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溫州 院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.

(A joint stock limited liability company incorporated in the People

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2021

1 INTRODUCTION

- 1.1 The Board is pleased to announce the Group's unaudited interim results for the Reporting Period, together with comparative figures for the six months ended June 30, 2020.
- 1.2 The financial report (the “**Financial Report**”) of the Group for the Reporting Period is prepared in accordance with China Accounting Standards for Business Enterprises.

2 FINANCIAL HIGHLIGHTS

2.1 Principal Financial Data and Indicators

	For the six months ended June 30,	
	2021	2020
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Revenue	622,811	465,150
Profit before income tax	57,665	39,404
Income tax expenses	(16,522)	(10,503)
Net profit	41,143	28,901
Net profit attributable to shareholders of the Company	42,913	36,410
Non-controlling interests	(1,770)	(7,509)
	As at	As at
	June 30,	December 31,
	2021	2020
	(RMB'000)	(RMB'000)
	(Unaudited)	(Audited)
Total assets	2,410,867	2,248,947
Total liabilities	1,038,771	934,523
Total equity	1,372,096	1,314,424
Equity attributable to shareholders of the Company	1,287,559	1,211,846
Non-controlling interests	84,537	102,578

3 BUSINESS REVIEW AND OUTLOOK

In the first half of 2021, the rebound of the COVID-19 pandemic (the “**Pandemic**”) cast uncertainties over global economic development. Facing the challenges brought by the Pandemic, the Group adhered to the essence of medical care by adopting refined management measures. While actively fulfilling the duty of epidemic prevention as medical practitioners, the Group endeavored to maintaining the continuous and stable development of the healthcare business. Specifically speaking, it has made the following progress:

In the first half of 2021, the Group’s owned hospitals business grew steadily. On the one hand, it has shown a strong overall upward trend. Of which, Geriatric Hospital, Quzhou Yining Hospital, Pingyang Kangning Hospital and other existing new hospitals have passed the struggling period, with a larger business scale as compared with that of the same period of last year; Qingtian Kangning Hospital and Yongjia Kangning Hospital have been relocated to the new hospital area, opening up more beds, while Yueqing Kangning Hospital recorded a slower business growth due to the limitation on its medical premises; and Beijing Yining Hospital was able to resume normal operation as the Pandemic in Beijing has been put under control. On the other hand, the businesses of Wenzhou Cining Hospital, Changchun Kanglin Psychological Hospital, Chun’an Kangning Hospital and Pujiang Yining Hospital, which were incorporated into the Group through mergers and acquisitions, are relatively mature and their contribution to the Group was quickly realized. In addition, benefitting from the homogeneous management model introduced by the Group, the operating efficiency of four hospitals in Taizhou area, namely Taizhou Kangning Hospital, Linhai Kangning Hospital, Luqiao Cining Hospital and Wenling Nanfang Hospital, improved substantially. As of June 30, 2021, the number of the Group’s owned hospitals increased to 25 (December 31, 2020: 24), including an independently established Internet hospital (Yining Psychology Internet Hospital), and its operating beds increased to 8,328 (December 31, 2020: 7,483).

With the further implementation of the development strategy of “Healthy China” and the official announcement of the outline of the “14th Five-Year Plan”, mental health, social psychological service and elderly care have become key focus in people’s livelihood. In the first half of 2021, the Group continued to expand its industrial chain layout and explored the transformation and upgrade of its business model. First, the Group improved the systematic construction of the “Internet mental health platform”, and accelerated the integration of offline services of physical hospitals and the Internet remote off-hospital services. Second, the Group increased innovation of social mental services, and explored service model for mental health of children and adolescents, such as day care centers and mental healthcare stations in schools. Third, the Group strengthened the layout of the elderly rehabilitation medical sector, by starting construction for projects namely, Wenzhou Yuening Elderly Rehabilitation Hospital, Qidu International Health & Pension Center and Taizhou Regional Central Hospital.

Looking into the future, the 14th Five-Year Plan clearly states that “we should support the high-quality development of Zhejiang and building it into a demonstration area for common prosperity (支持浙江高質量發展建設共同富裕示範區)”, and the “Implementation Plan for the System Construction of Quality and Effectively Medical and Health Services in the 14th Five-Year Plan” clearly proposes focused investment in improving the service capability of psychological health and mental health to make up for the weaknesses in the rehabilitation, long-term elderly care and other fields. It demonstrated that the Group’s business is in line with the supporting approach under national policies. The Group will focus on the real health needs of people, respond to the national investment guidelines, intensively cultivate the primary medical service market in Zhejiang, strengthen the construction of a talent team in the field of psychological health and mental health and elderly rehabilitation, and strive to achieve stable and sustainable development of the Group.

4 MANAGEMENT DISCUSSION AND ANALYSIS

4.1 Financial Review

The Group recorded revenue of RMB622.8 million during the Reporting Period, representing an increase of 33.9% as compared with that of the same period of 2020. Among them, the revenue from operating its owned hospitals amounted to RMB576.4 million, representing an increase of 31.3% as compared with that of the same period of 2020. During the Reporting Period, there was an increase in the average inpatient spending per bed-day of the Group’s owned hospitals, resulting in an increase of 27.5% in the gross profit margin of its owned hospitals (for the six months ended June 30, 2020: 26.3%). As such, the overall gross profit of the Group increased to RMB168.7 million, representing an increase of 31.5% as compared with that of the same period of 2020. During the Reporting Period, net profit attributable to Shareholders of the Company amounted to RMB42.9 million, representing an increase of 17.9% as compared with that of the same period of 2020.

4.1.1 Revenue and Cost of Revenue

The Group generates revenue mainly through the following three ways: (i) revenue from operating its owned hospitals; (ii) revenue of other healthcare related businesses; and (iii) revenue of the property business.

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

	For the six months ended June 30,	
	2021	2020
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Revenue from operating owned hospitals	576,419	438,886
Revenue from other healthcare related businesses	27,023	19,116
Revenue of the property business	19,369	7,148
Total revenue	622,811	465,150

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 Group's owned hospitals for the periods indicated:

	For the six months ended June 30,	
	2021	2020
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Treatment and general healthcare services		
Revenue	448,139	337,751
Cost of revenue	295,524	237,419
Gross profit	152,615	100,332
Pharmaceutical sales		
Revenue	128,280	101,135
Cost of revenue	122,123	86,044
Gross profit	6,157	15,091
Owned hospitals		
Revenue	576,419	438,886
Cost of revenue	417,647	323,463
Gross profit	158,772	115,423

During the Reporting Period, revenue from operating the Group's owned hospitals amounted to RMB576.4 million, representing an increase of RMB137.5 million as compared with that of the same period of 2020, mainly due to the increase in the revenue of Geriatric Hospital, Cangnan Kangning Hospital and Wenzhou Cining Hospital and the mergers and acquisitions of Chun'an Kangning Hospital and Pujiang Yining Hospital, two hospitals with relatively matured business, as compared with that of the same period of 2020. During the Reporting Period, the gross profit of the Group's owned hospitals increased by 37.6% as compared with that of the same period of 2020, 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:

	For the six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
Inpatients		
Inpatient bed as at period end	8,328	6,853
Effective inpatient service bed-day capacity	1,507,368	1,240,393
Utilization rate (%)	87.3	83.1
Number of inpatient bed-days	1,315,493	1,030,392
Treatment and general healthcare services revenue attributable to inpatients (RMB'000)	426,196	324,990
Average inpatient spending per bed-day on treatment and general healthcare services (RMB)	324	315
Pharmaceutical sales revenue attributable to inpatients (RMB'000)	72,211	53,841
Average inpatient spending per bed-day on pharmaceutical sales (RMB)	55	52
Total inpatient revenue (RMB'000)	498,407	378,831
Total average inpatient spending per bed-day (RMB)	379	368
Outpatients		
Number of outpatient visits	177,881	125,852
Treatment and general healthcare services revenue attributable to outpatients (RMB'000)	21,943	12,761
Average outpatient spending per visit on treatment and general healthcare services (RMB)	123	101
Pharmaceutical sales revenue attributable to outpatients (RMB'000)	56,069	47,294
Average outpatient spending per visit on pharmaceutical sales (RMB)	315	376
Total outpatient revenue (RMB'000)	78,012	60,055
Total average outpatient spending per visit (RMB)	438	477
Total treatment and general healthcare services revenue (RMB'000)	448,139	337,751
Total pharmaceutical sales revenue (RMB'000)	128,280	101,135

During the Reporting Period, inpatient revenue amounted to RMB498.4 million, representing an increase of 31.6% as compared with that of the same period of 2020, primarily due to: (i) the number of the Group's inpatient bed-days increased by 27.7%, which was attributable to the increase in the inpatient bed-days of Cangnan Kangning Hospital, Geriatric Hospital, Wenzhou Cining Hospital, Chun'an Kangning Hospital and Pujiang Yining Hospital; and (ii) the average inpatient spending per bed-day of the Group's owned hospitals increased by 3.0%. The proportion of inpatient revenue to revenue from operating owned hospitals slightly increased to 86.5% (for the six months ended June 30, 2020: 86.3%).

During the Reporting Period, outpatient revenue amounted to RMB78.0 million, representing an increase of 29.9% as compared with that of the same period of 2020, primarily due to the increase of outpatient visits by 41.3%. The proportion of outpatient revenue to our revenue from operating owned hospitals slightly decreased to 13.5% (for the six months ended June 30, 2020: 13.7%).

During the Reporting Period, due to the increase of both inpatient and outpatient businesses of our owned hospitals, revenue from treatment and general healthcare services increased by 32.7% as compared with that of the same period of 2020, and increased to 77.7% of revenue from operating our owned hospitals (for the six months ended June 30, 2020: 77.0%); revenue from pharmaceutical sales increased by 26.8% as compared with that of the same period of 2020, accounting for 22.3% of revenue from operating our owned hospitals (for the six months ended June 30, 2020: 23.0%), of which: the ratio of inpatient pharmaceutical sales to total inpatient revenue slightly increased to 14.5% (for the six months ended June 30, 2020: 14.2%), the proportion of outpatient pharmaceutical sales to total outpatient revenue decreased to 71.9% (for the six months ended June 30, 2020: 78.8%).

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 six months ended June 30,	
	2021	2020
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Pharmaceuticals and consumables used	149,254	112,156
Employee benefits and expenses	146,561	110,048
Depreciation of right-of-use assets	18,892	15,297
Depreciation and amortization	39,899	37,019
Canteen expenses	24,513	18,390
Testing fees	13,396	11,647
Others	25,132	18,906
Cost of revenue of owned hospitals	417,647	323,463

During the Reporting Period, the cost of revenue of the Group's owned hospitals increased to RMB417.6 million, representing an increase of 29.1% as compared with that of the same period of 2020. It was mainly due to: (i) the increase of 33.1% in pharmaceuticals and consumables expenses relating to the increase of pharmaceutical sales revenue; (ii) the increase of 33.2% in employee benefits and expenses arising from the increase in beds in operation of our owned hospitals; (iii) depreciation of right-of-use assets increased by 23.5% as compared with that of the same period of 2020; and (iv) the depreciation and amortization increased by 7.8% as compared with that of the same period of 2020, mainly caused by the expansion of the healthcare facilities' network.

From the cost structure perspective, the proportion of pharmaceuticals and consumables used to the cost of revenue of our owned hospitals increased to 35.7% (for the six months ended June 30, 2020: 34.7%). The proportion of employee benefits and expenses to cost of revenue of our owned hospitals increased to 35.1% (for the six months ended June 30, 2020: 34.0%). The proportion of the depreciation of right-of-use assets together with depreciation and amortization to cost of revenue of our owned hospitals decreased to 14.1% (for the six months ended June 30, 2020: 16.2%).

Revenue from other healthcare related business

The revenue from other healthcare related business of the Group primarily includes revenue from sales of medical devices, revenue from pharmaceutical sales outside the hospitals, revenue from social mental service and revenue from information technology business, etc. During the Reporting Period, revenue from the other healthcare related business of the Group amounted to RMB27.0 million, of which revenue from sales of pharmaceuticals and medical devices outside the hospitals was RMB16.3 million (for the six months ended June 30, 2020: RMB5.8 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 from the property business increased to RMB19.4 million (for the six months ended June 30, 2020: RMB7.1 million), mainly due to the fact that the sales revenue from the disposal of investment property of RMB16.0 million was realized by Wenzhou Guoda during the Reporting Period.

4.1.2 Gross Profit and Gross Profit Margin

During the Reporting Period, total gross profit of the Group amounted to RMB168.7 million, representing an increase of 31.5% as compared with that of the same period of 2020. The gross profit of our owned hospitals businesses amounted to RMB158.8 million, representing an increase of 37.6% as compared with that of the same period of 2020. The table below sets forth a breakdown of the gross profit margin of different businesses for the periods indicated:

	For the six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
Treatment and general healthcare services	34.1%	29.7%
Pharmaceutical sales	4.8%	14.9%
Owned hospitals businesses	27.5%	26.3%
Property and other businesses	21.3%	47.1%
Consolidated gross profit margin	27.1%	27.6%

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 six months ended June 30,	
	2021	2020
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Employee benefits and expenses	42,156	35,136
Depreciation and amortization	8,632	5,970
Consultancy expenses	2,845	2,406
Travelling expenses	1,226	1,468
Others	18,076	9,659
Total administrative expenses	72,935	54,639

During the Reporting Period, the administrative expenses of the Group amounted to RMB72.9 million, representing an increase of 33.5% as compared with that of the same period of 2020. During the Reporting Period, the proportion of the administrative expenses to the revenue from operating owned hospitals of the Group was 12.7% (for the six months ended June 30, 2020: 12.4%).

4.1.6 Research and Development Expenses

During the Reporting Period, the Group's research and development expenses amounted to RMB11.8 million (for the six months ended June 30, 2020: RMB2.6 million), representing an increase of 347.6% as compared with that of the same period of 2020. The proportion of research and development expenses to the revenue from operating owned hospitals of the Group was 2.0% (for the six months ended June 30, 2020: 0.6%), which was mainly due to: (i) the continuous increase in investments in the development of information software, social mental service platform and Internet hospital applications by the Group; and (ii) the implementation of an incentive policy to encourage doctors to engage in clinical research and the improvement on management of clinical research projects and accounting of research and development expenses by Wenzhou Kangning Hospital.

4.1.7 Finance Expenses – Net

Our finance income includes interest income from bank deposits, and the finance expenses include the losses on foreign exchange, the borrowing interest expenses and the interest expense on lease liabilities. The table below sets forth a breakdown of our financial income and expense for the periods indicated:

	For the six months ended June 30,	
	2021	2020
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Interest income	1,684	2,454
Foreign exchange (losses)/gains	(23)	125
Borrowing interest expenses	(11,674)	(9,165)
Interest expense on lease liabilities	(6,558)	(4,921)
Others	(548)	(339)
Finance expenses – Net	(17,119)	(11,846)

During the Reporting Period, the net finance expenses of the Group amounted to RMB17.1 million, representing an increase of RMB5.3 million as compared with that of the same period of 2020, of which, borrowing interest expense increased by RMB2.5 million as compared with that of the same period of 2020, mainly due to the increase in bank loans of the Group. Interest expense on lease liabilities increased by RMB1.6 million as compared with that of the same period of 2020.

4.1.8 Investment Income/(Losses)

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

	For the six months ended June 30,	
	2021	2020
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Share of losses of investments accounted for using the equity method	(755)	(1,020)
Gains arising from disposal of long-term equity investment	6,119	–
Interest from structured deposit	–	96
	5,364	(924)

During the Reporting Period, our investment income amounted to RMB5.4 million, mainly due to gains arising from disposal of equity investment of Wenzhou Guoda.

4.1.9 Credit Impairment Losses

During the Reporting Period, credit impairment losses decreased to RMB12.0 million (for the six months ended June 30, 2020: RMB16.1 million), accounting for 1.9% of the Group's total revenue (for the six months ended June 30, 2020: 3.5%). As of June 30, 2021 and December 31, 2020, the provisions for bad debts of account receivable of the Group amounted to RMB44.2 million and RMB33.9 million, respectively, and accounted for 10.6% and 9.5% of total accounts receivables at the corresponding time.

4.1.10 Non-Operating Income (Expenses)

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

	For the six months ended June 30,	
	2021	2020
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Government grants	297	30
Other non-operating income	<u>308</u>	<u>535</u>
Non-operating income	<u>605</u>	<u>565</u>
Donation expenses	(973)	(2,627)
Other non-operating expenses	<u>(1,739)</u>	<u>(408)</u>
Non-operating expenses	<u>(2,712)</u>	<u>(3,035)</u>

During the Reporting Period, the non-operating income of the Group amounted to RMB0.6 million, which was basically the same as that of the same period of last year. During the Reporting Period, the non-operating expenses of the Group decreased to RMB2.7 million, mainly due to the decrease of RMB1.7 million in donation expenses compared with that of the same period of 2020.

4.1.11 Income Tax Expense

During the Reporting Period, income tax expense increased to RMB16.5 million (for the six months ended June 30, 2020: RMB10.5 million), representing an increase of 57.3% as compared with that of the same period of 2020. For the Reporting Period and the six months ended June 30, 2020, our actual tax rates were 28.7% and 26.7%, respectively.

4.2 Financial Position

4.2.1 Inventory

As of June 30, 2021, inventory balances amounted to RMB39.1 million (as of December 31, 2020: RMB37.5 million), mainly include the medical inventory and turnover materials.

4.2.2 Accounts Receivables

As of June 30, 2021, the balance of accounts receivables amounted to RMB3donation es

4.2.4 Investment Properties

As of June 30, 2021, the Group had no investment properties (as of December 31, 2020: RMB107.8 million), the investment properties originally held by us were held by Wenzhou Guoda, and during the Reporting Period the Group had disposed of all its equity interests in Wenzhou Guoda and ceased to have any interest in it (for details, please refer to the announcement of the Company dated June 24, 2021).

4.2.5 Other Non-current Financial Assets

As of June 30, 2021, the balance of the other non-current financial assets amounted to RMB57.7 million (as of December 31, 2020: RMB57.4 million). During the Reporting Period, the fair value of the other non-current financial assets increased by RMB0.3 million, mainly due to the increase in the fair value of Jinpu Fund that the Group invested in.

4.2.6 Right-of-use Assets

As of June 30, 2021, right-of-use assets increased to RMB276.5 million (as of December 31, 2020: RMB227.6 million), mainly due to the increase of RMB69.5 million in the right-of-use assets as a result of the new lease contracts that the Group entered into during the Reporting Period.

4.2.7 Accounts Payables

As of June 30, 2021, accounts payables slightly decreased to RMB69.0 million (as of December 31, 2020: RMB69.6 million).

4.2.8 Contract Liability

As of June 30, 2021, contract liability increased to RMB14.4 million (as of December 31, 2020: RMB13.0 million).

4.2.9 Other Payables

As of June 30, 2021, other payables decreased to RMB35.8 million (as of December 31, 2020: RMB76.6 million), mainly due to the decrease of RMB23.3 million in payables for equity repurchase.

4.3 Liquidity and Capital Resources

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

	For the six months ended June 30,	
	2021	2020
	(RMB'000)	(RMB'000)
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	37,316	17,799
Net cash used in investing activities	(60,918)	(76,436)
Net cash generated from financing activities	93,139	94,945
Net increase in cash and cash equivalents	69,515	36,424

4.3.1 Net Cash Generated from Operating Activities

During the Reporting Period, net cash generated from operating activities amounted to RMB37.3 million, primarily consisting of net profit of RMB41.1 million, adjustments of RMB12.0 million in credit impairment losses and adjustments of RMB70.1 million in depreciation and amortisation of various assets, changes in working capital resulted in cash outflow of RMB92.0million.

4.3.2 Net Cash Used in Investing Activities

During the Reporting Period, net cash used in investing activities amounted to RMB60.9 million, primarily due to the amount of RMB83.5 million for purchasing property, plant and equipment, including the amounts paid for the relocation projects of Qingtian Kangning Hospital and Yongjia Kangning Hospital, and payments for purchase of land use rights of Linhai Cining Hospital.

4.3.3 Net Cash Generated from Financing Activities

During the Reporting Period, net cash generated from financing activities amounted to RMB93.1 million.

4.3.4 Significant Investment, Acquisition and Disposal

The Group had no significant investment, acquisition and disposal during the six months ended June 30, 2021.

4.4 Indebtedness

4.4.1 Bank Borrowings

As of June 30, 2021, the balance of bank borrowings of the Group amounted to RMB564.6 million (as of December 31, 2020: RMB426.5 million), primarily attributable to repayment of borrowings of RMB144.9 million and an increase in borrowings of RMB283.0 million during the Reporting Period.

4.4.2 Contingent Liability

As of June 30, 2021, 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 June 30, 2021, the present values of unsettled lease payments under non-cancellable lease agreements, after deducting an amount of RMB45.1 million which is due within one year, were RMB227.2 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.

For the six months ended June 30, 2021, 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 June 30, 2021, the Group's gearing ratio (total liabilities divided by total assets) slightly increased to 43.1% (as of December 31, 2020: 41.6%), mainly due to an increase of bank borrowings.

4.4.8 Employees and Remuneration Policy

As of June 30, 2021, the Group had a total of 3,763 employees (as of December 31, 2020: 3,338 employees). During the Reporting Period, employees' remuneration (including salaries and other forms of employee benefits) amounted to approximately RMB198.1 million (for the six months ended June 30, 2020: RMB149.5 million). The average employees' remuneration is RMB108.2 thousand per year (including social 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. (《溫州康寧醫院股份有限公司2018年股權激勵計劃》), 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"). In order to meet the requirements regarding capital certainty when the Company applies for the listing of its A Shares in the future, on June 24, 2021, the proposal on further amendments to the Equity Incentive Scheme was considered and passed (among others) in the meeting of the Board, and it was resolved to cancel the performance assessment requirements and the Company's obligation to repurchase the locked Incentive Shares under the Equity Incentive Scheme. 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, the circular of the Company dated May 14, 2021, the supplementing circular of the Company dated May 30, 2018, the announcement of the Company dated June 18, 2021 and the announcement of the Company dated June 25, 2021.

In respect of the Equity Incentive Scheme, the Participants of the first actual grant comprised a total of 165 persons, with 1,818,529 Incentive Shares granted. The Participants of the second phase of the actual grant comprised a total of 23 persons, with 180,516 Incentive Shares granted. The Participants (including connected persons) of the third phase of the actual grant comprised a total of 13 persons, with 540,229 Incentive Shares granted. As of the date of this announcement, a total of 8 Participants exited, corresponding to a total of 79,274 Incentive Shares. As of the date of this announcement, the Participants of the actual grant under the Equity Incentive Scheme comprised 193 persons, and all 2,460,000 Incentive Shares proposed to be granted have been granted. The Incentive Shares granted accounted for 3.2976% of the total issued share capital of the Company as of the date of this announcement. The Incentive Shares were unlocked at one time after 48 months from the date of the first grant, and the grant price was RMB10.47/share.

5 PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

6 SUBSEQUENT EVENTS

In order to better provide high-quality medical services to the general public, and continue to enhance the core competitiveness and presence of the Group, the Board proposed the A share offering. For details, please refer to the announcement of the Company dated August 6, 2021.

On August 20, 2021, the Company, relevant parties and persons entered into an investment agreement, pursuant to which the Company has conditionally agreed to obtain 100% equity interest in Pingyang Changgeng Yining Hospital Company Limited (平陽長庚怡寧醫院有限公司) by a combination of capital increase and equity transfer in a total consideration of RMB154.7447 million. For details, please refer to the announcement of the Company dated August 20, 2021.

Save as disclosed above, no major subsequent events occurred to the Group during the Reporting Period.

7 REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed this interim results announcement and the Group's financial information for the six months ended June 30, 2021, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made.

The Audit Committee consists of two independent non-executive Directors, Ms. ZHONG Wentang (the chairperson of the Audit Committee), Mr. LIU Ning, and one non-executive Director, Mr. YANG Yang.

8 INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2021.

applying

平陽長庚醫院有限公司 (Pingyang Changgeng Yining Hospital Company Limited)

11 FINANCIAL REPORT

11.1 Accounting Policies

11.1.1 Accounting Policies

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises – Basic Standard (《企業會計準則 - 基本準則》) and specific accounting standards and relevant rules issued by the Ministry of Finance of the PRC (the “**Ministry of Finance**”) on February 15, 2006.

The financial statements are prepared and has disclosed relevant financial information in accordance with the requirements of the Accounting Standard for Business Enterprises No. 32 – Interim Financial Report (《企業會計準則第32號 - 中期財務報告》) issued by the Ministry of Finance.

The Group’s accounting policies applied in preparing the financial statements are consistent with those policies applied in the financial statements for the year ended 2020. The interim financial statements shall be read together with the financial statements for the year ended 2020 of the Group.

The financial statements are prepared on a going concern basis.

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

11.1.2 Significant Change in Accounting Policies

In 2020, the Ministry of Finance promulgated the Notice on the Publication of Regulations on Accounting Treatment of COVID-19-Related Rent Concessions (Cai Kuai [2020] No.10) (《關於印發<新冠肺炎疫情相關租金減讓會計處理規定>的通知》(財會[2020]10號)) and the Questions and Answers on the Implementation of Accounting Standards for Enterprises (《企業會計準則實施問答》), which was published on December 11, 2020. It also issued a notice of amendment on the applicable scope of Regulations on Accounting Treatment of COVID-19-Related Rent Concessions (《新冠肺炎疫情相關租金減讓會計處理規定》) in 2021. The Group has adopted the above Notice and Questions and Answers to prepare its financial statements for the six-month period ended June 30, 2021, and there is no material impact on the Group and the Company’s financial statements.

11.2 Interim Financial Statement

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

11.2.1 Interim Consolidated Income Statement

	For the six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
1. Revenue	622,811,396	465,150,452
Less: Cost of sales	(454,149,859)	(336,864,754)
Taxes and surcharges	(2,244,722)	(1,999,246)
Selling and distribution expenses	(4,898,585)	(3,697,157)
General and administrative expenses	(72,934,744)	(54,639,015)
Research and development expenses	(11,805,726)	(2,637,407)
Financial expenses – net	(17,118,894)	(11,846,196)
Including: Interest expenses	(18,233,033)	(14,086,629)
Interest income	1,684,441	2,454,371
Add: Other income	5,362,468	5,443,616
Investment income/(losses)	5,364,428	(923,557)
Including: Investment losses		
from associates	(754,563)	(1,019,927)
Changes in fair value gains and losses	1,354,970	–
Credit impairment losses	(11,968,935)	(16,112,650)
2. Operating profit	59,771,797	41,874,086
Add: Non-operating income	604,970	564,961
Less: Non-operating expenses	(2,711,520)	(3,035,064)
3. Total profit	57,665,247	39,403,983
Less: Income tax expenses	(16,522,097)	(10,502,748)

	For the six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
4. Net profit	<u>41,143,150</u>	<u>28,901,235</u>
Classified by continuity of operations		
Net profit from continuing operations	41,143,150	28,901,235
Net profit from discontinued operations	—	—
Classified by ownership of the equity		
Net profit attributable to shareholders of the parent company	42,913,178	36,409,947
Non-controlling interests	(1,770,028)	(7,508,712)
5. Total comprehensive income	<u>41,143,150</u>	<u>28,901,235</u>
Attributable to shareholders of the parent company	42,913,178	36,409,947
Attributable to non-controlling interests	(1,770,028)	(7,508,712)
6. Earnings per share		
- Basic (RMB per share)	0.59	0.50
- Diluted (RMB per share)	<u>0.59</u>	<u>0.50</u>

11.2.2 Interim Consolidated Statement of Financial Position

ASSETS	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Current assets		
Cash at bank and on hand	296,970,557	206,499,564
Financial assets held for trading	—	—
Accounts receivable	372,917,472	321,407,965
Other receivables	57,506,857	63,435,813
Advances to suppliers	17,297,814	11,927,882
Inventories	39,076,028	37,508,471
Total current assets	783,768,728	640,779,695
Non-current assets		
Other non-current financial assets	57,749,854	57,404,918
Long-term equity investments	122,971,948	93,726,511
Investment properties	—	107,804,936
Fixed assets	669,724,131	533,743,384
Construction in progress	12,609,215	134,941,286
Right-of-use asset	276,494,473	227,568,279
Intangible assets	177,459,129	162,536,728
Goodwill	84,959,992	71,605,598
Long-term prepaid expenses	153,405,333	153,550,840
Deferred tax assets	43,126,042	46,576,821
Other non-current assets	28,598,739	18,708,451
Total non-current assets	1,627,098,856	1,608,167,752
TOTAL ASSETS	2,410,867,584	2,248,947,447

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Current liabilities		
Short-term borrowings	313,000,000	312,500,000
Notes payable	—	36,080
Accounts payable	69,012,231	69,573,927
Contract liabilities	14,438,238	12,965,170
Employee benefits payable	32,991,649	42,785,133
Taxes payable	24,678,538	49,046,555
Other payables	35,785,120	76,603,400
Current portion of non-current liabilities	64,262,900	35,540,617
Total current liabilities	554,168,676	599,050,882
Non-current liabilities		
Long-term borrowings	232,400,000	110,992,970
Lease liabilities	227,210,276	189,801,284
Long-term payables	—	—
Provisions	—	—
Deferred income	9,493,579	9,645,475
Deferred tax liabilities	15,498,566	25,032,439
Total non-current liabilities	484,602,421	335,472,168
Total liabilities	1,038,771,097	934,523,050
Shareholders' equity		
Share capital	74,600,300	74,600,300
Capital surplus	814,055,511	804,566,529
Less: Treasury stock	—	(23,311,144)
Surplus reserve	37,300,150	36,593,229
Retained earnings	361,603,198	319,396,941
Total equity attributable to shareholders of the parent company	1,287,559,159	1,211,845,855
Non-controlling interests	84,537,328	102,578,542
Total shareholders' equity	1,372,096,487	1,314,424,397
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,410,867,584	2,248,947,447

11.2.3 Interim Consolidated Statements of Cash Flow

	For the six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
1. Cash flows from operating activities		
Cash received from sales of goods or rendering of services	539,688,900	411,405,749
Cash received relating to other operating activities	10,297,037	8,311,056
Sub-total of cash inflows	549,985,937	419,716,805
Cash paid for goods and services	(218,754,957)	(174,912,876)
Cash paid to and on behalf of employees	(207,867,279)	(162,022,960)
Payments of taxes and surcharges	(27,309,627)	(14,474,391)
Cash paid relating to other operating activities	(58,738,353)	(50,507,831)
Sub-total of cash outflows	(512,670,216)	(401,918,058)
Net cash flows from operating activities	37,315,721	17,798,747
2. Cash flows from investing activities		
Cash received from disposal of investments	–	30,010,000
Cash received from returns on investments	–	96,370
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	16,043,548	3,870,905
Net cash received from disposal of subsidiaries and other business units	14,240,472	–
Cash received relating to other investing activities	41,676,480	–
Sub-total of cash inflows	71,960,500	33,977,275
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(83,456,941)	(67,075,009)
Cash paid to acquire investments	(30,000,000)	(15,145,000)
Net cash paid to acquire subsidiaries and other business units	(16,771,568)	(25,593,510)
Cash paid relating to other investing activities	(2,650,000)	(2,600,000)
Sub-total of cash outflows	(132,878,509)	(110,413,519)
Net cash flows used in investing activities	(60,918,009)	(76,436,244)

	For the six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
3. Cash flows from financing activities		
Cash received from capital contributions	2,445,056	23,361,500
Including: Cash received from capital contributions by non-controlling shareholders of subsidiaries	–	21,771,500
Cash received from borrowings	283,000,000	367,285,789
Cash received relating to other financing activities	–	–
Sub-total of cash inflows	285,445,056	390,647,289
Cash repayments of borrowings	(144,892,970)	(201,900,000)
Cash payments for distribution of dividends or interest expenses	(11,987,325)	(8,241,036)
Cash paid relating to other financing activities	(35,426,182)	(85,561,157)
Sub-total of cash outflows	(192,306,477)	(295,702,193)
Net cash flows generated from financing activities	93,138,579	94,945,096
4. Effect of foreign exchange rate changes on cash and cash equivalents	(21,035)	116,743
5. Net increase in cash and cash equivalents	69,515,256	36,424,342
Add: Cash and cash equivalents at the beginning of the period	200,092,665	164,951,950
6. Cash and cash equivalents at the end of the period	269,607,921	201,376,292

11.2.4 Interim Consolidated Statement of Changes in Shareholders' Equity

	Equity attributable to shareholders of the parent company						Total shareholders' equity
	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Non-controlling interests	
Balance at January 1, 2021	<u>74,600,300</u>	<u>804,566,529</u>	<u>(23,311,144)</u>	<u>36,593,229</u>	<u>319,396,941</u>	<u>102,578,542</u>	<u>1,314,424,397</u>
Net profit	-	-	-	-	42,913,178	(1,770,028)	41,143,150
Capital contribution by shareholders	-	2,445,056	(2,445,056)	-	-	-	-
Share-based payment included in shareholders' equity	-	5,512,658	-	-	-	-	5,512,658
Disposal of subsidiary	-	-	-	-	-	(15,959,186)	(15,959,186)
Cancellation of repurchase obligations and transfer back to treasury shares	-	-	25,756,200	-	-	-	25,756,200
Others	-	1,531,268	-	-	-	-	1,531,268
Extraction of surplus public accumulation	<u>-</u>	<u>-</u>	<u>-</u>	<u>706,921</u>	<u>(706,921)</u>	<u>-</u>	<u>-</u>
Profit distribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(312,000)</u>	<u>(312,000)</u>
Balance at June 30, 2021 (Unaudited)	<u><u>74,600,300</u></u>	<u><u>814,055,511</u></u>	<u><u>-</u></u>	<u><u>37,300,150</u></u>	<u><u>361,603,198</u></u>	<u><u>84,537,328</u></u>	<u><u>1,372,096,487</u></u>

Equity attributable to shareholders of the parent company							
	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Non- controlling interests	Total shareholders' equity
Balance at January 1, 2020	<u>75,500,000</u>	<u>824,715,445</u>	<u>(21,721,144)</u>	<u>33,189,321</u>	<u>252,800,715</u>	<u>97,024,925</u>	<u>1,261,509,262</u>
Net profit	–	–	–	–	36,409,947	(7,508,712)	28,901,235
Capital contribution by shareholders	–	–	–	–	–	21,771,500	21,771,500
Share-based payment included in shareholders' equity	–	3,914,851	(1,590,000)	–	–	–	2,324,851
Transactions with non- controlling shareholders	–	(2,253,553)	–	–	–	(1,709,223)	(3,962,776)
Others	–	–	(14,506,364)	–	–	–	(14,506,364)
Business combination involving enterprises not under common control	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>18,385,531</u>	<u>18,385,531</u>
Balance at June 30, 2020 (Unaudited)	<u><u>75,500,000</u></u>	<u><u>826,376,743</u></u>	<u><u>(37,817,508)</u></u>	<u><u>33,189,321</u></u>	<u><u>289,210,662</u></u>	<u><u>127,964,021</u></u>	<u><u>1,314,423,239</u></u>

11.3 Notes to the Interim Financial Statement prepared in accordance with the China Accounting Standard for Business Enterprises

11.3.1 Accounts Receivable

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Receivables from related parties	6,689,035	7,250,000
Receivables from non-related parties	<u>410,399,543</u>	<u>348,065,571</u>
Sub-total	417,088,578	355,315,571
Less: Provision for bad debts	<u>(44,171,106)</u>	<u>(33,907,606)</u>
	<u><u>372,917,472</u></u>	<u><u>321,407,965</u></u>

The ageing of accounts receivable by recording dates as at June 30, 2021 and December 31, 2020 is analysed as follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Within 1 year	330,978,243	276,029,265
1 – 2 years	54,425,649	59,715,117
2 – 3 years	24,948,056	19,442,357
Over 3 years	<u>6,736,630</u>	<u>128,832</u>
	<u><u>417,088,578</u></u>	<u><u>355,315,571</u></u>

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

11.3.2 Accounts Payable

The ageing of accounts payable as at June 30, 2021 and December 31, 2020 is analysed as follows:

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Within 3 months	61,633,050	54,689,668
3 – 6 months	3,698,543	9,659,122
6 months – 1 year	2,674,824	4,105,307
1 – 2 years	269,088	571,326
2 – 3 years	230,735	252,094
Over 3 years	505,991	296,410
	69,012,231	69,573,927

11.3.3 Revenue and Cost of Sales

	For the six months ended June 30, 2021 (Unaudited)	2020 (Unaudited)
Revenue from main operations	576,419,335	438,885,748
Revenue from other operations	46,392,061	26,264,704
	622,811,396	465,150,452
Cost of sales from main operations	417,647,183	323,463,045
Cost of sales from other operations	36,502,676	13,401,709
	454,149,859	336,864,754

Revenue and cost of sales from main operations

	For the six months ended June 30, 2021	
	(Unaudited) Revenue from main operations	(Unaudited) Cost of sales from main operations
Pharmaceutical sales	128,279,902	122,123,406
Treatments and other healthcare services	448,139,433	295,523,777
	<u>576,419,335</u>	<u>417,647,183</u>
	For the six months ended June 30, 2020	
	(Unaudited) Revenue from main operations	(Unaudited) Cost of sales from main operations
Pharmaceutical sales	101,134,489	86,044,257
Treatments and other healthcare services	337,751,259	237,418,788
	<u>438,885,748</u>	<u>323,463,045</u>

11.3.4 Earnings Per Share

(a) Basic earnings per share

	For the six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
The consolidated net profit attributable to the ordinary shareholders of the parent company (RMB) ⁽ⁱ⁾	42,913,178	36,409,947
Weighted average number of outstanding ordinary shares (share) ⁽ⁱ⁾	<u>72,222,300</u>	<u>72,769,749</u>
Basic earnings per share (RMB)	<u>0.59</u>	<u>0.50</u>

- (i) Following the approval by the Shareholders at the annual general meeting held on June 13, 2018, the Company issued 2,460,000 Domestic Shares for a share incentive scheme, which are regarded as treasury stocks. Only an average weighted number of 2,378,000 restricted shares were deducted from the outstanding ordinary shares of the Company when calculating the basic earnings per share for the six months ended June 30, 2021, because the Company ceased to have the obligation to repurchase the locked Incentive Shares in June 2021, for which such shares cannot be regarded as treasury stocks.

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the consolidated net profit attributable to ordinary shareholders of the parent company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of outstanding ordinary shares of the Company. For the six months ended June 30, 2021, the consolidated net profit attributable to the ordinary shareholders of the parent company adjusted based on the dilutive potential ordinary shares was RMB42,913,178. The adjusted weighted average number of outstanding ordinary shares was 72,655,834. The diluted earnings per share was RMB0.59. For the six months ended June 30, 2020, the consolidated net profit attributable to the ordinary shareholders of the parent company adjusted based on the diluted potential ordinary shares was RMB36,409,947. The adjusted weighted average number of outstanding ordinary shares was 73,034,363. The diluted earnings per share was RMB0.50.

11.3.5 Income Tax Expense

	For the six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
Current income tax calculated based on tax law and related regulations	21,806,294	23,778,834
Deferred income tax	(5,284,197)	(13,276,086)
	<u>16,522,097</u>	<u>10,502,748</u>

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:

	For the six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
Total profit	<u>57,665,247</u>	<u>39,403,983</u>
Income tax expenses calculated at the applicable tax rate of 25%	14,416,312	9,850,996
The Impact of Preferential Tax Rates	(686,539)	–
Costs, expenses and losses not deductible for tax purpose	558,238	579,650
Filing difference for the prior period	–	121,674
Additional deduction of research and development expenses	(1,358,322)	(490,212)
Deductible losses for which no deferred tax asset was recognized	<u>3,592,408</u>	<u>440,640</u>
Income tax expenses	<u><u>16,522,097</u></u>	<u><u>10,502,748</u></u>

11.3.6 Dividends

On March 26, 2021, the Board did not recommend the payment of a final dividend for the year ended December 31, 2020. The proposal not to declare dividend was approved by the Shareholders at the annual general meeting for the year 2020 of the Company on June 18, 2021.

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

12 DEFINITIONS

“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
“Board”	the board of directors of the Company
“Cangnan Kangning Hospital”	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company’s wholly-owned subsidiaries
“Changchun Kanglin Psychological Hospital”	Changchun Kanglin Psychological Hospital Co., Ltd.(長春康林心理醫院有限公司), a company established in the PRC with limited liability on February 16, 2016, one of the Company’s indirect non-wholly owned subsidiaries
“Chun’an Kangning Hospital”	Chun’an Kangning Huangfeng Hospital Co., Ltd. (淳安康寧黃鋒醫院有限公司), a company established in the PRC with limited liability on April 16, 2020, one of the Company’s indirect non-wholly owned subsidiaries
“Company” or “Wenzhou Kangning Hospital”	Wenzhou Kangning Hospital Co., Ltd., a joint stock limited liability company established under the laws of the PRC, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2120)
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted shares which are currently not listed or traded on any stock exchange
“Geriatric Hospital”	Wenzhou Yining Geriatric Hospital Co., Ltd. (溫州怡寧老年醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the wholly-owned subsidiaries indirectly held by the Company, is principally engaged in providing medical services for the geriatric, including geriatric psychiatric and psychological treatment
“Group” or “we” or “our”	the Company and its subsidiaries

“H Share(s)”	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Hong Kong Stock Exchange
“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”	Chongqing Jinpu Medical & Health Service Industry Equity Investment Fund Partnership (Limited Liabilities Partnership) (重慶金浦醫療健康服務產業股權投資基金合夥企業(有限合夥)), a limited partnership established in the PRC on March 22, 2016 with the Company, as a limited partner, holding 3.5461% equity interests of Jinpu Fund
“Linhai Cining Hospital”	a company established in the PRC with limited liability on December 11, 2020, one of the Company’s indirect wholly-owned subsidiaries
“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
“Pingyang Kangning Hospital”	Pingyang Kangning Hospital Co., Ltd. (平陽康寧醫院有限公司), a company established in the PRC with limited liability on November 2, 2015, one of the Company’s indirect wholly-owned subsidiaries
“Pujiang Yining Hospital”	Pujiang Yining Huangfeng Hospital Co., Ltd. (浦江怡寧黃峰醫院有限公司), a company established in the PRC with limited liability on September 30, 2018, one of the Company’s indirect non-wholly owned subsidiaries.
“Macau”	the Macau Special Administrative Region of the PRC
“PRC” or “China”	the People’s Republic of China which, for the purpose of this interim results announcement, excludes Hong Kong, Macau and Taiwan

“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
“Reporting Period”	the six months ended June 30, 2021
“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 Ordinance (Chapter 622 of the laws of Hong Kong)
“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 non-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, was one of the Company’s indirect non-wholly owned subsidiaries. On June 24, 2021, the Company entered into the Equity Transfer Agreement with Mr. Guan Weili, a connected person, to conditionally sell 75% equity interests in Wenzhou Guoda to Mr. Guan Weili (for details, please refer to the announcement of the Company dated June 24, 2021)

“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’ wholly owned subsidiaries
“%”	percentage ratio

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

Zhejiang, the PRC
August 27, 2021

As of the date of this announcement, the Company’s executive Directors are Mr. GUAN Weili, Ms. WANG Lianyue and Ms. WANG Hongyue; the non-executive Directors are Mr. YANG Yang and Mr. QIN Hao; and the independent non-executive Directors are Mr. ZHAO Xudong, Ms. ZHONG Wentang and Mr. LIU Ning.