satisfied:

- the development of medical systems and software has been fully demonstrated by technical team;
- management has approved the budget of the development of medical systems and software;
- the research and analysis of preliminary market survey indicate that products manufactured by medical systems and software are marketable;
- adequate technical and financial supports are available for development of medical systems and software and subsequent support operations; and
- expenditure on development of medical systems and software can be reliably collected.

Other development expenditures that do not meet the conditions above are recognised in profit or loss for the current period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(17) Long-term prepaid expenses

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

(18) Impairment of long-term assets

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

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

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

(19) Employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Group in exchange for service rendered by employees or for termination of employment relationship, which include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

(a) Short-term employee benefits

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

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(19) Employee benefits (continued)

(b) Post-employment benefits

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

(c) Basic pensions

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

(20) Dividend distribution

Cash dividends are recognised as liabilities in the period in which the dividends are approved by the shareholders' meeting.

(21) Provisions

Provisions for contingencies such as pending litigation are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The provisions expected to be settled within one year since the balance sheet date are classified as current liabilities.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(22) Share-based payments

(a) The types of share-based payments

A share-based payment is a transaction in which the Group grants equity instruments or assumes liabilities that are determined based on equity instruments, in exchange for services rendered by employees or other parties. Equity instruments include the equity instruments linked to the Company, or other accounting entities within the same group. Share-based payments are divided into equity-settled share-based payments and cash-settled share-based payments. For the year ended 31 December 2020, the Group did not hold any cash-settled share-based payments.

The Company's restricted share incentive plan is equity-settled share-based payments for exchange of services rendered by employees, and is measured at the fair value of the restricted shares at the grant date. For share-based payments that are not exercisable until services in the vesting period are completed, at each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the number of vested equity instruments, be included in the relevant costs or expenses at the fair value of the equity instruments at the grant date, with capital reserve increasing accordingly.

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

The fair value of restricted shares is determined based on the difference between the fair value and the grant price of the Group's restricted shares at the grant date.

(c) Basis for determining the best estimate of exercisable equity instruments

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(23) Revenue recognition

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(24) Government grants

Government grants refer to the monetary or non-monetary assets obtained by the Group from the government, including tax return, financial subsidy, etc.

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets are recorded as deferred income and recognised in profit or loss on a reasonable and systemic basis over the useful lives of the assets.

Government grants related to income that compensate future costs, expenses or losses are recorded as deferred income and recognised in profit or loss in reporting the related costs, expenses or losses; government grants related to income that compensate incurred costs, expenses or losses are recognised in profit or loss directly in the current period.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

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

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

Deferred tax assets and deferred tax liabilities are offset when:

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

(26) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as the lessee

At the commencement date, the Group shall recognise the right-of-use assets and measure the lease liability at the present value of the lease payments that are not paid at that date. Lease payments include fixed payments, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease if the lessee exercises an option to terminate the lease. Variable lease payments in proportion to sales are excluded from lease payments and recognised in profit or loss as incurred. Lease liabilities that are due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current liabilities.

Right-of-use assets of the Group include buildings. Right-of-use assets are measured initially at cost which comprises the amount of the initial measurement of lease liabilities, any lease payments made at or before the commencement date and any initial direct costs, less any lease incentives received. If there is reasonable certainty that the Company will obtain ownership of the underlying asset by the end of the lease term, the asset is depreciated over its remaining useful life; otherwise the asset is depreciated over the shorter of the lease term and its remaining useful life. The carrying amount of the right-of-use assets is reduced to the recoverable amount when the recoverable amount is below the carrying amount.

For short-term leases with a term of 12 months 2 rm9loT(e)0.5(s)0.5( )0.a(o)0.5(n)0.d(m)0.5( )0.6(l)0.5(e)0.5(a)0.6(s)0.5(e)0.5(

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(26) Leases (continued)

The Group as the lessee (continued)

The Company shall account for a lease modification as a separate lease if both: (1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; (2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the contract.

For a lease modification that is not accounted for as a separate lease, the Group shall redetermine the lease term at the effective date of the lease modification, and remeasure the lease liability by discounting the revised lease payments using a revised discount rate, except that the contract changes directly resulting from COVID-19 are accounted for by applying the practical expedient. For a lease modification which decreases the scope of the lease or shortens the lease term, the Group decreases the carrying amount of the right-of-use asset, and recognises in profit or loss any gain or loss relating to the partial or full termination of the lease. For other leases which lead to the remeasurement of lease liabilities, the Group correspondingly adjusts the carrying amount of the right-of-use asset.

For the rental waivers as a result of COVID-19 and for the period ended 30 June 2021 only, the Group applies the practical expedient and records the undiscounted waivers in profit or loss when the agreement is reached to dismiss the original payment obligation with corresponding adjustment of lease liabilities.

The Group as the lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. An operating lease is a lease other than a finance lease.

The Group accounts for a lease modification as a new lease from the effective date of the modification, and considers any lease payments received in advance and receivable relating to the lease before modification as receivables of the new lease.

(a) Operating leases

Where the Group leases out self-owned buildings, machinery and equipment, and motor vehicles under operating leases, rental income therefrom is recognised on a straight-line basis over the lease term. Variable rental that is linked to a certain percentage of sales is recognised in rental income as incurred.

(b) Finance leases

At the commencement date, the Group recognises the lease payments receivable under a finance lease and derecognises relevant assets. The lease payments receivable under a finance lease are presented as long-term receivables; the lease payments receivable under a finance lease due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current assets.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(27) Segment information

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

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

(28) Critical accounting estimates and judgements

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

(a) Critical accounting estimates and key assumptions

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

(i) Assessment for the impairment of contractual rights to provide management service

As at 31 December 2020, the carrying amount of contractual rights to provide management service amounted to RMB30,323,021 (31 December 2019: RMB45,162,735). Management performs review for impairment of such assets whenever events or changes in circumstances indicate that the carrying amounts of contractual rights to provide management service may not be recoverable. The recoverable amount of the contractual rights to provide management service is recognised based on the discounted cash flow method and such calculation requires the use of significant estimates and assumptions on the projections of cash flows from the continuous use of contractual rights to provide management service.

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

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(28) Critical accounting estimates and judgements (continued)

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

(i) Assessment for the impairment of contractual rights to provide management service (continued)

In 2020, key assumptions adopted to recognise the recoverable amount of the contractual rights to provide management service mainly include:

	Yiwu Health Centre	Pujiang Hospital
Average number of in-patient beds in operation*	362	274
Average in-patient spending per day per bed*	266	247
Gross margin*	6%	16.9%
Pre-tax discount rate	20.11%	19.59%
Growth rate in the stable period	2.5%	2.5%

In 2019, key assumptions adopted to recognise the recoverable amount of the contractual rights to provide management service mainly include:

	Yiwu Health Centre	Pujiang Hospital and Chun'an Hospital
Average number of in-patient beds in operation*	373	233
Average in-patient spending per day per bed*	283	204
Gross margin*	6%	33%
Pre-tax discount rate	19.37%	19.94%
Growth rate in the stable period	3%	3%

* It represents the average number in upcoming five years.

In 2020, the Group determined growth rate and gross margin based on past experience and forecast on future market development, and adopted the pre-tax interest rate that reflects the risks specific to the contractual rights to provide management service as the discount rate. Growth rate in the stable period is the weighted average growth rates applied by the Group to extrapolate cash flows beyond the five-year forecast period, which is consistent with that estimated in the industry reports, and does not exceed the long-term average growth rate of each product. For year ended 31 December 2020, no provision for impairment was made based on management's result of impairment test.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(28) Critical accounting estimates and judgements (continued)

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

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(28) Critical accounting estimates and judgements (continued)

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

(iii) Determination of the fair value of investment properties

Investment properties (Note 4(9)) are subsequently measured at fair value using the income approach. The inputs mainly include rental, ultimate return rate/capitalisation rate, vacancy rate, etc.

The related information of fair value measurement is as follows:

			Significant unobservable inputs			
	Fair value as at 31 December 2020	Valuation technique	Name	Weighted average	Relationship with fair value	Observable/ Unobservable
Phase I of Business Centre in Higher Education Park	42,628,066	Income approach	Ultimate return rate/ Capitalisation rate	5.50%		
			Monthly rental (RMB/m²/month)	38.0 – 48.51	(a)	Unobservable
			Vacancy rate	2.74%		
Phase II of Business Centre in Higher Education Park	65,176,870	Income approach	Ultimate return rate/ Capitalisation rate	5.00%	(a)	Unobservable
			Monthly rental (RMB/m²/month)	30.5 – 33		
			Vacancy rate i)	–		
	107,804,936					

i) According to the signed leases, the vacancy rate of the property is 0 during the forecast period.

(a) Relationship between the unobservable inputs and the fair value:

- the higher the ultimate return rate/capitalisation rate is, the lower the fair value is;
- the higher the estimated vacancy rate is, the lower the fair value is;
- the higher the monthly rental is, the higher the fair value is.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(28) Critical accounting estimates and judgements (continued)

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

(iv) Accounting estimates on impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of asset groups and groups of asset groups that include goodwill is the higher of their fair value less disposal costs and the present value of the future cash flows expected to be derived from them. Such calculations require the adoption of accounting estimates (Note 4(14)).

Due to the outbreak of the COVID-19 and the control measures taken, operations as to out-patient and in-patient services of certain hospitals under the Group's medical service segment were limited, resulting in a decline in business volume. In the impairment test of goodwill, the recoverable amount is the present value of estimated future cash flows. Due to the uncertainties of the development and controls of the COVID-19, uncertainties of growth rate, gross margin and pre-tax discount rate adopted in the calculation of the present value of estimated future cash flows remain.

If management revises the average number of in-patient beds in operation, average in-patient spending per day per bed, gross margin and perpetual growth rate that are used in the calculation of the future cash flows of asset groups and groups of asset groups, and the revised average number of in-patient beds in operation, average in-patient spending per day per bed, gross margin and perpetual growth rate are lower than those currently used, the Group will recognise further impairment against goodwill.

If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group will recognise further impairment against goodwill.

If the actual average number of in-patient beds in operation, average in-patient spending per day per bed, gross margin and perpetual growth rate or the actual pre-tax discount rate in a subsequent period are higher/lower than management's estimates, the impairment loss of goodwill previously provided for is not allowed to be reversed by the Group.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(28) Critical accounting estimates and judgements (continued)

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

(v) Income tax and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. There are some transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgement is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for the deductible tax losses that can be carried forward to subsequent years to the extent that it is probable that taxable profit will be available in the future against which the deductible tax losses can be utilised. Taxable profit that will be available in the future includes the taxable profit that will be realised through normal operations and the taxable profit that will be increased upon the reversal of taxable temporary differences incurred in prior periods. Judgements and estimates are required to determine the time and amounts of taxable profit in the future. Any difference between the reality and the estimate may result in adjustment to the carrying amount of deferred tax assets.

(b) Critical judgements in applying the accounting policies

(i) Whether the Group has control over the hospital that provides management service

The Group entered into agreements with several hospitals in exchange for contractual rights to provide management service to such hospitals and obtain management service fees during the periods.

After assessing the power of such hospitals' internal decision-making bodies and committees on their daily operation-related activities and the power granted to the Group to participate in the hospitals' daily operation-related activities, management believes that the Group enjoys the rights of nominating party in these decision-making bodies and committees, but does not obtain decision-making power to lead the hospitals' daily operation-related activities. Meanwhile, the Group also considers the variable returns obtained by both parties to the contract. The Group

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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

(28) Critical accounting estimates and judgements (continued)

(b) Critical judgements in applying the accounting policies (continued)

(ii) Judgement on significant increase in credit risk

Judgement of the Group for significant increase in credit risk is mainly based on whether the number of overdue days exceeds 30, or whether one or more of the following indicators changed significantly: business environment of the debtor, internal and external credit rating, significant changes in actual or expected operating results, significant decrease in value of collateral or credit rate of guarantor, etc.

Judgement of the Group on the occurred credit impairment is mainly based on whether the number of overdue days exceeds 90 (i.e., a default has occurred), or whether it meets one or more of the following conditions: the debtor is suffering significant financial difficulties, engaged in other debt

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

3 Taxation

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

Category	Tax rate	Tax base
Enterprise income tax (a)	15%, 20% or 25%	Taxable income
Value-added tax ("VAT") (b)	1%, 3%, 5%, 6% or 13%	Revenue
City maintenance and construction tax	7%	The amount of VAT and business tax actually paid
Educational surcharge	3%	The amount of VAT and business tax actually paid
Local educational surcharge	2%	The amount of VAT and business tax actually paid
Property tax (c)	1.2% or 12%	70% of the original value of the property or the rental income
Urban land use tax (d)	RMB5/m^2	The land area
Land VAT	30%-60%	The amount of value added

(a) On 1 December 2020, Hangzhou Jeremiah Information Technology Co., Ltd. ("Hangzhou Jeremiah"), a subsidiary of the Group, has obtained the *Certificate of High and New Technology Enterprise* (No. GR202033002789) issued by the Science and Technology Department of Zhejiang Province, and the term of validity is 3 years. Under Article 28 of the *Enterprise Income Tax Law of the People's Republic of China*, the income tax rate applicable to Hangzhou Jeremiah in 2020 was 15%.

In accordance with the *Enterprise Income Tax Law of the People's Republic of China* and its implementing regulations, and *Notice of the Ministry of Finance and the State Taxation Administration on Implementing the Inclusive Tax Deduction and Exemption Policies for Micro and Small Enterprises* (Cai Shui [2019] No. 13), in 2020, the Group's subsidiaries, Yiwu Kangning Hospital Management Co., Ltd. ("Yiwu Kangning Hospital") and Guanxian Yining Hospital Co., Ltd. ("Guanxian Yining Hospital") and, the Company's subsidiary, Wenzhou Kangning Judicial Forensic Centre ("Judicial Forensic Centre") were subject to the enterprise income tax rate of 20%.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

3 Taxation (continued)

(b) Pursuant to the *Provisions on the Transitional Policies for the Pilot Program of Replacing Business Tax with Value-Added Tax* in the *Circular on the Overall Promotion of Pilot Program of Levying VAT in Place of Business Tax* (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Taxation Administration, the revenue from providing medical services of the Company and its subsidiaries, Qingtian Kangning Hospital Co., Ltd. ("Qingtian Kangning Hospital"), Cangnan Kangning Hospital Co., Ltd. ("Cangnan Kangning Hospital"),Yongjia Kangning Hospital Co., Ltd. ("Yongjia Kangning Hospital"), Yueqing Kangning Hospital Co., Ltd. ("Yueqing Kangning Hospital"), Linhai Kangning Hospital Co., Ltd. ("Linhai Kangning Hospital"), Wenzhou Yining Geriatric Hospital Co., Ltd. ("Wenzhou Yining Geriatric Hospital"), Shenzhen Yining Hospital, Pingyang Kangning Hospital Co., Ltd. ("Pingyang Kangning Hospital"), Quzhou Yining Hospital Co., Ltd. ("Quzhou Yining Hospital"), Taizhou Luqiao Cining Hospital Co., Ltd. ("Luqiao Cining Hospital"), Taizhou Kangning Hospital Co., Ltd. ("Taizhou Kangning Hospital"), Wenzhou Tianzhentang Chinese Medicine Clinic Co., Ltd. ("Wenzhou Tianzhentang"), Nanjing Yining Hospital Co., Ltd. ("Nanjing Yining Hospital)", Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd. ("Wenling Nanfang Hospital"), Heze Yining Psychiatric Hospital Co., Ltd. ("Heze Yining Hospital"), Guanxian Yining Hospital Co., Ltd. ("Guanxian Yining Hospital"), Hangzhou Yining Hospital Co., Ltd. ("Hangzhou Yining Hospital"), Hangzhou Cining Hospital Co., Ltd. ("Hangzhou Cining Hospital"), Beijing Yining Hospital Co., Ltd. ("Beijing Yining Hospital") and Huainan Kangning Hospital Co., Ltd. ("Huainan Kangning Hospital"), Changchun Kanglin Mental Hospital Co., Ltd. ("Changchun Kanglin Hospital"), Yining Mental Health E-Hospital (Wenzhou) Co., Ltd. ("Yining Mental Health E-Hospital") and Wenzhou Cining Hospital Co., Ltd. ("Wenzhou Cining Hospital") were exempted from VAT.

Pursuant to the relevant tax regulations, during the reporting period, revenue from judicial forensic services of the Company's subsidiary, Wenzhou Kangning Judicial Forensic Centre ("Judicial Forensic Centre") was subject to VAT with a tax rate of 3%.

Pursuant to the relevant tax regulations, since 1 May 2016, the rental income of the Company's subsidiary, Wenzhou Guoda Investment Co., Ltd. ("Wenzhou Guoda Investment"), arising from the rental of the properties purchased before 30 April 2016 was subject to the simpl2w -41.007cations, methodith a e rene of 3%5%the r

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

3 Taxation (continued)

(b) (continued)

Pursuant to the *Announcement on the Value-Added Tax Policies on Supporting the Resumption of Work and Business of Individual Industrial and Commercial Households* (Announcement [2020] No. 13) and the *Announcement on Extending the Applicable Period of the Policies for Reduction and Exemption of Value-added Tax on Small-scale Taxpayers* (Announcement [2020] No. 24) jointly issued by the Ministry of Finance and the State Taxation Administration, taxable sales revenue of small-scale taxpayers in other provinces, autonomous regions and municipalities directly under the central government excluding Hubei Province subject to VAT at the rate of 3% before shall be subject to VAT at the preferential rate of 1%. Revenue from rendering of management consulting services of the Company's subsidiaries was subject to VAT at the preferential rate of 1% from 1 March 2020 to 31 December 2020.

Pursuant to *Announcement on Relevant Policies for Deepening Value-Added Tax Reform* ([2019] No. 39 of MOF, STA and GAC) jointly issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs and relevant regulations, the Company's subsidiaries, Wenzhou Yining Drugstore Co., Ltd. ("Wenzhou Yining Drugstore") and Zhejiang Dening Medical Co., Ltd. ("Zhejiang Dening Medical") were subject to VAT for sales of pharmaceutical products and equipment at the applicable tax rate of 13% from 1 April 2019, while the applicable tax rate was 16% before then.

(c) Pursuant to the *Notice on Taxation Affairs* (Ping Di Shui Kun Tong [2017] No. 930) and (Ping Di Shui Kun Tong [2017] No. 931) issued by Pingyang County Local Tax Bureau Kunyang Branch on 13 April 2017, Pingyang Kangning Hospital was exempted from property tax for 3 years since 1 July 2016.

Pursuant to Article 10 of the *Circular of the Ministry of Finance and the State Taxation Administration on Issuing the 'Interpretations and Interim Provisions on Some Specific Issues Concerning Real Estate Tax'* and the *'Interpretations and Interim Provisions on Some Specific Issues Concerning Vehicle and Vessel Use Tax'* (Cai Shui Di Zi [1986] No. 8), with regard to owner-occupied properties of various hospitals operated by enterprises, property tax may be exempted with reference to owner-occupied properties financed by the Ministry of Finance. The Company's subsidiary, Cangnan Kangning Hospital, was exempted from property tax for 3 years since 1 July 2017.

(d) Pursuant to the *Implementation Plan on Adjustment of Urban Land Use Tax Policy in Wenzhou City to Promote Land Intensive Use and Utilisation* issued by Wenzhou Municipal People's Government Office on 9 May 2016 and the *Notice on Taxation Affairs* (Wen Di Shui Lu You Pi Tong Zi [2016] No. 173 and Wen Lu Di Shui Tong [2017] No. 45068) issued by Wenzhou Local Taxation Bureau Lucheng Tax Branch on 19 July 2016 and 13 January 2017, the Company enjoyed 100% exemption on urban land use tax for the year of 2017, 2018 and 2019.

Pursuant to Article 7 of the *Decision of the State Council on Amending the Interim Regulation of the People's Republic of China on City and Town Land Use Tax* (Order No.483 of the State Council of the People's Republic of China) and the *Circular of the Ministry of Finance and the State Taxation Administration on Tax Policies of Medical and Health Institutions* (Cai Shui [2000] No. 42), the Company and its subsidiaries, Cangnan Kangning Hospital, Qingtian Kangning Hospital and Yongjia Kangning Hospital enjoyed 100% exemption on urban land use tax for the year of 2020.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

	31 December 2020	31 December 2019
Cash on hand	374,287	459,334
Cash at bank	206,125,277	175,377,994
Other cash balances	–	193,222
	206,499,564	176,030,550

As at 31 December 2020, the restricted cash in cash at bank of RMB6,406,899 represented the special fund for construction in progress of Qingtian Kangning Hospital, a subsidiary of the Group.

As at 31 December 2019, the term deposits over three months were RMB10,000, the restricted cash of RMB11,068,600 represented the property preservation applied by Yanjiao Furen Hospital to the court. The amount was fully recovered in 2020.

(2) Accounts receivable

	31 December 2020	31 December 2019
Receivables from related parties (Note 8(5)(a))	7,250,000	8,250,000
Due from third parties	348,065,571	330,174,215
Sub-total	355,315,571	338,424,215
Less: Provision for bad debts	(33,907,606)	(27,903,603)
	321,407,965	310,520,612

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

Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

(2) Accounts receivable (continued)

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

	31 December 2020	31 December 2019
Within 1 year	276,029,265	266,932,953
1 – 2 years	59,715,117	57,988,407
2 – 3 years	19,442,357	13,089,001
Over 3 years	128,832	413,854
	355,315,571	338,424,215

In 2020, the Group had no accounts receivable derecognised due to transfer of financial assets.

(b) Provision for bad debts

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

As at 31 December 2020, there were no accounts receivable for which the related provision for bad debts was provided on the individual basis (31 December 2019: RMB1,889,254).

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(2) Accounts receivable (continued)

(b) Provision for bad debts (continued)

(i) Accounts receivable for which the related provision for bad debts was provided on the grouping basis are analysed as follows:

	31 December 2020			31 December 2019		
	Book value	Provision for bad debts		Book value	Provision for bad debts	
	Amount	Lifetime ECL rate	Amount	Amount	Lifetime ECL rate	Amount
Not overdue – Unbilled	29,027,823	1%	290,278	23,914,808	1%	239,148
Overdue – Within 3 months	169,414,663	4%	6,776,587	151,536,144	5%	7,576,807
Within 1 year	77,586,779	4%	3,103,471	91,092,664	6%	5,465,560
1 – 2 years	59,715,117	20%	11,943,024	57,614,783	11%	6,337,626
2 – 3 years	19,442,357	60%	11,665,414	11,962,708	50%	5,981,354
Over 3 years	128,832	100%	128,832	413,854	100%	413,854
Total	355,315,571		33,907,606	336,534,961		26,014,349

(ii) The amount of provision for bad debts during the current year was RMB23,414,275 (2019: RMB20,616,274), and RMB72,787 was reversed (2019: RMB259,860).

The book value of accounts receivable that was written off in the current year was RMB17,337,485, and the provision for bad debts was RMB17,337,485, mainly including those due from patients of over three years.

Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

(3) Other receivables

	31 December 2020	31 December 2019
Loans to third parties (i)	11,623,500	21,283,500

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(3) Other receivables (continued)

(a) The ageing of other receivables is analysed as follows:

	31 December 2020	31 December 2019
Within 1 year	20,302,805	21,336,124
1 – 2 years	18,699,660	19,781,947
2 – 3 years	4,964,193	9,359,196
Over 3 years	24,282,668	24,988,514
	68,249,326	75,465,781

(b) Provision for losses and changes in book value statement

	Stage 1 12-month ECL (on the grouping basis)		Stage 3 Lifetime ECL (credit-impaired)		Total
	Book value	Provision for bad debts	Book value	Provision for bad debts	Provision for bad debts
31 December 2019	65,490,496	3,119,215	9,975,285	9,029,200	12,148,415
Increase in the current year	15,334,712	941,077	–	488,428	1,429,505
Written off in the current year	–	–			

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(3) Other receivables (continued)

(b) Provision for losses and changes in book value statement (continued)

(i) As at 31 December 2020, for other receivables at Stage 1, the related provision for bad debts was analysed below:

	Book value	12-month ECL rate	Provision for bad debts
Provided on the grouping basis:			
Loans to third parties	11,623,500	7%	813,645
Advances	8,975,352	7%	628,275
Receivables from related parties	26,113,638	5%	1,305,682
Deposit and guarantee	8,682,306	3%	260,469
Others	10,698,415	1%	106,984
	66,093,211		3,115,055

(ii) As at 31 December 2020, the Group did not have any other receivables at Stage 2.

(iii) As at 31 December 2020, for other receivables at Stage 3, the related provision for bad debts was analysed below:

	Book value	Lifetime ECL rate	Provision for bad debts
Provided on the individual basis:			
Xiong Guoxiu and Min Honggen i)	2,156,115	79%	1,698,458

i) The amount was house rental paid by the Group in the prior years. The Group then requested to terminate the contract and asked the other party to refund the rental paid. As at 31 December 2020, the lawsuit was still in the trial process in the court. The Group was negotiating the reconciliation plan with the other party. Based on the latest settlement progress, management made a provision for bad debts at 79% for the accounts receivable.

(c) In 2020, the amount due from Yanjiao Furen Hospital that was actually recovered was RMB700,000. The amount of RMB7,119,170 due from Yanjiao Furen Hospital was written off since management determined that the amount was difficult to be recovered according to the results of the judgement.

Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

(4) Advances to suppliers

(a) The ageing of prepayments is analysed below:

	31 December 2020		31 December 2019	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	11,747,540	98%	5,258,821	98%
1 – 2 years	93,133	1%	20,553	–
2 – 3 years	20,209	–	54,646	1%
Over 3 years	67,000	1%	32,000	1%
	11,927,882	100%	5,366,020	100%

(5) Inventories

(a) Inventories are summarised by categories as follows:

	31 December 2020	31 December 2019
Pharmaceuticals in stock	28,767,481	17,389,132
Consumables	6,165,704	3,603,818
Properties held for sale (i)	2,575,286	2,575,286
	37,508,471	23,568,236

As at 31 December 2020 and 31 December 2019, management of the Group assessed that no impairment loss should be recognised for inventories.

During 2020, there was no capitalised interest included in inventories (2019: Nil).

(i) Properties held for sale

Project name	Commencement date	Completion date	Total investment	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Phase II of Business Centre in Higher Education Park	November 2012	June 2017	173,507,594	2,575,286	–	–	2,575,286

As at 31 December 2020, the Group had no properties held for sale pledged.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(5) Inventories (continued)

(b) Changes in the book value of inventories for the current year are analysed as follows:

	31 December 2019	Business combination involving enterprises not under common control (Note 5(1)(c))	Increase in the current year	Decrease in the current year	31 December 2020
Pharmaceuticals in stock	17,389,132	819,603	214,632,270	(204,073,524)	28,767,481
Consumables	3,603,818	223,976	58,996,057	(56,658,147)	6,165,704
Properties held for sale	2,575,286	–	–	–	2,575,286
	23,568,236	1,043,579	273,628,327	(260,731,671)	37,508,471

(6) Current portion of non-current assets

	31 December 2020	31 December 2019
Deposits receivable (i)	–	12,688,704

(i) It represented the deposits paid by the Company to the owner who contracted the reconstruction and expansion project of the Hospital as agreed in the project construction contract signed with the third-party contractor. Such deposits should be recovered after the completion of the project and the settlement of project fees. On 8 May 2020, the two parties signed a reconciliation agreement, confirming that the payment deposits were released and offset the performance guarantee provided by the contracting party to the Company, and neither party was required to return the above deposits to the other party.

(7) Long-term equity investments

	31 December 2020	31 December 2019
Associates (a)	93,726,511	89,943,193
Less: Provision for impairment of long-term equity investments	–	–
	93,726,511	89,943,193

There is no significant restriction on sales of long-term equity investments held by the Group.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(10) Fixed assets

	Buildings	Medical equipment	Motor vehicles	Electronic equipment and other equipment	Total
Cost					
31 December 2019	523,768,640	96,225,602	6,728,970	50,379,867	677,103,079
Increase in the current year					
Business combination involving enterprises not under common control (Note 5(1)(c))	–	2,304,411	128,233	948,247	3,380,891
Purchase	17,906,946	15,923,876	1,078,280	4,335,688	39,244,790
Decrease in the current year					
Disposal and scrap	–	(1,429,720)	(2,644,935)	(2,673,603)	(6,748,258)
Others (i)	(19,899,787)	–	–	–	(19,899,787)
31 December 2020	521,775,799	113,024,169	5,290,548	52,990,199	693,080,715
Accumulated depreciation					
31 December 2019	44,009,439	47,772,003	3,064,572	29,766,263	124,612,277
Increase in the current year					
Provision	15,265,120	16,790,989	854,659	8,126,307	41,037,075
Decrease in the current year					
Disposal and scrap	–	(1,356,808)	(2,515,529)	(2,439,684)	(6,312,021)
31 December 2020	59,274,559	63,206,184	1,403,702	35,452,886	159,337,331
Carrying amount					
31 December 2020	462,501,240	49,817,985	3,886,846	17,537,313	533,743,384
31 December 2019	479,759,201	48,453,599	3,664,398	20,613,604	552,490,802

(i) For the Company's restructuring and expansion projects that are ready for its intended use but have yet to go through the final completion of settlement in September 2017, the cost of the fixed assets was recognised and depreciated according to the estimated value of RMB260,937,175 in the *Consultancy Report on Investment Review of Restructuring and Expansion Projects* issued by China Construction Bank Co., Ltd., Wenzhou Branch. The main contractor of the construction had a dispute with the Company over the settlement of construction, and filed a lawsuit with the Company in September 2018. According to the judgement of the People's Court of Lucheng District of Wenzhou City in May 2020 on the settlement of construction between the Company and the main contractor, and the settlement of the completion of the expansion project, the final settlement price was RMB241,037,388, with a difference of RMB19,899,787, which wrote down the cost of fixed assets.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(10) Fixed assets (continued)

(a) The amounts charged to cost of sales, general and administrative expenses, research and development expenses and selling and distribution expenses were as follows:

	2020	2019
Cost of sales	34,129,808	26,587,185
General and administrative expenses	6,525,635	7,767,122
Research and development expenses	241,756	241,756

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Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(12) Right-of-use assets

	Buildings
Cost	
31 December 2019	265,171,670
Increase in the current year	
New lease contracts	33,603,772
Changes in leases	311,400
Business combination involving enterprises not under common control (Note 5(1)(c))	4,528,666
Decrease in the current year	
Changes in leases	(13,071,189)
31 December 2020	290,544,319
Accumulated depreciation	
31 December 2019	29,859,521
Provision	33,116,519
31 December 2020	62,976,040
31 December 2020	227,568,279
31 December 2019	235,312,149

Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

(13) Intangible assets

	Land use rights	Software	Contractual right to provide management services	Licences	Trademark rights	Total
Cost						
31 December 2019	36,459,940	9,253,061	51,907,413	55,837,000	–	153,457,414
Increase in the current year						
Purchase	27,707,000	1,038,446	–	–	2,829,386	31,574,832
Business combination involving enterprises not under common control (Note 5(1)(c))	–	537,119	–	27,000,000	–	27,537,119
Decrease in the current year (i)	–	–	(14,933,544)	–	–	(14,933,544)
31 December 2020	64,166,940	10,828,626	36,973,869	82,837,000	2,829,386	197,635,821
Accumulated amortisation						
31 December 2019	5,097,997	5,159,291	6,744,678	6,157,320	–	23,159,286
Increase in the current year						
Increase in the current year	1,075,774	1,669,348	2,068,111	9,239,308	49,207	14,101,748
Decrease in the current year (i)	–	–	(2,161,941)	–	–	(2,161,941)
31 December 2020	6,173,771	6,828,639	6,650,848	15,396,628	49,207	35,099,093
Carrying amount						
31 December 2020	57,993,169	3,999,987	30,323,021	67,440,372	2,780,179	162,536,728
31 December 2019	31,361,943	4,093,770	45,162,735	49,679,680	–	130,298,128

In 2020, the amortisation of intangible assets amounted to RMB14,101,748 (2019: RMB10,874,756). In 2020, the amounts of depreciation expenses charged to cost of sales, general and administrative expenses and selling and distribution expenses were RMB11,659,616, RMB2,385,023 and RMB57,109 respectively (2019: RMB9,009,403, RMB1,865,353 and RMB0).

(i) The Group entered into an entrusted management service agreement in March 2016. The entrusted management service period is from March 2015 to February 2046. During the agreement period, the Group provides management services to Chun'an Hospital and collects management service fees. According to the agreement, the Group recognises the contractual rights to provide management services as intangible assets. As at 31 August 2020, the Group's newly established subsidiary, Chun'an Kangning Huangfeng Hospital Co., Ltd. ("Chun'an Kangning Hospital"), obtained control over the businesses of Chun'an Hospital and terminated the original entrusted management service agreement. The Group regarded the above transaction as a business combination, derecognised the contractual rights of management service provision of RMB12,771,603, exempted Chun'an Hospital's liabilities of RMB180,000, and recognised the difference of RMB13,448,538 between the combination cost and the fair value of identifiable net assets of Chun'an Hospital in goodwill (Note 4(14)).

Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

(14) Goodwill

	31 December 2019	Increase in the current year (Note 5)	31 December 2020
Goodwill –			
Wenzhou Guoda Investment	8,533,389	–	8,533,389
Wenling Nanfang Hospital	7,784,850	–	7,784,850
Nanjing Yining Hospital	9,271,800	–	9,271,800
Beijing Yining Hospital	22,987,331	–	22,987,331
Huainan Kangning Hospital	5,068,960	–	5,068,960
Changchun Kanglin Hospital	6,843,289	–	6,843,289
Wenzhou Cining Hospital	–	11,822,030	11,822,030
Chun'an Kangning Hospital	–	13,448,538	13,448,538
Others	2,390,403	–	2,390,403
Sub-total	62,880,022	25,270,568	88,150,590
Less: Provision for impairment –			
Wenzhou Guoda Investment	(8,533,389)	–	(8,533,389)
Beijing Yining Hospital	–	(8,011,603)	(8,011,603)
Sub-total	(8,533,389)	(8,011,603)	(16,544,992)
	54,346,633	17,258,965	71,605,598

Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

(14) Goodwill (continued)

(a) All goodwill of the Group has been allocated to the related asset groups or groups of asset groups on the day of purchase without any change of the cost allocation of goodwill in 2020, which is summarised by operating segments as follows:

	31 December 2020	31 December 2019
Healthcare service segment		
Nanjing Yining Hospital	9,271,800	9,271,800
Wenling Nanfang Hospital	7,784,850	7,784,850
Beijing Yining Hospital	22,987,331	22,987,331
Huainan Kang85 Tm(Healthcare service segment)Tj0 -1.5i068,9605i0 18,926,030 Changchun Kanglinm(Healthcare servi Chun’		

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

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Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(16) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets

	31 December 2020	
	Deductible temporary differences and deductible losses	Deferred tax assets
Deductible losses	122,695,044	30,673,761
Provision for assets impairment	38,721,119	9,680,280
Share-based payment expenses	16,899,060	4,224,765
Advances received from property sales	126,654	31,664
Depreciation of right-of-use asset and amortisation of interest expenses on lease liabilities	7,865,404	1,966,351
	186,307,281	46,576,821
Including:		
Expected to be reversed within one year (inclusive)		9,680,280
Expected to be reversed after one year		36,896,541
		46,576,821

	31 December 2019	
	Deductible temporary differences and deductible losses	Deferred tax assets
Deductible losses	126,459,168	31,614,792
Provision for assets impairment	40,052,018	10,013,006
Share-based payment expenses	11,119,520	2,779,880
Advances received from property sales	126,654	31,664
Depreciation of right-of-use asset and amortisation of interest expenses on lease liabilities	5,346,351	1,336,588
Provisions	2,000,000	500,000
	185,103,711	46,275,930
Including:		
Expected to be reversed within one year (inclusive)		10,520,467
Expected to be reversed after one year		35,755,463
		46,275,930

Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

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

(b) Deferred tax liabilities

	31 December 2020	
	Taxable temporary differences	Deferred tax liabilities
Appreciation of assets revalued	91,613,072	22,903,268
Gains from changes in fair value	8,516,685	2,129,171
	100,129,757	25,032,439
Including:		
Expected to be reversed within one year (inclusive)		2,572,269
Expected to be reversed after one year		22,460,170
		25,032,439

	31 December 2019	
	Taxable temporary differences	Deferred tax liabilities
Appreciation of assets revalued	82,579,012	20,644,753
Gains from changes in fair value	1,917,462	479,365
	84,496,474	21,124,118
Including:		
Expected to be reversed within one year (inclusive)		2,495,167
Expected to be reversed after one year		18,628,951
		21,124,118

(c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

	31 December 2020	31 December 2019
Deductible losses	51,245,123	33,454,884

Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

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

(d) Deductible losses for which no deferred tax assets are recognised will expire as follows:

	31 December 2020	31 December 2019
2020	–	8,646,975
2021	8,766,673	5,838,726
2022	11,852,360	6,937,880
2023	651,018	1,692,585
2024	9,667,426	10,338,718
2025	20,307,646	–
	51,245,123	33,454,884

(17) Other non-current assets

	31 December 2020	31 December 2019
Prepayments for fixed assets and projects	4,708,451	1,791,629
Time deposits (i)	14,000,000	–
	18,708,451	1,791,629

(i) As at 31 December 2020, the balance of time deposits amounted to RMB14,000,000 with a term from 15 April 2020 to 15 April 2022. The balance w 1 ieptricted cash, iepiepenting the deposits of the project conptruction and management contract of a subsidiary of the Group, Wenzhou Lucheng Yining Hospital Co., Ltd. (“Lucheng Yining Hospital”).

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(18) Provision for asset impairment and losses

	31 December 2019	Increase in the current year	Decrease in the current year		31 December 2020
			Reversal	Written-off	
Provision for bad debts of accounts receivable	27,903,603	23,414,275	(72,787)	(17,337,485)	33,907,606
Provision for bad debts of other receivables	12,148,415	1,429,505	(1,645,237)	(7,119,170)	4,813,513
Provision for impairment of goodwill	8,533,389	8,011,603	–	–	16,544,992
	48,585,407	32,855,383	(1,718,024)	(24,456,655)	55,266,111

(19) Short-term borrowings

	31 December 2020	31 December 2019
Guaranteed borrowings (Note 8(4)(i)) (i)	312,500,000	250,000,000

(i) As at 31 December 2020, the guaranteed borrowing amounting to RMB2,500,000 was guaranteed by Guan Weili, Wang Lianyue (the shareholders of the Company) and the Company; the guaranteed borrowing amounting to RMB50,000,000 was guaranteed by Guan Weili, Wang Lianyue, Wang Hongyue and Xu Yi; the guaranteed borrowing amounting to RMB260,000,000 was guaranteed by Guan Weili, Wang Lianyue and Wang Hongyue.

As at 31 December 2020 and 31 December 2019, the interest rate of short-term borrowings was 4.05%-5.22% and 4.35%-5.22% annually.

(20) Accounts payable

The ageing of accounts payable by recording date is analysed as follows:

	31 December 2020	31 December 2019
Within 3 months	54,689,668	65,881,555
3 – 6 months	9,659,122	7,479,995
6 – 12 months	4,105,307	1,381,101
1 – 2 years	571,326	506,880
2 – 3 years	252,094	94,816
Over 3 years	296,410	210,613
	69,573,927	75,554,960

Notes to the Financial Statements

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4 Notes to the consolidated financial statements (continued)

(21) Contract liabilities

	31 December 2020	31 December 2019
Advances from goods and services	12,965,170	8,562,126

In 2020, the contract liability of RMB8,562,126 included in the carrying amount at the beginning of the period was transferred to the operating income, mainly including medical services income.

(22) Employee benefits payable

	31 December 2020	31 December 2019
Short-term employee benefits payable (a)	41,593,360	34,470,690
Defined contribution plans payable (b)	1,191,773	1,592,587
	42,785,133	36,063,277

(a) Short-term employee benefits

	31 December 2019	Business combination involving enterprises not under common control (Note 5(1)(c))	Increase in the current year	Decrease in the current year	31 December 2020
Wages and salaries, bonus, allowances and subsidies	33,206,489	798,028	298,026,122	(291,577,629)	40,453,010
Staff welfare	445,050	–	6,221,925	(6,649,505)	17,470
Social insurance contributions	813,536	19,271	10,838,145	(10,555,516)	1,115,436
Including: Medical insurance	716,324	19,002	10,624,221	(10,255,863)	1,103,684
Work injury insurance	20,925	269	191,308	(202,082)	10,420
Maternity insurance	76,287	–	22,616	(97,571)	1,332
Housing funds	5,615	–	14,352,645	(14,350,816)	7,444
Labour union funds and employee education funds	–	–	653,405	(653,405)	–
Other short-term employee benefits	–	–	143,716	(143,716)	–
	34,470,690	817,299	330,235,958	(323,930,587)	41,593,360

Notes to the Financial Statements

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4 Notes to the consolidated financial statements (continued)

(22) Employee benefits payable (continued)

(b) Defined contribution plans

	31 December 2019	Business combination involving enterprises not under common control (Note 5(1)(c))	Increase in the current year	Decrease in the current year	31 December 2020
Basic pensions	1,553,011	17,132	8,612,030	(9,015,394)	1,166,779
Unemployment insurance	39,576	612	233,074	(248,268)	24,994
	1,592,587	17,744	8,845,104	(9,263,662)	1,191,773

(c) Termination benefits payable

In 2020, the Group had no termination benefits incurred for termination of employment contracts.

(23) Taxes payable

	31 December 2020	31 December 2019
Enterprise income tax payable	22,692,620	12,348,649
Property tax payable	4,826,592	623,037
Unpaid VAT	1,990,173	582,610
Land VAT payable	18,110,608	18,420,791
Others	1,426,562	1,454,973
	49,046,555	33,430,060

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(24) Other payables

	31 December 2020	31 December 2019
Payables for project (i)	27,016,438	55,701,768
Payables to related parties (Note 8(5)(b))	12,870,241	28,491,713
W0 1 Tf9.449 0 Td(28,491,713)Tj-42.87 -holding lease expense		
64,050Tj--4.4496,713)Tj-42.Lease deposits		2740,0

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(26) Long-term borrowings

	31 December 2020	31 December 2019
Bank guaranteed borrowings (a)	95,992,970	60,000,000
Bank pledged loans (b)	18,000,000	–
Less: Current portion of long-term borrowings (Note 4(25))		
Guaranteed borrowings	(3,000,000)	(40,000,000)
	110,992,970	20,000,000

(a) As at 31 December 2020, the Company's bank guaranteed borrowings amounted to RMB95,992,970, among which RMB20,000,000 was guaranteed by Guan Weili, Wang Lianyue and Wang Hongyue, the shareholders of the Company (Note 8(4)(i)). The loan term was from 16 April 2020 to 16 April 2023. The guaranteed borrowings amounting to RMB30,000,000 were guaranteed by Guan Weili, Wang Lianyue and Wang Hongyue, the shareholders of the Company, and Xu Yi, a related shareholder (Note 8(4)(i)). The loan term was from 31 December 2019 to 31 December 2024, and the principal will be repaid starting from 2022. The guaranteed borrowings amounting to RMB45,000,000 were guaranteed by Guan Weili, Wang Lianyue and Wang Hongyue, the shareholders of the Company, and Xu Yi, a related shareholder (Note 8(4)(i)). The loan term was from 20 August 2019 to 20 August 2029, and the principal will be repaid starting from 2021. The guaranteed borrowings amounting to RMB992,970 were guaranteed by Chen Gangfeng, a non-controlling shareholder of a subsidiary of the Group (Note 8(4)(i)). The loan term was from 11 November 2020 to 11 November 2022.

(b) As at 31 December 2020, the balance of the Company's bank pledged loans amounting to RMB18,000,000 was pledged by 53.33% equity of Wenzhou Cining Hospital with a total amount of RMB30,000,000, and was guaranteed by Guan Weili and Wang Lianyue, the shareholders of the Company (Note 8(4)(i)). The loan term was from 30 June 2020 to 30 June 2027.

(c) As at 31 December 2020, the interest rate of long-term borrowings varied from 4.35% to 7.20% annually (31 December 2019: 4.75% to 5.15%).

(27) Lease liabilities

	31 December 2020	31 December 2019
Lease liabilities	222,341,901	210,861,369
Less: Current portion of lease liabilities (Note 4(25))	(32,540,617)	(27,053,218)
	189,801,284	183,808,151

As at 31 December 2020, the Group had no items that were not included in lease liabilities but would lead to potential cash outflows in the future.

As at 31 December 2020, the Group had no lease payments of lease contracts that had been signed but had not yet been performed.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(28) Provisions

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Pending litigation (i)	2,000,000	–	(2,000,000)	–

(i) As at 31 December 2019, the litigation of the Group and Yanjiao Furen Hospital (Note 4(13)) was still under trial. The Group would pay RMB2,000,000 to Yanjiao Furen Hospital based on the best estimate. As at 31 December 2020, the final judgement of this litigation concluded that the Group should pay RMB2,093,879 to Yanjiao Furen Hospital.

(29) Deferred income

	31 December 2020	31 December 2019
Government grants	9,645,475	9,949,267

Government grants projects	31 December 2019	Amount charged to other income in the current year	31 December 2020	Asset-related/ Income-related
Expansion project of the inpatient building (i)	9,949,267	(303,792)	9,645,475	Asset-related

(i) The deferred income related to assets is the government grants of RMB10,632,800 for the reconstruction and expansion project of the inpatient building received from Wenzhou Finance Bureau in 2013. The Company recognised deferred income when receiving the grants and allocated them over the useful life of the asset on a straight-line basis and recorded into profit or loss for the current period after its completion in 2017.

(30) Share capital

	31 December 2019	Movements for the current year Repurchase of shares	31 December 2020
Share capital (i)	75,500,000	(899,700)	74,600,300

(i) In 2020, the Group repurchased 899,700 shares of the Company's stocks. An amount of RMB14,524,256 was paid for the repurchase, including RMB899,700 deducted against share capital and RMB13,624,556 deducted against share premium.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(31) Capital surplus

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Share premium (i)	775,629,317	1,698,063	(27,438,298)	749,889,082
Other capital surplus				
– Share-based payment (Note 9)	10,930,663	5,887,603	(108,063)	16,710,203
– Others (ii)	38,155,465	–	(188,221)	37,967,244
	824,715,445	7,585,666	(27,734,582)	804,566,529

(i) The reason for the increase in the share premium of capital surplus is that 16,433 shares had been exercised in the unlocked 2014 restricted share incentive plan I. The relative capital surplus of RMB108,063 was transferred from other capital surplus to the share premium. In addition, as to the restricted share incentive plan II, in 2020, RMB1,590,000 contributed by employees was recorded in capital surplus – share premium.

The reason for the decrease in the share premium of capital surplus in 2020 was that the Group purchased certain non-controlling interests of subsidiaries and made repurchase of shares. In March 2020, the Group acquired 30% equity of Huainan Kangning Hospital held by non-controlling shareholders of Huainan Kangning Hospital (a subsidiary of the Group) at a consideration of RMB3,962,775. The difference between the newly-acquired equity and the share of net assets of the subsidiaries calculated at the increased

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(32) Surplus reserve

	31 December 2019	Appropriation in the current year	Decrease in the current year	31 December 2020
Statutory surplus reserve	33,189,321	3,403,908	–	36,593,229

In accordance with the *Company Law of PRC* and the Articles of Association of the Company, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the losses or transferred to paid-in capital upon approval.

(33) Retained earnings

	2020	2019

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(34) Revenue and cost of sales

	2020	
	Revenue	Cost
Main businesses	978,466,160	701,039,798
Other businesses	52,817,600	27,662,054
	1,031,283,760	728,701,852

	2019	
	Revenue	Cost
Main businesses	793,489,663	616,183,633
Other businesses	67,202,066	40,000,931
	860,691,729	656,184,564

(a) Revenue and cost of sales from main businesses

	2020	
	Revenue	Cost
Pharmaceutical sales	222,586,930	194,543,819
Treatments and general healthcare services	755,879,230	506,495,979
	978,466,160	701,039,798

	2019	
	Revenue	Cost
Pharmaceutical sales	205,615,871	174,397,815
Treatments and general healthcare services	587,873,792	441,785,818
	793,489,663	616,183,633

(i) The Group's revenue from pharmaceutical sales and treatments and general healthcare services is recognised at a point in time.

Notes to the Financial Statements

For the year ended 31 December 2020
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Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

(36) Expenses by nature

The cost of sales, selling and distribution expenses, general and administrative expenses and research and development expenses in the income statement are listed as follows by nature:

	2020	2019
Employee benefits	339,081,062	288,688,273
Pharmaceuticals and turnover materials consumed	260,283,959	225,091,256
Property sale cost	3,339,117	28,968,498
Depreciation of fixed assets	41,037,075	34,807,048
Depreciation of right-of-use assets	33,116,519	29,859,521
Amortisation of intangible assets	14,101,748	10,874,756
Amortisation of long-term prepaid expenses	35,549,405	34,298,665
Housing lease and property management expenses	4,382,432	2,293,590
Canteen expenditure	44,513,962	35,940,416
Utilities	19,138,805	18,589,005
Outsourcing expenses	14,146,526	16,108,041
Testing fee	24,081,462	17,325,409
Consulting expense	6,622,267	9,442,693
Auditors' remuneration		
– Audit services	800,000	2,600,000
– Non-audit services	24,500	26,500
Promotion expenses	2,914,695	3,933,565
Travelling expenses	4,170,744	6,242,376
Office expenses	5,256,718	5,821,043
Share-based payment (Note 9)	5,887,603	5,920,526
Others	24,360,545	16,688,109
	882,809,144	793,519,290

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(37) Financial expenses – net

	2020	2019
Borrowing interest expense	20,173,820	17,231,667
Less: Capitalised interest (Note 4(19(985.00n30 1 Tfl1851a7C1a708(Note 4(13,820)Tj/T10 1 Tf851a925,033(Note -43.09366	(13,820)	

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(38) Other income (continued)

(i) According to the *Notice on Distributing Central Subsidiaries for Resident Doctors Standardised Training in 2020* issued by Zhejiang Provincial Department of Finance and Health Commission of Zhejiang Province, the Company received subsidies of RMB1,290,000, RMB880,000 and RMB800,000 from Wenzhou Finance Bureau in April 2020, August 2020 and September 2020, respectively.

(ii) Pursuant to the *Implementing Opinions on Accelerating the Development of Private Medical Institutions in Qingtian County* (Qing Zheng Fa [2016] No. 106) issued by Qingtian People's Government, the Group received a total of RMB1,100,000 of municipal-level award subsidies for private medical institutions in 2020.

(iii) According to the *Opinions of the People's Government of Zhejiang Province of the CPC Zhejiang Province Committee on Winning the Battle against COVID-19 to Ensure Steady Development of Enterprises and Economy* and the *Opinions on Employions puarantee for Enterprises under Resumption to Work* (Sheng Yi Qing Fang Kong Ban [2020] No. 45), insured enterprises affected by COVID-19 in Zhejiang Province are subject to the return of social insurance paid by enterprises and their employees. The Group received a total of RMB2,051,734 of social insurance return and steady employions subsidy in 2020.

(39) Investment losses/(income)

	2020	2019
Share of net profit or loss of investees under the equity method (Note 4(7))	7,727,019	3,403,144
Investment losses on/(income from) disposal of long-term equity investment (i)	34,663	(26,212,905)
Interest from structured deposit	(96,371)	(702,132)
Dividends from funds	–	(824,373)
	7,665,311	(24,336,266)

(i) Investment income from disposal of long-term equity investments in 2020 referred to the equity acquisition agreed in the equity transfer agreement signed by the Company and Hangzhou Anken Information Technology. According to the agreement, Hangzhou Anken Information Technology would acquire 40% equity of Hangzhou Anken Consulting held by the Company, and investment losses on such transaction amounted to RMB34,663.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(40) Gains from changes in fair value

	2020	2019
Investment properties measured at fair value (Note 4(9))	476,174	1,609,916
Financial assets at fair value through profit or loss – Investment fund (Note 4(8))	6,123,049	307,546
	6,599,223	1,917,462

(41) Credit impairment losses

	2020	2019
Losses on bad debts of accounts receivable	23,341,488	20,356,414
Losses on bad debts of other receivables	(215,732)	8,899,910
Total	23,125,756	29,256,324

(42) Assets impairment losses

	2020	2019
Goodwill impairment	8,011,603	–

(43) Non-operating income

	2020	2019
Government grants	59,275	2,755,043
Gains from derecognition of contractual rights of management service provision for Yanjiao Furen Hospital	–	25,666,158
Others	849,765	967,326
	909,040	29,388,527

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (continued)

(44) Non-operating expenses

	2020	2019
Donation to charities	8,537,428	2,987,277
Medical liability compensation	1,518,692	1,055,330
Disposal of long-term prepaid expenses	–	8,418,374
Disposal of construction in progress	–	4,822,119
Pending litigation (Note 4(28))	–	2,000,000
Others	845,825	429,968
	10,901,945	19,713,068

(45) Income tax expenses

	2020	2019
Current income tax calculated based on tax regulations and relevant regulations	31,485,064	23,409,066
Deferred income tax	(2,536,393)	(6,113,877)
	28,948,671	17,295,189

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

	2020	2019
Total profit	87,904,215	55,522,807
Income tax expenses calculated at the applicable tax rate of 25%	21,976,054	13,880,702
Effect of favourable tax rates	(391,588)	–
Costs, expenses and losses not deductible for tax purposes	4,889,834	2,741,475
Filing difference for the previous period	(1,722,889)	–
Additional deduction of research and development expenses	(2,071,323)	(1,039,408)
Deductible losses of unrecognised deferred tax asset	10,127,644	8,337,400
Utilisation of previous deductible losses of unrecognised deferred tax asset	(3,859,061)	–
Temporary difference of current unrecognised deferred tax liab88ety and related to investment of subsidiary	–	(6,624,980)
Income tax expenses	28,948,671	17,295,189

Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

(46) Earnings per share

(a) Basic earning per share

	2020	2019
Consolidated net profit attributed to the ordinary shareholders of the parent company (RMB Yuan)	70,000,134	57,289,394
Weighted average number of outstanding ordinary shares of the Company (number of shares) (i)	72,452,438	73,040,000
Basic earning per share (RMB Yuan)	0.97	0.78

(i) As stated in Note 9, following the approval by the shareholders at the general meeting on 13 June 2018, the Company issued 2,460,000 ordinary shares for a share incentive plan. As these stocks are regarded as treasury stocks, according to *Interpretation of Accounting Standard for Business Enterprises No. 7* issued by the Ministry of Finance, the Company deducted 2,460,000 restricted shares from the outstanding shares when calculating the basic earnings per share in 2020. In 2020, the Company repurchased a total of 899,700 shares from the trade market, and the outstanding ordinary shares were not subject to the impact of the repurchase mentioned above.

(b) Diluted earning per share

Diluted earning per share is calculated by the consolidated net profit attributed to the ordinary shareholders of the parent company adjusted by the dilutive potential ordinary shares divided by the adjusted weighted average number of outstanding ordinary shares. For the year ended 31 December 2020, the consolidated net profit attributed to the ordinary shareholders of the parent company adjusted by the dilutive potential ordinary shares was RMB70,000,134. The adjusted weighted average number of outstanding ordinary shares was 72,824,553. The diluted earnings per share was RMB0.96. For the year ended 31 December 2019, the consolidated net profit attributed to the ordinary shareholders of the parent company adjusted by the diluted potential ordinary shares was RMB57,289,394. The adjusted weighted average number of outstanding ordinary shares was 73,927,066. The diluted earnings per share was RMB0.77.

Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

(47) Supplementary information to the cash flow statement

(a) Supplementary information to the cash flow statement

Reconciliation from net profit to cash flows from operating activities

	2020	2019
Net profit	58,955,544	38,227,618
Add: Asset impairment losses	8,011,603	–
Credit impairment losses	23,125,756	29,256,324
Depreciation of fixed assets	41,037,075	34,807,048
Depreciation of right-of-use assets	33,116,519	29,859,521
Amortisation of intangible assets	14,101,748	10,874,756
Amortisation of long-term prepaid expenses	35,549,405	34,298,665
(Gains)/Losses on disposal of fixed assets, intangible assets and other long-term assets	(692,250)	(3,585,518)
Gains from changes in fair value	(6,599,223)	(1,917,462)
Gains from derecognition of contractual rights of management service provision for Yanjiao Furen Hospital	–	(25,666,158)
Losses on disposal of long-term prepaid expenses and construction in progress	–	13,240,493
Financial expenses	26,805,140	27,198,834
Investment losses/(income)	7,665,311	(24,336,266)
Share-based payment expenses	5,887,603	5,920,526
Decrease in deferred income	(303,792)	(303,792)
Decrease/(Increase) in deferred tax assets	305,286	(5,502,876)
Decrease in deferred tax liabilities	(2,841,679)	(611,001)
Increase in inventories	(12,896,656)	(1,693,053)
Increase in operating receivables	(19,356,716)	(24,652,910)
Decrease in operating payables	(12,214,682)	(24,124,974)
Net cash flows from operating activities	199,655,992	111,289,775

Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

(47) Supplementary information to the cash flow statement (continued)

(a) Supplementary information to the cash flow statement (continued)

Significant non-cash transactions in relation to investing and financing activities.

For the year ended 31 December 2020, significant non-cash transactions in relation to investing and financing activities were listed as follows:

	2020	2019
Right-of-use assets increased in the current period (Note 4(12))	33,603,772	234,963,917

Net movement in cash

	2020	2019
Cash at the end of the year	200,092,665	164,951,950
Less: Cash at the beginning of the year	(164,951,950)	(187,066,694)
Net increase/(decrease) in cash	35,140,715	

Notes to the Financial Statements

For the year ended 31 December 2020
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4 Notes to the consolidated financial statements (continued)

(47) Supplementary information to the cash flow statement (continued)

(c) Net assets on the date of purchase of subsidiaries in 2020

	2020
Current assets	20,695,961
Non-current assets	45,528,915
Current liabilities	(25,888,096)
Non-current liabilities	(6,750,000)

(d) Cash and cash equivalents

	31 December 2020	31 December 2019
Cash		
Including: Cash on hand	374,287	459,334
Cash at bank that can be readily drawn on demand	199,718,378	164,299,394
Other cash balances that can be readily drawn on demand	–	193,222
Cash at the end of the year	200,092,665	164,951,950

Notes to the Financial Statements

For the year ended 31 December 2020
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5 Changes in the consolidation scope

The wholly-owned subsidiary Yining Mental Health E-Hospital (Wenzhou) Co., Ltd. was set up by Zhejiang Yining Health Technology Co., Ltd. ("Zhejiang Yining Health") (a subsidiary of the Group) on 10 March 2020 with a registered capital of RMB5,000,000.

Zhejiang Yining Health, a subsidiary of the Group, set up a wholly-owned subsidiary Wenzhou Yining Drugstore on 22 January 2020, with a registered capital of RMB500,000.

On 2 April 2020, the Company and Wenzhou Rongsheng Enterprise Management Co., Ltd. ("Wenzhou Rongsheng") jointly set up Lucheng Yining Hospital with a registered capital of RMB50,000,000, of which RMB30,000,000 was subscribed by the Company and RMB20,000,000 was subscribed by Wenzhou Rongsheng.

On 25 May 2020, the Company entered into an equity transfer agreement with institutional shareholders, Ningbo Meishan Bonded Port Area Kuanzhan Investment Management Partnership (Limited Liabilities Partnership) ("Kuanzhan Investment") and Ningbo Meishan Bonded Port Area Kuansheng Management Co., Ltd. ("Kuansheng Investment"). The agreement stipulated that the Company would acquire 52.95% and 0.38% equity from Kuanzhan Investment and Kuansheng Investment at considerations of RMB29,780,000 and RMB220,000 respectively. A total of RMB30,000,000 was paid for the equity transfer. Afterwards, the Company holds a total of 53.33% equity of Wenzhou Cining Hospital.

Zhejiang Huangfeng Hospital Management Co., Ltd., a subsidiary of the Group, established Chun'an Kangning Hospital in 2020 with 100% shareholding. On 31 August 2020, Chun'an Kangning Hospital acquired the business of Chun'an Hospital. Chun'an Hospital was cancelled after the business combination.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

5 Changes in the consolidation scope (continued)

(1) Business combination involving enterprises not under common control

(a) Business combination involving enterprises not under common control in 2020

Acquiree	Date of acquisition	Purchase consideration	% of equity interest	Date of purchase	Basis for determination of date of acquisition	Revenue of the acquiree from the date of purchase to the end of the year	Net profit of the acquiree from the date of purchase to the end of the year	Cash flows from operating activities of the acquiree from the date of purchase to the end of the year	Net cash flows of the acquiree from the date of purchase to the end of the year
Wenzhou Cining Hospital	31 May 2020	30,000,000	53.33%	31 May 2020	Transaction was completed	18,692,736	1,257,371	(12,786,870)	1,425,947
Chun'an Hospital	31 August 2020	12,951,603	100%	31 August 2020	Transaction was completed	7,827,319	2,474,493	(227,939)	1,321,053

(b) Combination cost and goodwill in 2020 were analysed as follows:

	Wenzhou Cining Hospital	Chun'an Hospital
Combination cost –		
Cash	30,000,000	–
Transfer of fair value of non-cash assets (Note 4(13))(i)	–	12,951,603
Total combination cost	30,000,000	12,951,603
Less: Share of fair value of the identifiable net assets acquired	(18,177,970)	496,935
Goodwill	11,822,030	13,448,538

Notes to the Financial Statements

For the year ended 31 December 2020
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5 Changes in the consolidation scope (continued)

(1) Business combination involving enterprises not under common control (continued)

(c) The assets and liabilities of the acquiree at the date of purchase in 2020 were listed as below:

(i) Wenzhou Cining Hospital

	Fair value at the date of purchase	Carrying amount at the date of purchase	Carrying amount as at 31 December 2019
Cash at bank and on hand	4,406,490	4,406,490	7,850,995
Receivables	6,031,047	6,031,047	4,080,244
Inventories	842,596	842,596	1,190,038
Prepayment	–	–	31,483
Fixed assets	2,252,067	2,252,067	2,356,833
Intangible assets	27,514,919	514,919	576,469
Long-term prepaid expenses	3,106,867	3,106,867	3,403,757
Other receivables	325,506	325,506	19,354
Deferred tax assets	606,177	606,177	–
Other payables	(936,829)	(936,829)	(3,601,277)
Accounts payable	(2.557C7))	(2.557C7))	(3,614,442)
Contract liabilities	(442,498)	(442,498)	(477,095)
Employee benefits payable	(402,330)	(402,330)	(581,572)
Other liabilities	(2.873)	(2.873)	(31,082)
Deferred tax liabilities	(6,750,000)	–	–
Net assets	34,083,715	13,833,715	11,203,705
Less: Non-controlling interests	(15,905,745)	(6,456,195)	(5,228,769)
Net assets obtained	18,177,970	7,377,520	5,974,936

The Group determined the fair value of assets and liabilities of Wenzhou Cining Hospital on the date of purchase by using valuation techniques. The valuation approaches and key assumptions of major assets are listed as below:

The valuation approach of intangible assets is income approach. Key assumptions used mainly include average number of in-patient beds in operation, average in-patient spending per day per bed, gross margin, discount rate after tax and perpetuity growth rate.

Notes to the Financial Statements

For the year ended 31 December 2020
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5 Changes in the consolidation scope (continued)

(1) Business combination involving enterprises not under common control (continued)

Notes to the Financial Statements

For the year ended 31 December 2020
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6 Interests in other entities

(1) Interest in subsidiaries

(a) Structure of the Group

Name of the subsidiaries/units	Type of entity	Major business location

Notes to the Financial Statements

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(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities (continued)

(1) Interest in subsidiaries (continued)

(a) Structure of the Group (continued)

Name of the subsidiaries/units	Type of entity	Major business location	Place of registration	Nature of business	Shareholding (%) as at 31 December 2020		Method of acquisition
					Direct	Indirect	
Wenzhou Guoda Investment	LLC	Wenzhou	Wenzhou	Properties	–	75.00%	Asset acquisition
Luqiao Cining Hospital	Other LLC	Taizhou	Taizhou	Medical service	–	51.00%	Incorporation
Yiwu Kangning Hospital Management Co., Ltd.	LLC	Yiwu	Yiwu	Hospital management	–	100.00%	Incorporation
Hangzhou Cining Hospital	LLC	Hangzhou	Hangzhou	Medical service	–	100.00%	Incorporation
Wenzhou Tianzhentang	One-person LLC	Wenzhou	Wenzhou	Medical service	–	100.00%	Incorporation
Beijing Yining Hospital Co., Ltd.	Other LLC	Beijing	Beijing	Medical service	–	51.00%	Asset acquisition
Wenzhou Yixin Health Technology Co., Ltd.	LLC	Wenzhou	Wenzhou	Medical service	–	100.00%	Asset acquisition
Huainan Kangning Hospital Co., Ltd.	Other LLC	Huainan	Huainan	Medical service	–	95.00%	Asset acquisition
Hangzhou Jeremiah	LLC	Hangzhou	Hangzhou	Software and information technology service	–	100.00%	Incorporation
Pujiang Yining Huangfeng Hospital	LLC	Jinhua	Jinhua	Medical service	–	66.00%	Incorporation
Wenling Nanfang Hospital	Other LLC	Taizhou	Taizhou	Medical service	–	51.00%	Equity acquisition
Nanjing Yining Hospital	LLC	Nanjing	Nanjing	Medical service	–	65.38%	Equity acquisition
Heze Yining Hospital	LLC	Heze	Heze	Medical service	–	51.00%	Equity acquisition
Guanxian Yining Hospital	Other LLC	Liaocheng	Liaocheng	Medical service	–	90.00%	Equity acquisition
Changchun Kanglin Hospital	Other LLC	Changchun	Changchun	Medical service	–	64.55%	Asset acquisition
Zhejiang Dening Pharmaceutical Co., Ltd.	Other LLC	Wenzhou	Wenzhou	Medical company	–	65.00%	Incorporation
Lucheng Yining Hospital	LLC	Wenzhou	Wenzhou	Medical service	60.00%	–	Incorporation
Wenzhou Cining Hospital	LLC	Wenzhou	Wenzhou	Medical service	53.33%	–	Equity acquisition
Zhejiang Yining Health Technology Co., Ltd.	LLC	Hangzhou	Hangzhou	Health technology services	–	100.00%	Incorporation
Wenzhou Yining Drugstore Co., Ltd.	LLC	Wenzhou	Wenzhou	Pharmaceutical retail	–	100.00%	Incorporation
Yining Mental Health E-Hospital (Wenzhou) Co., Ltd.	LLC	Wenzhou	Wenzhou	Internet hospital	–	100.00%	Incorporation

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For the year ended 31 December 2020
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6 Interests in other entities (continued)

(1) Interest in subsidiaries (continued)

(b) Non-controlling interests

	31 December 2020	31 December 2019
Lucheng Yining Hospital	19,893,809	–
Quzhou Yining Hospital	7,703,174	8,465,406
Shenzhen Yining Hospital	6,994,726	11,649,006
Wenzhou Guoda Investment	15,159,737	14,224,263
Zhejiang Huangfeng Co., Ltd.	11,764,309	10,980,338
Beijing Yining Hospital	9,845,907	16,055,477
Heze Yining Hospital	11,262,400	12,666,064
Others	19,954,480	22,984,371
Total	102,578,542	97,024,925

(c) Subsidiaries with significant non-controlling interests

Name of subsidiaries	Shareholding of non-controlling shareholders (%)	Profit or loss attributed to non-controlling shareholders as at 31 December 2020	Dividends distributed to non-controlling shareholder as at 31 December 2020	Non-controlling interests as at 31 December 2020
Lucheng Yining Hospital	40%	(106,191)	–	19,893,809
Wenzhou Guoda Investment	25%	935,474	–	15,159,737
Zhejiang Huangfeng Co., Ltd.	34%	783,971	–	11,764,309
Heze Yining Hospital	49%	(1,403,664)	–	11,262,400
		209,590	–	58,080,255

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For the year ended 31 December 2020
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6 Interests in other entities (continued)

(1) Interest in subsidiaries (continued)

(c) Subsidiaries with significant non-controlling interests (continued)

The major financial information of the significant non-wholly-owned subsidiaries of the Group is listed below:

	31 December 2020					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Lucheng Yining Hospital	11,379,262	41,840,261	53,219,523	3,485,000	–	3,485,000
Wenzhou Guoda Investment	11,872,301	133,946,018	145,818,319	77,661,341	7,518,031	85,179,372
Zhejiang Huangfeng Co., Ltd.	33,174,567	18,979,615	52,154,182	17,553,274	–	17,553,274
Heze Yining Hospital	15,275,548	36,143,566	51,419,114	18,756,949	9,677,675	28,434,624
	71,701,678	230,909,460	302,611,138	117,456,564	17,195,706	134,652,270

	2020			
	Revenue	Net (loss)/profit	Total comprehensive (losses)/income	Cash flows from operating activities
Lucheng Yining Hospital	–	(265,477)	(265,477)	5,014,560
Wenzhou Guoda Investment	11,033,761	3,741,896	3,741,896	5,826,841
Zhejiang Huangfeng Co., Ltd.	4,214,044	2,305,796	2,305,796	7,499,276
Heze Yining Hospital	13,882,909	(2,864,620)	(2,864,620)	(1,705,998)
	29,130,714	2,917,595	2,917,595	16,634,679

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For the year ended 31 December 2020
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6 Interests in other entities (continued)

(1) Interest in subsidiaries (continued)

(c) Subsidiaries with significant non-controlling interests (continued)

The major financial information of the significant non-wholly-owned subsidiaries of the Group is listed below (continued):

	31 December 2019					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Wenzhou Guoda Investment	10,723,571	136,658,720	147,382,291	80,774,593	9,710,646	90,485,239
Shenzhen Yining Hospital	10,300,652	59,857,708	70,158,360	6,661,720	37,850,155	44,511,875
Zhejiang Huangfeng Co., Ltd.	42,297,941	9,525,592	51,823,533	21,849,521	–	21,849,521
Heze Yining Hospital	11,366,013	39,893,413	51,259,426	15,228,198	10,182,114	25,410,312
Beijing Yining Hospital	18,092,778	38,806,041	56,898,819	2,492,799	21,639,741	24,132,540
Hangzhou Yining Hospital	6,759,714	86,130,396	92,890,110	17,438,226	66,593,532	84,031,758
	99,540,669	370,871,870	470,412,539	144,445,057	145,976,188	290,421,245

	2019			
	Revenue	Net (loss)/profit	Total comprehensive (loss)/income	Cash flows from operating activities
Wenzhou Guoda Investment	39,418,154	2,447,819	2,447,819	27,503,527
Shenzhen Yining Hospital	14,527,850	(11,424,025)	(11,424,025)	(8,780,268)
Zhejiang Huangfeng Co., Ltd.	3,899,018	(1,006,058)	(1,006,058)	3,842,343
Heze Yining Hospital	14,644,462	(3,263,285)	(3,263,285)	4,311,374
Beijing Yining Hospital	16,044,292	(4,108,170)	(4,108,170)	(184,041)
Hangzhou Yining Hospital				

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities (continued)

(2) Interests in associates

(a) Summarised information of significant associates

	Major business location	Place of registration	Nature of business	Whether strategic to the Group's activities	Shareholding (%) Direct	Shareholding (%) Indirect
Hangzhou Anken Information Technology	Hangzhou	Hangzhou	Hospital management	No	–	29%
Chengdu Yining Hospital	Chengdu	Chengdu	Medical service	No	–	24%
Shanxi Shanda	Xi'an	Xi'an	Hospital management	No	–	30%

The Group adopted the equity method to account for the above equity investments.

(b) Major financial information of significant associates

	31 December 2020 Hangzhou Anken Information Technology	31 December 2020 Chengdu Yining Hospital	31 December 2020 Shanxi Shanda
Current assets	21,843,683	14,877,237	27,742,224
Non-current assets	19,898,732	53,502,689	63,554,292
Total assets	41,742,415	68,379,926	91,296,516
Total liabilities	12,872,701	34,928,640	21,027,505
Equity attributable to shareholders of the parent company	27,809,556	33,451,286	70,269,011
Share of net assets calculated by shareholding ratio (i)	8,055,177	8,028,309	21,080,703
Adjustment			
– Goodwill	–	5,024,000	4,494,286
– Others	4,500,000	99,975	–

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For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities (continued)

(2) Interests in associates (continued)

(b) Major financial information of significant associates (continued)

	2020 Hangzhou Anken Information Technology	2020 Chengdu Yining Hospital	2020 Shanxi Shanda
Revenue	37,414,435	10,078,842	19,503,386
Total comprehensive loss	(14,409,474)	(3,877,172)	1,491,929

(i) The Group calculated share of assets by shareholding ratio based on the amount attributable to the parent company in the associates' consolidated financial statements. The amounts of associates on the consolidated financial statements take into account the fair value of net identifiable assets and liabilities of the associate when acquiring the investment and the effect of unifying accounting policies.

(c) Summarised information of insignificant associates

The names of the associates of the Group are stated as in Note 4(7).

	2020	2019
Aggregated carrying amount of investments	42,444,061	50,732,979
Aggregated amount of the following items in proportion		
Net loss (i)	(2,841,799)	(2,099,917)
Total comprehensive loss	(2,841,799)	(2,099,917)

(i) The net loss has taken into the account the fair value of net identifiable assets and liabilities of the associate when acquiring the investment and the effect of unifying accounting policies.

7 Segment information

The reportable segments of the Group are the business units that provide different products or service, or operate in the different areas. Different businesses or areas require different technologies and marketing strategies. The Group, therefore, independently manages the productions and operations of each reportable segment and evaluates their operating results, in order to make decisions about resources to be allocated to these segments and to assess their performance.

In 2020, as the proportions of revenue, net profit and total assets of Wenzhou Guoda Investment in the Group's revenue, net profit and total assets were not significant, Wenzhou Guoda Investment was not considered as a separate reportable segment. In 2020, the Group had only one reportable segment.

The Group did not have revenue generated from other countries or regions.

Notes to the Financial Statements

For the year ended 31 December 2020
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8 Related parties and related party transactions (continued)

(4) Related party transactions

(a) Pricing policies

The prices of provision of services and payment of rental to related parties are determined based on negotiations.

(b) Provision of medical management service

	2020	2019
Yiwu Health Centre	3,000,000	3,000,000
Related individuals	629,767	572,743
	3,629,767	3,572,743

(c) Lease

Right-of-use assets increased in the current period when the Group as a lessee:

Name of lessor	Type of leased assets	2020	2019
Zhejiang Tianqu	Buildings	–	6,659,490

The lease liability interest expenses that are taken by the Group as a lessee

	2020	2019
Zhejiang Tianqu	299,117	309,372

(d) Payments on behalf of related parties

	2020	2019
Non-profit organisation established by the Group	3,360	–
Chengdu Yining Hospital	514,369	930,979
Others	–	50,419
	517,729	981,398

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For the year ended 31 December 2020
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8 Related parties and related party transactions (continued)

(4) Related party transactions (continued)

(e) Advances paid on behalf of related parties

	2020	2019
Wu Lianxi	2,726,131	–

(f) Equity purchased from related parties

	2020	2019
Hangzhou Anken Information Technology	–	15,274,000
Nuoyazhizhou Investment	–	2,800,000
	–	18,074,000

(g) Equity sold to related parties

	2020	2019
Hangzhou Anken Information Technology	4,000,000	–

(h) Key management emolument

	2020	2019
Salaries and bonus	5,041,695	4,530,301
Share-based payment	490,634	453,432
	5,532,329	4,983,733

Notes to the Financial Statements

For the year ended 31 December 2020
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8 Related parties and related party transactions (continued)

(4) Related party transactions (continued)

(i) Acceptance of guarantee by the Group

	2020	2019
Guan Weili/Wang Lianyue	18,000,000	–
Guan Weili/Wang Lianyue/Wang Hongyue	280,000,000	290,000,000
Guan Weili/Wang Lianyue/Wang Hongyue/Xu Yi	50,000,000	–
The Company/Guan Weili/Wang Lianyue	2,500,000	–
The Company/Guan Weili/Wang Lianyue/ Wang Hongyue/Xu Yi	75,000,000	20,000,000
Chen Gangfeng	992,970	–
	426,492,970	310,000,000

(j) Purchase of assets

	2020	2019
Related individuals	–	1,201,278

Refer to fixed assets – buildings purchased from related individuals, which are used as staff dormitory.

(k) Borrowings from related parties

	2020	2019
Shandong Furen	–	1,960,000

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For the year ended 31 December 2020
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8 Related parties and related party transactions (continued)

(5) Receivables from and payables to related parties (continued)

(b) Payables to related parties

		31 December 2020	31 December 2019
Long-term payables	Shandong Furen	–	1,960,000
	Zhejiang Tianqu	–	300,000
		–	2,260,000
Other payables	Hangzhou Anken Information Technology	–	15,900,219
	Qu Kaisheng	4,074,900	4,232,754
	Huang Chen	–	1,501,995
	Shandong Furen	5,844,383	3,412,694
	Jia Chun	–	400,000
	Wu Lianxi	2,917,717	–
	Nuoyazhizhou Investment	–	2,800,000
	Zhejiang Tianqu	23,252	241,185
	Others	9,989	2,866
		12,870,241	28,491,713
Lease liabilities	Zhejiang Tianqu	5,665,172	6,754,366

Notes to the Financial Statements

For the year ended 31 December 2020
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8 Related parties and related party transactions (continued)

(6) Equity and interest of directors

(a) Emoluments of directors and chief executives

In 2020, the emoluments of each director, supervisor and chief executive were shown below:

Name	Emoluments	Salaries and subsidies	Contributions to pension plans	Bonus	Other welfare	Total
Executive directors (i)						
Guan Weili	–	398,454	18,205	89,291	34,180	540,130
Wang Lianyue	–	326,454	–	128,611	28,212	483,277
Wang Hongyue	–	184,330	8,335	105,865	41,798	340,328
Non-executive directors (i)						
Lin Lijun	–	–	–	–	–	–
Yang Yang	–	–	–	–	–	–
Independent directors						
Ge Chuangji	35,000	–	–	–	–	35,000
Zhuang Yiqiang	35,000	–	–	–	–	35,000
Huang Zhi	35,000	–	–	–	–	35,000
Liu Ning	35,000	–	–	–	–	35,000
Zhao Xudong	35,000	–	–	–	–	35,000
Zhong Wentang	35,000	–	–	–	–	35,000
Supervisors						
Sun Fangjun	–	–	–	–	–	–
Xie Tiefan	–	71,074	8,722	68,526	17,723	166,045
Huang Jingou	–	–	–	–	–	–
Qian Chengliang	–	–	–	–	–	–
Chen Jian	–	–	–	–	–	–
Total	210,000	980,312	35,262	392,293	121,913	1,739,780

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For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (continued)

(6) Equity and interest of directors (continued)

(a) Emoluments of directors and chief executives (continued)

In 2019, the emoluments of each director, supervisor and chief executive were shown below:

Name	Emoluments	Salaries and subsidies	Contributions to pension plans	Bonus	Other welfare	Total

Notes to the Financial Statements

For the year ended 31 December 2020
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8 Related parties and related party transactions (continued)

(6) Equity and interest of directors (continued)

(a) Emoluments of directors and chief executives (continued)

	2020		
	Provision of director service to the Company or the subsidiaries	Provision of other services to the Company or the subsidiaries	Total
Emoluments of directors	–	1,363,735	1,363,735

	2019		
	Provision of director service to the Company or the subsidiaries	Provision of other services to the Company or the subsidiaries	Total
Emoluments of directors	–	1,297,840	1,297,840

(i) There was no waiver of emoluments by directors in 2020.

Other welfare mainly included housing funds, etc.

(7) The five individuals whose emoluments were the highest

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2020 included 0 director (2019: Nil) whose emoluments were shown in the table above. The total emoluments of the remaining five individuals (2019: Five) are as follows:

	2020	2019
Basic salaries, bonus, housing subsidies and others	4,449,720	3,794,219
Equity incentive plan	305,924	152,553
	4,755,644	3,946,772

	Headcount	
	2020	2019
Range:		
RMB500,000 – RMB1,000,000	3	5
RMB1,000,000 – RMB1,500,000	2	–
	5	5

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9 Share-based payment

(a) The restricted share incentive plan I

(1) General information

Following the deliberations of the 3rd session of the first Board of Directors' meeting of the Company on 4 July 2014 and the first shareholder meeting in the year of 2014 on 21 July 2014, the Company approved *Equity Incentive Plan of Wenzhou Kangning Hospital Co., Ltd.* to furnish the restricted share incentive plan, three limited liability partnerships ("LLP") were established, namely Ningbo Renai Kangning Investment Management Partnership (Limited Partnership) ("Renai Kangning"), Ningbo Enci Kangning Investment Management Partnership (Limited Partnership) ("Enci Kangning") and Ningbo Xinshi Kangning Investment Management Partnership (Limited Partnership) ("Xinshi Kangning"). The general partner of Renai Kangning and Enci Kangning is Ms. Wang Biyu (the relative of the actual controlling persons and the employee of the Company); the general partner of Xinshi Kangning is Ms. Wang Hongyue. The qualified employees participating the restricted share plan contribute the capital at the grant price and become the limited partner of the LLP. After the establishment of the LLPs mentioned above, the original shareholders of the Company, Guan Weili and Wang Hongyue, transferred their share capital of RMB1,120,959 (4% of the equity of the Company) to the above three LLPs at consideration of RMB18.684 per share.

Since the date of becoming the partners of the LLP, those participating employees who contributed the capital over RMB150,000 (inclusive) were committed to serving the Company for 36 months while those contributed below RMB150,000 for 12 months from the date the Company was listed in a stock exchange. They would not resign during this period. If any employee resign before the end of the selling restricted period set by CSRC after the shares of the Company listed in the stock exchange, the following rules will be applied:

(i) The employees with 12 month vesting period resigning before the expiration of the selling restricted period do not have to withdraw from the LLP but their equity is frozen. After the expiration of the selling restricted period, the general partner or the third party designated by the general partner acquires their equity shares.

(ii) The employees with 36 months vesting period resigning within 12 months after listing, the same rule as above will be applied. If resigning between 12 months and 36 months, the general partner or the third party designated by the general partner acquires the equity share. The purchase price is set at 60% of the average stock price of 20 transaction days preceding the date of approval for the resignation.

As at 31 December 2020, the Company received investments of RMB20,944,000. The Company did not have any repurchase arrangement or commitment with the LLPs or the employees.

The above transaction was considered as equity-settled share-based payment to employees in exchange for their services. The fair value of the Company's shares granted to employees on grant date, 21 July 2014, as determined by the difference between the fair value of the equity transferred (determined by a professional valuation firm) and capital contribution by incentive targets, was RMB5,869,000.

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For the year ended 31 December 2020
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9 Share-based payment (continued)

(b) The restricted share incentive plan II

(1) General information

On 13 June 2018, Wenzhou Kangning Hospital held its annual shareholders' meeting of 2018 and approved *Wenzhou Kangning Hospital Equity Payment Plan 2018*, which authorised the board of directors to handle the Company's employee share incentive plan. The Board of Directors of the Group reviewed and approved *Proposal on the Granting of Incentive Stocks to Incentive Objects* on 29 June 2018 and 20 August 2018. Equity incentive method: Wenzhou Kangning Hospital prepared to establish five employee share ownership platforms, including Wenzhou Zhenyan Kangning Investment Management Partnership (Limited Liabilities Partnership), Wenzhou Jiamei Kangning Investment Management Partnership (Limited Liabilities Partnership), Wenzhou Enquan Kangning Investment Management Partnership (Limited Liabilities Partnership), Wenzhou Jiate Kangning Investment Management Partnership (Limited Liabilities Partnership) and Wenzhou Shouwang Kangning Investment Management Partnership (Limited Liabilities Partnership) to issue 2,460,000 domestic shares (accounted for 3.37% of the total equity before issuance and 3.26% of the total equity after issuance) at issue price of RMB10.47 per share. As at 31 December 2020, employees contributed RMB23,311,144, of which RMB2,460,000 was recognised in equity and RMB20,851,144 in capital surplus – share premium.

The lock-in period of the incentive share awarded by the incentive plan is 48 months. From the date when the incentive share is awarded to the incentive employees, the incentive stock first awarded will be unlocked completely at one time after 48 months from the date of the first award, the reserved part of the incentive share will be unlocked at the same time as the incentive stock first awarded; the share of incentive stock awarded by the incentive plan through the employee share ownership platform indirectly owns incentive stock after paying subscription price. The share of incentive stock granted to the incentive object shall not be transferred, pledged or otherwise disposed of during the lock-in period.

If the incentive object resigns during the lock-in period or there are other situations that do not meet the

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13 Financial risk

The Group's activities expose it to a variety of financial risks: market risk (primarily including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets denominated in foreign currencies (mainly denominated in USD and HKD). The Group's finance department at its headquarter is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies, to reduce foreign exchange risk to the greatest extent.

As at 31 December 2020 and 31 December 2019, the carrying amounts in RMB equivalent of the Group's financial assets denominated in foreign currencies were summarised below:

	31 December 2020		
	HKD	USD	Total
Cash at bank and on hand	69,340	2,109,936	2,179,276

	31 December 2019		
	HKD	USD	Total
Cash at bank and on hand	3,333,874	8,143,081	11,476,955

As at 31 December 2020, for the Group's various financial assets denominated in HKD and USD, if the RMB strengthened/weakened by 3% against the HKD and USD while all other variables had been held constant, the Group's net profit for the year would be approximately RMB49,034 (31 December 2019: RMB258,231) lower/higher respectively.

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13 Financial risk (continued)

(1) Market risk (continued)

(b) Interest rate risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings from banks. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2020, the Group's long-term interest bearing borrowings were mainly RMB-denominated with fixed rates, amounting to RMB68,992,970 (31 December 2019:

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13 Financial risk (continued)

(2) Credit risk (continued)

Other receivables include the guarantee and deposit of the lease contract, employees deposit, prepayment for the employees social insurance, the loan to third party and receivables from the related parties. The Company believed that there was no material credit risk inherent in the Group's outstanding balance of other receivables after considering their credit status and the guarantees they provided.

Long-term receivables are the deposits of payment to project contractors and the Group believed that there was no material credit risk.

(3) Liquidity risk

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For the year ended 31 December 2020
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13 Financial risk (continued)

(3) Liquidity risk (continued)

Bank borrowings and other borrowings are analysed by repayment terms as follows:

	31 December 2020		31 December 2019	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Within 1 year	315,500,000	–	290,000,000	17,440,000
1 – 2 years	15,992,970	–	3,000,000	2,260,000
2 – 5 years	64,000,000	–	17,000,000	–
Over 5 years	31,000,000	–	–	–
	426,492,970	–	310,000,000	19,700,000

14 Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

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14 Fair value estimates (continued)

(1) Assets measured at fair value on a recurring basis

As at 31 December 2020 and 31 December 2019, the financial assets measured at fair value by the above three levels were analysed below:

	31 December 2020		
	Level 1	Level 2	Level 3
Financial assets —			
Other non-current financial assets	–	–	57,404,918
Non-financial assets			
Investment properties	–	–	107,804,936
Total assets	–	–	165,209,854

	31 December 2019		
	Level 1	Level 2	Level 3
Financial assets –			
Financial assets held for trading	–	30,000,000	–
Other non-current financial assets	–	–	51,281,869
Non-financial assets			
Investment properties	–	–	110,856,100
Total assets	–	30,000,000	162,137,969

For other non-current financial assets, the Group determines the fair value based on the share of fair value of the fund company's net assets.

The Group engaged Wenzhou Huaxin Assets Valuation Co., Ltd. to determine the fair value of the investment properties. The method of valuation adopted is the income method. The input values adopted were the rental, ultimate return rate/capitalisation rate and vacancy rate. Refer to Note 2(28)(a)(iii) for details.

The financial department of the Group is responsible for carrying out the valuation of financial assets and financial liabilities. Meanwhile, external independent valuers are entrusted to evaluate the fair value of the Group's investment properties. The above valuation results are independently verified and accounted for by the financial department of the Group, and disclosure information in relation to fair value is prepared based on the verified valuation results.

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For the year ended 31 December 2020
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14 Fair value estimates (continued)

(2) Assets and liabilities not measured at fair value but disclosed

Financial assets and liabilities measured at amortised cost mainly include receivables, payables, long-term payables, borrowings, etc.

The difference between the carrying amount of such financial assets and liabilities and their fair value is not material.

15 Capital management

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

The Group's total capital is calculated as 'owners' equity' as shown in the consolidated balance sheet. The Group is not subject to external mandatory capital requirements, and monitors capital on the basis of gearing ratio.

As at 31 December 2020 and 31 December 2019, the Group's gearing ratio was as follows:

	31 December 2020	31 December 2019
Gearing ratio	41.55%	40.42%

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements

(1) Accounts receivable

	31 December 2020	31 December 2019
Accounts receivable	89,073,254	109,378,543
Less: Provision for bad debts	(10,529,013)	(10,173,228)
	78,544,241	99,205,315

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

(a) The ageing of accounts receivable based on the recording date is analysed as follows:

	31 December 2020	31 December 2019
Within 1 year	65,324,295	81,048,913
1 – 2 years	15,285,769	23,570,087
2 – 3 years	8,461,922	4,748,652
Over 3 years	1,268	10,891
	89,073,254	109,378,543

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(1) Accounts receivable (continued)

(b) Provision for bad debts

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

As at 31 December 2020, there were no accounts receivable for which the related provision for bad debts was provided on the individual basis (31 December 2019: RMB1,889,254).

(i) Accounts receivable for which the related provision for bad debts was provided on the grouping basis are analysed as follows:

	31 December 2020			31 December 2019		
	Book value	Provision for bad debts		Book value	Provision for bad debts	
		Lifetime			Lifetime	
	Amount	ECL rate	Amount	Amount	ECL rate	Amount
Not overdue – unbilled	7,317,813	1%	73,178	9,441,038	1%	94,410
Overdue – Within 3 months	38,694,940	4%	1,547,798	45,722,987	5%	2,286,149
Within 1 year	19,311,542	4%	772,462	25,495,551	6%	1,529,733
1 – 2 years	15,285,769	20%	3,057,154	23,196,463	11%	2,551,611
2 – 3 years	8,461,922	60%	5,077,153	3,622,359	50%	1,811,180
Over 3 years	1,268	100%	1,268	10,891	100%	10,891
Total	89,073,254		10,529,013	107,489,289		8,283,974

(ii) The amount of provision for bad debts during the current year was RMB7,312,656 with no provision for bad debts received/reversed.

(iii) The balance of accounts receivable that were written off in the current year was RMB6,956,871, and the provision for bad debts was RMB6,956,871, mainly including due from patients with ageing of over 3 years.

In this year, no accounts receivable with amounts that were individually significant were written off.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(2) Other receivables

	31 December 2020	31 December 2019
Receivables from related parties	518,639,070	560,614,238
Advances	4,671,223	11,524,615
Deposit and guarantee	859,992	954,836
Others	609,392	1,097,403
	524,779,677	574,191,092
Less: Provision for bad debts	(3,105,773)	(10,044,489)
	521,673,904	564,146,603

(a) The ageing of other receivables is analysed as follows:

	31 December 2020	31 December 2019
Within 1 year	276,741,017	215,775,738
1 – 2 years	88,671,969	243,448,245
2 – 3 years	147,314,919	108,745,871
Over 3 years	12,051,772	6,221,238
	524,779,677	574,191,092

(b) Provision for losses and changes in book value

Stage 1

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(2) Other receivables (continued)

(b) Provision for losses and changes in book value (continued)

(i) As at 31 December 2020, for other receivables at Stage 1, the related provision for bad debts was analysed below:

	Book value	12-month ECL rate	Provision for bad debts
Provided on the grouping basis:			
Advances	2,515,108	7%	176,058
Receivables from related parties – outside of the Group	23,987,265	5%	1,199,363
Receivables from related parties – inside of the Group (i)	494,651,805	–	–
Deposit and guarantee	859,992	3%	25,800
Others	609,392	1%	6,094
	522,623,562		1,407,315

(i) On the basis of historical credit losses experience, the current conditions and forecasts of future economic conditions, the Company considered that the 12-month ECL rate of receivables from related parties – inside of the Group was close to 0, thus no provision for the impairment of receivables from related parties – inside of the Group was made.

(ii) As at 31 December 2020, the Group did not have any other receivables at Stage 2.

(iii) As at 31 December 2020, for other receivables at Stage 3, the related provision for bad debts was analysed below:

	Book value	Lifetime ECL rate	Provision for bad debts
Provided on the individual basis:			
Xiong Guoxiu and Min Honggen (Note 4(3)(b)(iii))	2,156,115	79%	1,698,458
	2,156,115		1,698,458

(c) In 2020, other receivables of RMB7,119,170 were written off by the Company.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(3) Long-term equity investment

	31 December 2020	31 December 2019
Subsidiaries (a)	420,377,432	305,477,432
Associates (b)	33,465,928	32,159,227
	453,843,360	337,636,659

There was no significant restriction on sales of long-term equity investments held by the Company.

(a) Subsidiaries

	31 December 2019	Additional investment for the current year	31 December 2020	Provision for impairment	31 December 2020
Qingtian Kangning Hospital	32,000,000	–	32,000,000	–	32,000,000
Yongjia Kangning Hospital	20,000,000	–	20,000,000	–	20,000,000
Cangnan Kangning Hospital	27,450,000	9,700,000	37,150,000	–	37,150,000
Yueqing Kangning Hospital	1,000,000	–	1,000,000	–	1,000,000
Judicial Forensic Center	500,000	–	500,000	–	500,000
Shenzhen Yining Investment	10,000,000	–	10,000,000	–	10,000,000
Linhai Kangning Hospital	1,600,000	–	1,600,000	–	1,600,000
Langfang Yining	10,000,000	847,608	–	(10,847,608)	–
Zhejiang Huangfeng Co., Ltd.	34,627,432	–	34,627,432	–	34,627,432
Zhejiang Kangning	168,300,000	31,700,000	200,000,000	–	200,000,000
Wenzhou Lucheng Yining Hospital	–	30,000,000	30,000,000	–	30,000,000
Wenzhou Cining Hospital	–	53,500,000	53,500,000	–	53,500,000
	305,477,432	125,747,608	420,377,432	(10,847,608)	420,377,432

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(3) Long-term equity investment (continued)

(b) Associates

	31 December 2019	Initial investment	Decrease in investment	Share of net profit/(loss) under equity method	31 December 2020	Provision for impairment at the end of the year
Hangzhou Anken Information Technology	5,368,206	10,000,000	–	(4,402,278)	10,965,928	–
Hangzhou Anken Consulting	26,791,021	–	(23,034,663)	(3,756,358)	–	–
Longwan Yining Hospital	–	22,500,000	–	–	22,500,000	–
	32,159,227	32,500,000	(23,034,663)	(8,158,636)	33,465,928	–

(4) Fixed assets

	Buildings	Medical equipment	Motor vehicles	Electronic and other equipment	Total
Cost					
31 December 2019	326,110,267	37,367,314	3,150,636	18,431,529	385,059,746
Purchase	17,906,946	7,102,642	173,942	1,310,311	26,493,841
Disposal and retirement	–	(588,078)	(340,959)	(1,939,861)	(2,868,898)
Others (Note 4(10))	(19,899,787)				(19,899,787)
31 December 2020	324,117,426	43,881,878	2,983,619	17,801,979	388,784,902
Accumulated depreciation					
31 December 2019	37,053,353	23,366,900	2,382,508	11,996,727	74,799,488
Provision	9,114,133	5,505,432	198,066	2,721,543	17,539,174
Disposal and retirement	–	(576,389)	(323,911)	(1,844,854)	(2,745,154)
31 December 2020	46,167,486	28,295,943	2,256,663	12,873,416	89,593,508
Carrying amount					
31 December 2020	277,949,940	15,585,935	726,956	4,928,563	299,191,394
31 December 2019	289,056,914	14,000,414	768,128	6,434,802	310,260,258

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(4) Fixed assets (continued)

The depreciation of fixed assets charged in 2020 was RMB17,539,174 (2019: RMB17,115,490), in which the amounts charged to cost of sales, general and administrative expenses, selling and distribution expenses and research and development expenses were RMB14,297,361, RMB3,010,952, RMB4,887 and RMB225,974, respectively (2019: RMB13,742,443, RMB3,372,064, RMB983 and RMB0).

As at 31 December 2020 and at 31 December 2019, the Company had no fixed assets pledged.

For the year ended 31 December 2020, the Company had no fixed assets transferred from construction in progress (for the year ended 31 December 2019: RMB0).

(5) Intangible assets

	Land use rights	Software	Contractual right to provide management service	Total
Cost				
31 December 2019	23,602,729	4,619,090	–	28,221,819
Purchase	–	420,000	2,829,386	3,249,386
31 December 2020	23,602,729	5,039,090	2,829,386	31,471,205
Accumulated amortisation				
31 December 2019	4,752,438	3,213,647	–	7,966,085
Increase in the current year	472,054	600,216	49,207	1,121,477
31 December 2020	5,224,492	3,813,863	49,207	9,087,562
Carrying amount				
31 December 2020	18,378,237	1,225,227	2,780,179	22,383,643
31 December 2019	18,850,291	1,405,443	–	20,255,734

In 2020, the amortisation of intangible assets amounted to RMB1,121,477 (2019: RMB2,677,189). In 2020, the amortisation expenses charged to cost of sales and general and administrative expenses were RMB253,627 and RMB867,850 respectively (2019: RMB1,793,231 and RMB883,958 respectively).

As at 31 December 2020 and 31 December 2019, the Company had no intangible assets pledged.

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(6) Provision for asset impairment

	31 December 2019	Increase in the current year	Decrease in the current year		31 December 2020
			Reversal	Write-off	
Provision for bad debts of accounts receivable	10,173,228	7,312,656	–	(6,956,871)	10,529,013
Provision for bad debts of other receivables	10,044,489				

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(8) Retained earnings

Retained earnings at the beginning of the year	200,462,672	182,913,093
Add: Net profit	34,039,077	32,082,866
Less: Appropriation to statutory surplus reserve	(3,403,908)	(3,208,287)
Ordinary share dividends payable	–	(11,325,000)
Retained earnings at the end of the year	231,097,841	200,462,672

In accordance with the resolution of the Board of Directors'

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(9) Revenue and cost of sales (continued)

(a) Revenue and cost of sales from main businesses

	2020	
	Revenue	Cost
Pharmaceutical sales	107,453,075	98,319,580
Treatments and general healthcare services	295,840,028	171,088,768
	403,293,103	269,408,348

	2019	
	Revenue	Cost
Pharmaceutical sales	111,310,285	95,419,079
Treatments and general healthcare services	259,719,994	170,752,475
	371,030,279	266,171,554

(i) The Group's revenue from pharmaceutical sales and treatments and general healthcare services is recognised at c1vsint in time.

(b) Revenue and cost of sales from other businesses

	2020	
	Revenue	Cost
Management service	9,576,790	4,170,935
Revenue from wholesale and retail of pharmaceuticals and medical devices	1,481,575	1,450,832
Rental income	160,190	–
Others	2,651,529	–
	13,870,084	5,621,767

	2019	
	Revenue	Cost
Management service	11,946,063	6,859,156
Rental income	240,171	–
Others	1,390,127	–
	13,576,361	6,859,156

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(10) Financial expenses – net

	2020	2019
Borrowing interest expense	16,578,305	7,215,776
Amortisation of unrecognised financial charges	–	1,841,300
Interest expenses	16,578,305	9,057,076
Less: Interest income	(15,041,897)	(2,427,741)
Exchange losses	258,603	642,578
Others	318,690	473,158
	2,113,701	7,745,071

(11) Expenses by nature

The cost of sales, selling and distribution expenses, general and administrative expenses and research and development expenses in the income statement are listed as follows by nature:

	2020	2019
Employee benefits	135,462,152	126,773,342
Pharmaceutical and turnover materials consumed	131,582,583	122,709,205
Depreciation of fixed assets	17,539,174	17,115,490
Depreciation of right-of-use assets	1,346,017	42,156
Amortisation of intangible assets	1,121,477	2,677,189
Amortisation of long-term prepaid expenses	7,448,865	7,619,178
Housing lease and property management expenses	1,278,086	1,397,226
Canteen expenditure	13,522,767	13,641,304
Utilities	6,707,463	7,096,646
Outsourcing expenses	2,491,617	2,690,386
Testing fee	6,3.0 T8e .d(13,522,767)Tj/T10 cm0 00(1 1 Tf	

Notes to the Financial Statements

For the year ended 31 December 2020
(All amounts in RMB Yuan unless otherwise stated)

16 Notes to the company's financial statements (continued)

(12) Investment losses/(income)

	2020	2019
Losses on long-term equity investments under the equity method	8,158,636	632,938
Investment income from disposal of long-term equity investments	34,663	138,095
Interest from structured deposit	(96,371)	(702,132)
Dividend from funds	–	(824,373)
	8,096,928	(755,472)

There was no significant restriction on remittance of investment income of the Company.

(13) Credit impairment losses

	2020	2019
Losses on bad debts of accounts receivable	7,312,656	6,623,037
Losses on bad debts of other receivables	180,454	7,908,891
Total	7,493,110	14,531,928

(14) Income tax expenses

	2020	2019
Current income tax calculated based on tax regulations and relevant regulations	8,472,297	11,120,248
Deferred income tax	2,222,037	(604,424)
	10,694,334	10,515,824

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

	2020	2019
Total profit	44,733,411	42,598,690
Income tax expenses calculated at applicable tax rate of 25%	11,183,353	10,649,672
Costs, expenses and losses not deductible for tax purposes	865,025	429,160
Additional deduction of research and development expenses	(1,354,044)	(563,008)
Income tax expenses	10,694,334	10,515,824

Definitions

"AGM"	the annual general meeting of the Company for the year 2020 to be convened and held on June 18, 2021
"Articles"	the articles of association of the Company, as amended, modified or supplemented from time to time
"Audit Committee"	the audit committee of the Board
"Beijing Yining Hospital"	Beijing Yining Hospital Co., Ltd. (北京怡寧醫院有限公司), a company established in the PRC with limited liability on August 17, 2015, one of the Company's indirect non-wholly owned subsidiaries

Definitions

"Latest Practicable Date"	April 21, 2021, being the latest practicable date for inclusion of certain information in this annual report prior to its publication
"Linhai Kangning Hospital"	Linhai Kangning Hospital Co., Ltd. (臨海康寧醫院有限公司), a company established in the PRC with limited liability on February 2, 2015, one of the Company's non-wholly-owned subsidiaries
"Luqiao Cining Hospital"	Taizhou Luqiao Cining Hospital Co., Ltd. (台州市路橋慈寧醫院有限公司, previously known as Taizhou Luqiao Yining Hospital Co., Ltd. (台州市路橋怡寧醫院有限公司)), a company established in the PRC with limited liability on December 12, 2016, one of the Company's indirect non-wholly owned subsidiaries
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"Nanjing Yining Hospital"	Nanjing Yining Hospital Co., Ltd. (南京怡寧醫院有限公司), a company established

Definitions

"Qingtian Kangning Hospital"	Qingtian Kangning Hospital Co., Ltd. (青田康寧醫院有限公司), a company established in the PRC with limited liability on April 1, 2011, one of the Company's wholly owned subsidiaries
"Quzhou Yining Hospital"	Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司), a company established in the PRC with limited liability on November 20, 2015, one of the Company's indirect non-wholly owned subsidiaries
"The Reporting Period" or "Reporting Period"	the year ended December 31, 2020
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	Share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen Yining Hospital"	Shenzhen Yining Hospital (深圳怡寧醫院, previously known as Shenzhen Yining Hospital Co., Ltd.（深圳市怡寧醫院有限公司）), a company established in the PRC with limited liability on September 22, 2014, one of the Company's indirect non-wholly owned subsidiaries
"Strategy and Risk Management Committee"	the strategy and risk management committee of the Board
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
"substantial Shareholder(s)"	has the meaning ascribed thereto in the Hong Kong Listing Rules
"Supervisor(s)"	the members of the Supervisory Committee
"Supervisory Committee"	the Company's supervisory committee established pursuant to the PRC Company Law

Definitions

"Taizhou Kangning Hospital"	Taizhou Kangning Hospital Co., Ltd. (台州康寧醫院有限公司), a company established in the PRC with limited liability on June 30, 2016, one of the Company's indirect non-wholly owned subsidiaries
"Wenling Nanfang Hospital"	Wenling Nanfang Psychiatric Specialty Hospital Co., Ltd. (溫嶺南方精神疾病專科醫院有限公司), a company established in the PRC with limited liability on June 20, 2018, one of the Company's indirect non-wholly owned subsidiaries
"Wenzhou Cining Hospital"	Wenzhou Cining Hospital Co., Ltd. (溫州慈寧醫院有限公司), a company established in the PRC with limited liability on January 25, 2006, one of the Company's wholly-owned subsidiaries
"Wenzhou Guoda"	Wenzhou Guoda Investment Co., Ltd. (溫州國大投資有限公司), a company established in the PRC with limited liability on February 9, 2002, one of the Company's indirect non-wholly owned subsidiaries
"Yanjiao Furen Hospital"	Yanjiao Furen Hospital of Traditional Chinese and Western Medicine (燕郊輔仁中西醫結合醫院) under the Company's operation and management in accordance with an entrustment management agreement dated March 26, 2015 entered into between Langfang Sanhe Yanjiao Furen Hospital (廊坊三河燕郊輔仁醫院, previously known as Yanjiao Furen Hospital of Traditional Chinese and Western Medicine (燕郊輔仁中西醫結合醫院)) and the Company, the management and consultancy business under which has been suspended as of the end of the Reporting Period
"Yelimi Company"	Hangzhou Yelimi Information Technology Co., Led (杭州耶利米信息科技有限公司), a company established in the PRC with limited liability on December 27, 2018, one of the Company's indirect wholly-owned subsidiaries
"Yining Psychology Internet Hospital"	Yining Psychology Internet Hospital (Wenzhou) Co., Ltd. (怡寧心理互聯網醫院(溫州)有限公司), a company established in the PRC with limited liability on March 10, 2020, one of the Company's indirect wholly-owned subsidiaries
"Yongjia Kangning Hospital"	Yongjia Kangning Hospital Co., Ltd. (永嘉康寧醫院有限公司), a company established in the PRC with limited liability on December 12, 2012, one of the Company's wholly owned subsidiaries
"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
"%"	percentage ratio

溫州康寧醫院股份有限公司

Wenzhou Kangning Hospital Co.,