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溫州康寧醫院股份有限公司  
Wenzhou K.

## 2 FINANCIAL HIGHLIGHTS

### 2.1 Principal Financial Data and Indicators

	For the year ended December 31,	
	2020 <i>(RMB' 000)</i>	2019 <i>(RMB' 000)</i>
Revenue	<b>1,031,284</b>	860,692
Profit before income tax	<b>87,904</b>	55,523
Income tax expenses	<b>(28,949)</b>	(17,295)
Net profit	<b>58,955</b>	38,228
Net profit attributable to shareholders of the Company	<b>70,000</b>	57,289
Non-controlling interests	<b>(11,045)</b>	(19,061)
	As of December 31, 2020 <i>(RMB' 000)</i>	As of December 31, 2019 <i>(RMB' 000)</i>
Total assets	<b>2,248,947</b>	2,117,352
Total liabilities	<b>934,523</b>	855,843
Total equity	<b>1,314,424</b>	1,261,509
Equity attributable to shareholders of the Company	<b>1,211,846</b>	1,164,484
Non-controlling interests	<b>102,578</b>	97,025

### 3 BUSINESS REVIEW AND OUTLOOK

#### 3.1 Business Review

In 2020, facing the challenges of downward economic growth caused by the global Coronavirus Disease 2019 (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 Yining Hospital and Pingyang Kangning Hospital opened in 2016 has gradually matured. The four existing hospitals in Taizhou area, namely Linhai Kangning Hospital, Taizhou Kangning Hospital, Luqiao Cining Hospital and Wenling Nanfang Hospital, have been on the right track in their business development, and their service volume has increased fast as compared with that of the same period of last year. The number of beds of Cangnan Kangning Hospital increased after it was relocated to the new hospital area, resulting in a swift expansion in its business scale. Mental health center of children and adolescents and sleep medicine center were newly established in Wenzhou Kangning Hospital, and its treatment proportion of patients with moderate or severe illness increased significantly as compared with that of the same period of last year. Two hospitals, namely Qingtian Kangning Hospital and Yongjia Kangning Hospital, have implemented new hospital area relocation projects to solve the problems that business development was constrained by space concerns and are expected to add 500 new beds. Only Beijing Yining Hospital saw a decrease in business volume due to the restrictive measures taken by the local government to facilitate the COVID-19 epidemic prevention and control. In addition, the Yancheng Hospital during the Reporting Period and terminated their previous management consulting services. As of December 31, 2020, the number of the Group’s owned hospitals increased to 24 (December 31, 2019: 21), including an independently established Internet hospital (Yining Psychology Internet Hospital), and its operating beds increased to 7,483 (December 31, 2019: 6,073).

In 2020, the Group actively expanded its business and explored a new model for service integration. On one hand, remote inquiry of psychological health and the need for drugs purchase of the public increased during the COVID-19 epidemic period. The Group has actively explored a new service pattern of “Internet + medical health”, with the aid of the Internet healthcare related policies encouraged by the nation, developed businesses such as drug provision for other Internet hospitals, prescription service provision for drug e-commerce platform and the business of re-diagnosis and prescribing drugs through its own Internet platform. It initially constructed an Internet mental health management platform with Internet hospitals, Medical Group, drug supply chain and medical informatization as its main business. On the other hand, leveraging on the opportunities arising from the construction of social mental service system encouraged by the nation, the Group created a new model for mental services with Wenzhou area as the hub and close collaboration between online and offline channels, so as to cultivate a market targeting patients with moderate illness by using social mental services as the breakthrough point.

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

Looking into the future, with the further implementation of the strategy of a healthy China and people'

### *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:

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

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

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Inpatients</b>		
Inpatient bed as at period end	7,483	6,073
Effective inpatient service bed-day capacity	2,738,778	2,216,645
Utilization rate (%)	82.8	84.2
Number of inpatient bed-days	2,268,032	1,865,922
Treatment and general healthcare services revenue attributable to inpatients (RMB'000)	721,487	557,994
Average inpatient spending per bed-day on treatment and general healthcare services (RMB)	318	299
Pharmaceutical sales revenue attributable to inpatients (RMB'000)	123,061	110,260
Average inpatient spending per bed-day on pharmaceutical sales (RMB)	54	59
<b>Total inpatient revenue (RMB'000)</b>	<b>844,548</b>	<b>668,254</b>
<b>Total average inpatient spending per bed-day (RMB)</b>	<b>372</b>	<b>358</b>
<b>Outpatients</b>		
Number of outpatient visits	277,215	226,720
Treatment and general healthcare services revenue attributable to outpatients (RMB'000)	34,392	29,880
Average outpatient spending per visit on treatment and general healthcare services (RMB)	124	132
Pharmaceutical sales revenue attributable to outpatients (RMB'000)	99,526	95,356
Average outpatient spending per visit on pharmaceutical sales (RMB)	359	420
<b>Total outpatient revenue (RMB'000)</b>	<b>133,918</b>	<b>125,236</b>
<b>Total average outpatient spending per visit (RMB)</b>	<b>483</b>	<b>552</b>
<b>Total treatment and general healthcare services revenue (RMB'000)</b>	<b>755,879</b>	<b>587,874</b>
<b>Total pharmaceutical sales revenue (RMB'000)</b>	<b>222,587</b>	<b>205,616</b>



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.

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

#### **4.1.2 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:

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Treatment and general healthcare services	<b>33.0%</b>	24.9%
Pharmaceutical sales	<b>12.6%</b>	15.2%
<b>Owned hospitals businesses</b>	<b>28.4%</b>	22.3%
Property and other businesses	<b>47.6%</b>	40.5%
<b>Consolidated gross profit margin</b>	<b>29.3%</b>	<b>23.8%</b>

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.

#### **4.1.3 Tax and Surcharge**

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

#### **4.1.4 Selling Expenses**

During the Reporting Period, the selling expenses of the Group amounted to RMB8.1 million (2019: RMB8.0 million). The selling expenses accounted for 0.8% of the revenue from operating owned hospitals of the Group (2019: 1.0%).

#### ***4.1.5 Administrative Expenses***

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

**For the year ended**

#### **4.1.7 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 indicated:

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>(RMB' 000)</b>	<b>(RMB' 000)</b>
Interest income	<b>4,677</b>	4,477
Foreign exchange losses	<b>(259)</b>	(643)
Borrowing interest expense	<b>(15,910)</b>	(12,307)
Interest expenses on lease liabilities	<b>(10,648)</b>	(12,415)
Amortization of unrecognized financial charge	–	(1,841)
Others	<b>(682)</b>	(759)
	<hr/>	<hr/>
<b>Finance expenses – net</b>	<b>(22,822)</b>	<b>(23,488)</b>
	<hr/> <hr/>	<hr/> <hr/>

During the Reporting Period, the net finance expenses of the Group amounted to RMB22.8 million, representing a decrease of RMB0.7 million as compared with that of 2019, of which, borrowing interest expense increased by 29.3% as compared with that of 2019, mainly due to the increase in bank loans of the Group.

#### **4.1.8 Investment (Losses)/Income**

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

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>(RMB' 000)</b>	<b>(RMB' 000)</b>
Share of losses of investments accounted for using the equity method	<b>(7,727)</b>	(3,403)
(Losses)/gains arising from disposal of long-term equity investment	<b>(34)</b>	26,213
Interest from structured deposit	<b>96</b>	702
Dividend income from funds	<b>-</b>	824
	<b><u>(7,665)</u></b>	<b><u>24,336</u></b>

During the Reporting Period, our investment losses amounted to RMB7.7 million, which is mainly the share of losses of investments accounted for using the equity method.

#### **4.1.9 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.

#### **4.1.10 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.

#### **4.1.11 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.

#### **4.1.12 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:

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>(RMB' 000)</b>	<b>(RMB' 000)</b>
Derecognition of contractual rights of managing Yanjiao Furen Hospital	-	25,666
Government grants	<b>59</b>	2,755
Other non-operating income	<b>850</b>	968

## 4.2 Financial Position

### 4.2.1 Inventory

As of December 31, 2020, inventory balances amounted to RMB37.5 million (as of December 31, 2019: RMB23.6 million), mainly include: (i) the medical inventory and turnover materials of RMB34.9 million (as of December 31, 2019: RMB21.0 million); and (ii) completed development properties of RMB2.6 million (as of December 31, 2019: RMB2.6 million), representing Room 2701, Room 2806, Room 2807 and Room 2808 of Phase II Works of Business Center of Wenzhou Higher Education Mega Center developed by Wenzhou Guoda. The table below sets forth the details of completed development properties held by us during the Reporting Period:

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

### 4.2.2 Accounts Receivables

As of December 31, 2020, the balance of accounts receivables amounted to RMB321.4 million (as of December 31, 2019: RMB310.5 million), representing an increase of 3.5% as compared with that of December 31, 2019, which was lower than the increase in revenue, mainly due to the shortened payment cycle of medical insurance.

During the Reporting Period, the accounts receivables turnover days of the Group's owned hospitals businesses were 107 days (2019: 128 days).

### **4.2.3 Other Receivables and Prepayments**

As of December 31, 2020, other receivables and prepayments increased to RMB75.4 million (as of December 31, 2019: RMB68.7 million).

### **4.2.4 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 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

#### ***4.2.5 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.

#### ***4.2.6 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).

#### ***4.2.7 Accounts Payables***

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

#### ***4.2.8 Contract Liability***

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

#### ***4.2.9 Other Payables***

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

### 4.3 Liquidity and Capital Resources

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

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
	<b>(RMB' 000)</b>	<b>(RMB' 000)</b>
Net cash generated from operating activities	<b>199,656</b>	111,290
Net cash used in investing activities	<b>(186,320)</b>	(140,531)
Net cash generated from financing activities	<b>22,052</b>	7,762
Net increase/(decrease) in cash and cash equivalents	<b>35,141</b>	(22,115)

#### ***4.3.1 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.

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## **4.4 Indebtedness**

### ***4.4.1 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.

### ***4.4.2 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.

### ***4.4.3 Asset Pledge***

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

### ***4.4.4 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.

### ***4.4.5 Financial Instruments***

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

### ***4.4.6 Exposure to Fluctuation in Exchange Rates***

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

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.

#### ***4.4.7 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.

#### ***4.4.8 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

<b>Category of personnel</b>	<b>Number of persons granted (person)</b>	<b>Number of Shares granted (Share)</b>	<b>Number of grant representing total issued share capital of the Company</b>
Core technical personnel	17	142,311	0.1885%
Other persons who, in the opinion of the Board, shall be incentivized	6	38,204	0.0506%
<b>Total</b>	<b>23</b>	<b>180,516</b>	<b>0.2391%</b>

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

The incentive Shares under the incentive scheme comprise reserved Shares of Wenzhou Zhenyan Kangning Investment Management L.P. (溫州箴言康寧投資管理合夥企業( 有限合夥 )) built with incentive Shares under the first grant. Participants shall subscribe for and contribute capital at the grant price and become a limited partner of the partnership.

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

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

## **5 SIGNIFICANT EVENTS**

### **5.1 Dividend**

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

## 6 PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

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.

## 7 REVIEW OF ANNUAL RESULTS

The Audit Committee consists of two independent non-executive Directors, Ms. ZHONG Wentang (the chairman of the Audit Committee) and Mr. LIU Ning, and one non-executive Director, Mr. YANG Yang. Among them, Ms. ZHONG Wentang has the appropriate professional qualification (a Chinese certified public accountant accredited by the Chinese Institute of Certified Public Accountants).

The Audit Committee has reviewed the Group's annual results for the financial year ended December 31, 2020 and opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

## 8 COMPLIANCE WITH CG CODE

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

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

The Company has adopted the Model Code as a code of conduct of the Company for its Directors' and Supervisors' securities transactions in the Company. Having made specific enquiry of all Directors and Supervisors of the Company, the Directors and the Supervisors

## **10 EVENTS AFTER THE REPORTING PERIOD**

There were no significant subsequent events in the Group occurred since the end of the Reporting Period to the date of this announcement.

## **11 AUDITORS AND WORKING SCOPE**

The consolidated financial statements of the Group for the year ended December 31, 2020, which have been prepared in accordance with China Accounting Standards for Business Enterprises have been audited by PricewaterhouseCoopers Zhong Tian LLP (“**PricewaterhouseCoopers**”)

## 12 FINANCIAL REPORT

### 12.1 Accounting Policies

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

The financial statements are prepared on a going concern basis.

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

#### *12.1.1 Changes of Significant Accounting Policies*

The Ministry of Finance released the *Circular on Issuing the ‘Regulations on Accounting Treatment of COVID-19-Related Rent Concessions’* (Cai Kuai [2020] No. 10) and the *Questions and Answers on the Implementation of Accounting Standards for Business Enterprises* (issued on December 11, 2020) in 2020. The financial statements for the year ended December 31, 2020 were prepared in accordance with the above circular and the questions and answers on the implementation, and had no significant impacts on the financial statements of the Group and the Company.

## **12.2 Annual Consolidated Financial Information**

The annual consolidated financial information of the Group prepared in accordance with the China Accounting Standard for Business Enterprises is set out as follows:

### ***12.2.1 Annual Consolidated Income Statement***

(All amounts in RMB unless otherwise stated)

<b>Items</b>	<b>Year ended December 31,</b>
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Items	Year ended December 31,	
	2020	2019
<b>4. Net profit</b>	<b><u>58,955,544</u></b>	<b><u>38,227,618</u></b>
Classified by continuity of operations		
Net profit from continuing operations	<b>58,955,544</b>	38,227,618
Net profit from discontinued operations	-	-
Classified by ownership of the equity		
Net profit attributable to shareholders of the company	<b>70,000,134</b>	57,289,394
Non-controlling interests	<b>(11,044,590)</b>	(19,061,776)
<b>5. Total comprehensive income</b>	<b><u>58,955,544</u></b>	<b><u>38,227,618</u></b>
Attributable to		
Shareholders of the Parent Company	<b>70,000,134</b>	57,289,394
Non-controlling interests	<b>(11,044,590)</b>	(19,061,776)
<b>6. Earnings per share</b>		
- Basic ( <i>RMB per share</i> )	<b>0.97</b>	0.78
- Diluted ( <i>RMB per share</i> )	<b><u>0.96</u></b>	<b><u>0.77</u></b>

### 12.2.2 Annual Consolidated Balance Sheets

(All amounts in RMB Yuan unless otherwise stated)

	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash at bank and on hand	206,499,564	176,030,550
Financial assets held for trading	–	30,000,000
Accounts receivable	321,407,965	310,520,612
Other receivables	63,435,813	63,317,366
Advances to suppliers	11,927,882	5,366,020
Inventories	37,508,471	23,568,236
Current portion of non-current assets	–	12,688,704
	<hr/>	<hr/>
<b>Total current assets</b>	<b>640,779,695</b>	<b>621,491,488</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Non-current assets</b>		
Long-term equity investments	93,726,511	89,943,193
Other non-current financial assets	–	–
<b>Total non-current assets</b>	<b>93,726,511</b>	<b>89,943,193</b>
	<hr/>	<hr/>
<b>Total assets</b>	<b>734,506,206</b>	<b>711,434,681</b>
	<hr/> <hr/>	<hr/> <hr/>

<b>LIABILITIES AND OWNERS' EQUITY</b>	<b>December 31, 2020</b>	December 31, 2019
<b>Current liabilities</b>		
Short-term borrowings	<b>312,500,000</b>	250,000,000
Notes Payable	<b>36,080</b>	-
Accounts payable	<b>69,573,927</b>	75,554,960
Contract liability	<b>12,965,170</b>	8,562,126
Employee benefits payable	<b>42,785,133</b>	36,063,277
Taxes payable	<b>49,046,555</b>	33,430,060
Other payables	<b>76,603,400</b>	133,348,712
Current portion of non-current liabilities	<b>35,540,617</b>	79,741,922
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>599,050,882</b>	616,701,057
	<hr/> <hr/>	<hr/> <hr/>
<b>Non-current liabilities</b>		
Long-term borrowings	<b>110,992,970</b>	20,000,000
Lease liabilities	<b>189,801,284</b>	183,808,151
Long-term payables	-	2,260,000
Provisions	-	2,000,000
Deferred income	<b>9,645,475</b>	9,949,267
Deferred tax liabilities	<b>25,032,439</b>	21,124,118
	<hr/>	<hr/>
<b>Total non-current liabilities</b>	<b>335,472,168</b>	239,141,536
	<hr/> <hr/>	<hr/> <hr/>
<b>Total liabilities</b>	<b>934,523,050</b>	855,842,593
	<hr/> <hr/>	<hr/> <hr/>
<b>Shareholders' equity</b>		
Share capital	<b>74,600,300</b>	75,500,000
Capital surplus	<b>804,566,529</b>	824,715,445
Less: Treasury Share	<b>(23,311,144)</b>	(21,721,144)
Surplus reserve	<b>36,593,229</b>	33,189,321
Retained earnings	<b>319,396,941</b>	252,800,715
	<hr/>	<hr/>
<b>Total equity attributable to shareholders of the parent company</b>	<b>1,211,845,855</b>	1,164,484,337
<b>Non-controlling interests</b>	<b>102,578,542</b>	97,024,925
	<hr/>	<hr/>
<b>Total shareholders' equity</b>	<b>1,314,424,397</b>	1,261,509,262
	<hr/> <hr/>	<hr/> <hr/>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,248,947,447</b>	2,117,351,855
	<hr/> <hr/>	<hr/> <hr/>



Item	Year ended December 31,	
	2020	2019
<b>3. Cash flows generated from financing activities</b>		
Cash received from capital contributions	<b>23,361,500</b>	12,345,000
Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries	<b>21,771,500</b>	12,345,000
Cash received from borrowings	<b>406,492,970</b>	270,000,000
Cash received relating to other financing activities	<b>–</b>	11,960,000
<b>Sub-total of cash inflows</b>	<b>429,854,470</b>	294,305,000
Cash repayments of borrowings	<b>(290,000,000)</b>	(185,000,000)
Cash payments for interest expenses and distribution of dividends or profits	<b>(17,109,612)</b>	(29,036,189)
Cash payments relating to other financing activities	<b>(100,692,478)</b>	(72,507,242)
<b>Sub-total of cash outflows</b>	<b>(407,802,090)</b>	(286,543,431)
<b>Net cash flows from financing activities</b>	<b>22,052,380</b>	7,761,569
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>	<b>(248,021)</b>	(635,428)
<b>5. Net increase/(decrease) in cash and cash equivalents</b>	<b>35,140,715</b>	(22,114,744)
Add: Cash and cash equivalents at beginning of the year	<b>164,951,950</b>	187,066,694
<b>6. Cash and cash equivalents at end of the year</b>	<b>200,092,665</b>	164,951,950

***12.2.4 Consolidated Statement of Changes In Equity***

	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		
<b>Balance at 1 January 2019</b>	<u>75,500,000</u>	<u>827,379,886</u>	<u>(21,910,000)</u>	<u>29,981,034</u>	<u>210,044,608</u>	<u>84,277,828</u>	<u>1,205,273,356</u>
<b>Movements for the year ended 31 December 2019</b>							
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	-	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	-	-	-	-	(11,325,000)	-	(11,325,000)
<b>Balance at December 31, 2019</b>	<u><u>75,500,000</u></u>	<u><u>824,715,445</u></u>	<u><u>(21,721,144)</u></u>	<u><u>33,189,321</u></u>	<u><u>252,800,715</u></u>	<u><u>97,024,925</u></u>	<u><u>1,261,509,262</u></u>

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

### 12.3.1 Accounts receivable

	<b>December 31, 2020 RMB</b>	December 31, 2019 RMB
Due from related parties	<b>7,250,000</b>	8,250,000
Due from third parties	<b>348,065,571</b>	330,174,215
Subtotal	<b>355,315,571</b>	338,424,215
Less: Provision for bad debts	<b>(33,907,606)</b>	(27,903,603)
	<b><u>321,407,965</u></b>	<b><u>310,520,612</u></b>

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

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

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

### 12.3.2 Accounts payable

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

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

### 12.3.3 Revenue and cost of sales

	Year ended December 31, 2020		Year ended December 31, 2019	
	Revenue	Cost	Revenue	Cost
Main businesses	978,466,160	701,039,798	793,489,663	616,183,633
Other businesses	52,817,600	27,662,054	67,202,066	40,000,931
	<u>1,031,283,760</u>	<u>728,701,852</u>	<u>860,691,729</u>	<u>656,184,564</u>

#### Revenue and cost of sale from main businesses

	Year ended December 31, 2020		Year ended December 31, 2019	
	Revenue	Cost	Revenue	Cost
Pharmaceutical sales	222,586,930	194,543,819	205,615,871	174,397,815
Treatments and general healthcare services	755,879,230	506,495,979	587,873,792	441,785,818
	<u>978,466,160</u>	<u>701,039,798</u>	<u>793,489,663</u>	<u>616,183,633</u>

#### Revenue and cost of sale from other businesses

	Year ended December 31, 2020		Year ended December 31, 2019	
	Revenue	Cost	Revenue	Cost
Real estate sales	3,870,905	3,339,117	32,554,016	28,968,498
Management service	16,761,130	6,157,541	21,713,950	9,093,928
Wholesale and retail revenue of pharmaceutical and equipment	12,031,746	11,095,298	–	–
Rental income	10,801,695	1,657,231	7,141,598	–
Others	9,352,124	5,412,867	5,792,502	1,938,505
	<u>52,817,600</u>	<u>27,662,054</u>	<u>67,202,066</u>	<u>40,000,931</u>

### ***12.3.4 Expenses by nature***

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

### 12.3.5 Credit impairment losses

	Year ended December 31,	
	2020	2019
Credit impairment losses for accounts receivable	23,341,488	20,356,414
Credit impairment losses for other receivable	(215,732)	8,899,910
	<u>23,125,756</u>	<u>29,256,324</u>

### 12.3.6 Earning per Share

#### Basic earning per Share

	Year ended December 31,	
	2020	2019
The net profit attributed to the ordinary Shareholders of the Company (RMB)	70,000,134	57,289,394
Weighted average number of outstanding ordinary Shares of the Company (Share) <sup>(i)</sup>	<u>72,452,438</u>	<u>73,040,000</u>
Basic earning per Share (RMB)	<u>0.97</u>	<u>0.78</u>

- (i) Following the approval by the Shareholders at the general meeting on June 13, 2018, the Company issued 2,460,000 Shares to adopt an Equity Incentive Scheme. 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, 2,460,000 restricted Shares were deducted from the outstanding Shares of the Company when calculating the basic earnings per Share in 2020 and 2019. In 2020, the Company has repurchased a total of 899,700 Shares from the trading market, with ordinary Shares held as treasury stocks for the above repurchasing purpose deducted from the outstanding ordinary Shares of the Company.

#### Diluted earning per Share

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

### **12.3.7 Income tax expenses**

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Current income tax	<b>31,485,064</b>	23,409,066
Deferred income tax	<b>(2,536,393)</b>	(6,113,877)
	<b><u>28,948,671</u></b>	<b><u>17,295,189</u></b>

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

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Profit before tax	<b>87,904,215</b>	55,522,807
Income tax expenses calculated at the effect tax rate of 25%	<b>21,976,054</b>	13,880,702
Preferential income tax rates applicable to subsidiaries	<b>(391,588)</b>	–
Expenses not deductible for income tax purposes	<b>4,889,834</b>	2,741,475
Filing difference for the previous period	<b>(1,722,889)</b>	–
Additional deduction of research and development expenses	<b>(2,071,323)</b>	(1,039,408)
Tax effect of unrecognised tax losses	<b>10,127,644</b>	8,337,400
Utilization of previous unrecognized tax losses	<b>(3,859,061)</b>	–
Temporary difference related to subsidiary investments for which no deferred tax liabilities	–	(6,624,980)
Income tax expenses	<b><u>28,948,671</u></b>	<b><u>17,295,189</u></b>

### **12.3.8 Dividend**

On March 26, 2021 the Board did not recommend the payment of a final dividend to the Shareholders for the year ended December 31, 2020. The proposal not to declare dividend is subject to approval by the Shareholders at AGM.

On March 30, 2020, the Board did not recommend the payment of a final dividend to the Shareholders for the year ended December 31, 2019. The proposal not to declare dividend was approved by the Shareholder at the annual general meeting for the year 2019 of the Company on June 18, 2020.

### **13 DEFINITIONS**

“AGM”	the annual general meeting of the Company for the year 2020 to be convened and held on June 18, 2021
“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

“H Share(s)”	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of The Stock Exchange of Hong Kong Limited
“HK\$” or “HKD”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Jinpu Fund”	

“Quzhou Yining Hospital” Quzhou Yining Hospital Co., Ltd. (衢州怡寧醫院有限公司), a company established in the PRC with limited liability on November 20, 2015, one of the Company’s indirect non-wholly owned subsidiaries

“RMB” the lawful currency of the PRC

“Share(s)” share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)

“Shareholder(s)” holder(s) of the Share(s)

“subsidiary” or “subsidiaries” has the meaning ascribed thereto in the Companies  
subsidiary 0 0 1

s u b

“Yelimi Company”

Hangzhou Yelimi Information Technology Co., Ltd. (杭州耶利米信息科技有限公司), a company established in the