溫州康寧醫院股份有限公司

Wenzhou Kangning H

(A joint stock limited liability company incorporated in the People's Republic of China)

Stock code: 2120

Contents

	Page
CORPORATE INFORMATION	2
FINANCIAL HIGHLIGHTS	4
MANAGEMENT DISCUSSION AND ANALYSIS	5
CORPORATE GOVERNANCE AND OTHER INFORMATION	22
CONSOLIDATED BALANCE SHEET	31
COMPANY BALANCE SHEET	33
CONSOLIDATED INCOME STATEMENT	35
COMPANY INCOME STATEMENT	36
CONSOLIDATED CASH FLOW STATEMENT	37
COMPANY CASH FLOW STATEMENT	39
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	41
COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	43
NOTES TO THE FINANCIAL STATEMENTS	45
DEFINITIONS	117

Corporate Information

Board of Directors

Executive Directors

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

Non-executive Directors

Mr. YANG Yang [Note] (resigned on September 9, 2021)
Mr. LIN Lijun[Note] (resigned on April 30, 2021)
Mr. QIN Hao (appointed on June 18, 2021)

Independent Non-executive Directors

Mr. ZHAO Xudong
Ms. ZHONG Wentang
Mr. LIU Ning

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Strategy and Risk Management Committee

Mr. GUAN Weili *(Chairman)*
Ms. ZHONG Wentang
Mr. QIN Hao

Supervisory Committee

Mr. SUN Fangjun *(Chairman)*
Ms. HUANG Jing'ou [Note] (resigned on September 9, 2021)
Mr. XIE Tiefan
Mr. QIAN Chengliang
Mr. CHEN Jian

Joint Company Secretaries

Mr. WANG Jian
Ms. NG Wing Shan

Authorized Representatives

Ms. WANG Hongyue
Ms. NG Wing Shan

Auditor

PricewaterhouseCoopers Zhong Tian LLP

Legal Advisors as to Hong Kong Laws

Clifford Chance

Registered Office and Head Office in the PRC

Shengjin Road
Huanglong Residential District
Wenzhou, Zhejiang
PRC

Note:

On April 30, 2021, Mr. LIN Lijun resigned as a non-executive Director and a member of the Strategy and Risk Management Committee. On September 9, 2021, Mr. YANG Yang resigned as a non-executive Director and a member of the Audit Committee. On September 9, 2021, Ms. HUANG Jing'ou resigned as a Shareholder representative Supervisor.

Corporate Information

Principal Place of Business in Hong Kong

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

H Share Registrar

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

Stock Code

2120

Company's Website

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Investor Relations

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Financial Highlights

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	
	June 30,	As at December 31,
	2021	2020
	(RMB' 000)	(RMB' 000)
	(Unaudited)	(Audited)
Total assets	2,410,867	2,274,908
Total liabilities	1,038,771	960,485
Total equity	1,372,096	1,314,423
Equity attributable to shareholders of the Company	1,287,559	1,186,459
Non-controlling interests	84,537	127,964

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

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.

Management Discussion and Analysis

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

Management Discussion and Analysis

Revenue and cost of revenue from operating the owned hospitals

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

Management Discussion and Analysis

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 (Unaudited)	2020 (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

Management Discussion and Analysis

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

Management Discussion and Analysis

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

Management Discussion and Analysis

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%

During the Reporting Period, consolidated gross profit margin of the Group slightly decreased to 27.1% (for the six months ended June 30, 2020: 27.6%), of which the gross profit margin of treatment and general healthcare services increased by 4.4 percentage points as compared with that of the same period of 2020. The gross profit margin of pharmaceutical sales decreased by 10.1 percentage points as compared with that of the same period of 2020.

Tax and Surcharge

During the Reporting Period, the tax and surcharge of the Group amounted to RMB2.2 million (for the six months ended June 30, 2020: RMB2.0 million).

Selling Expenses

During the Reporting Period, the selling expenses of the Group amounted to RMB4.9 million (for the six months ended June 30, 2020: RMB3.7 million). The selling expenses accounted for 0.8% of the Group's revenue from operating its owned hospitals (for the six months ended June 30, 2020: 0.8%).

Management Discussion and Analysis

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%).

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

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.

Management Discussion and Analysis

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	308	535
Non-operating income	605	565
Donation expenses	(973)	(2,627)
Other non-operating expenses	(1,739)	(408)
Non-operating expenses	(2,712)	(3,035)

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.

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.

Management Discussion and Analysis

Financial Position

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.

Accounts Receivables

As of June 30, 2021, the balance of accounts receivables amounted to RMB372.9 million (as of December 31, 2020: RMB321.4 million), representing an increase of 16.0% as compared with that of December 31, 2020, mainly due to the increase in the Group's revenue from operating its owned hospitals.

During the Reporting Period, the accounts receivables turnover days of the Group were 101 days (for the six months ended June 30, 2020: 129 days).

Other Receivables and Prepayments

As of June 30, 2021, other receivables and prepayments decreased to RMB74.8 million (as of December 31, 2020: RMB75.4 million).

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).

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.

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.

Management Discussion and Analysis

Accounts Payables

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

Contract Liability

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

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.

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

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 RMB92.0 million.

Management Discussion and Analysis

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.

Net Cash Generated from Financing Activities

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

Significant Investment, Acquisition and Disposal

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

Indebtedness

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.

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.

Asset Pledge

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

Lease Liabilities

The lease liabilities of the Group primarily consist of operating lease arrangements. As of 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.

Management Discussion and Analysis

Financial Instruments

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

Exposure to Fluctuation in Exchange Rates

The Group deposits certain of its financial assets in foreign currencies, which mainly involve risks of fluctuations in the e gs1gvn9CF053 Tdits fiis eExch/T1 Rah mainlyS0 gsg the

Management Discussion and Analysis

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 report, a total of 8 Participants exited, corresponding to a total of 79,274 Incentive Shares. As of the date of this report, 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 report. 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.

Corporate Governance and Other Information

CORPORATE GOVERNANCE

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

After the Reporting Period, on September 9, 2021, Mr. YANG Yang has resigned as a non-executive Director and a member of the Audit Committee of the Company due to personal commitments and other work arrangements. Upon the resignation of Mr. YANG Yang, the Audit Committee consists of two independent non-executive Directors, which is temporarily not in compliance with the requirement of including at least three members in the Audit Committee under Rule 3.21 of the Hong Kong Listing Rules. The Company will appoint a suitable candidate as soon as practicable to fill the vacancy to ensure compliance with the relevant requirements of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated September 9, 2021.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as a code of conduct of the Company for its Directors' and Supervisors' transactions on the Company's securities. Based on specific enquiries to all Directors and Supervisors, the Directors and the Supervisors have complied with the required standard set out in the Model Code during the period from January 1, 2021 to June 30, 2021. The Company minimizes the scope of insiders before publication of such inside information. Employees who are, or likely to be, in possession of unpublished inside information in relation to the Company or the Shares are prohibited from dealing in the Shares during the black-out period. The Company will file relevant information of such employees, including but not limited to the inside information, personal identity, securities account, the department such employees serve and their responsibilities, for Company's internal check and relevant regulatory authorities' inquiries. If such employees violate relevant laws and regulations, the Company will make the punishment decisions or transfer them to the judicial organs for handling in accordance with the law, in accordance with the seriousness of the case.

ACCOUNTING STANDARDS

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

Corporate Governance and Other Information

ACCOUNTING POLICIES

Accounting Policies

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises – Basic Standard and specific accounting standards and relevant rules issued by the Ministry of Finance of the PRC (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 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 financial statements have reflected the new requirements of the Companies Ordinance

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.

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

The Company established the Audit Committee in compliance with Rule 3.21 and Rule 3.22 of the Hong Kong Listing Rules and with written terms of reference in compliance with the CG Code and the roles and the responsibilities delegated to the Audit Committee by the Board. As of June 30, 2021, 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. The Audit Committee has reviewed this interim report 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.

Corporate Governance and Other Information

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2021(for the six months ended June 30, 2020: nil).

PURCHASE, SALE OR 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.

CHANGE IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENTS

On April 30, 2021, Mr. LIN Lijun resigned as a non-executive Director and a member of the Strategy and Risk Management Committee of the Board due to personal commitments and other work arrangements. On June 18, 2021, Mr. QIN Hao was appointed as a non-executive Director and a member of the Strategy and Risk Management Committee of the Board, which is effective from June 18, 2021. On September 9, 2021, Mr. YANG Yang resigned as a non-executive Director and a member of the Audit Committee. On September 9, 2021, Ms. HUANG Jing'ou resigned as a Shareholder representative Supervisor (for details, please refer to the announcement of the Company dated September 9, 2021) .

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

EVENTS AFTER THE REPORTING PERIOD

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 from the Reporting Period to the date of this interim report.

Corporate Governance and Other Information

CHANGE IN DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' BIOGRAPHICAL DETAILS

Set out below are the changes in the Directors', the Supervisors' and the chief executives' biographical details between the period of January 1, 2021 to June 30, 2021 and up to the date of this interim report, which are required to be disclosed pursuant to Rule 13.51B of the Hong Kong Listing Rules:

		Position held at other members of the Group and term of office	
Name	Members of the Group	Positions held at members of the Group	Term of office
Ms. ZHANG Feixue	Linhai Cining Hospital Co., Ltd.	Executive Director, Manager	From February 2021 to present
Mr. WANG Jian	Wenzhou Ouhai Yining Rehabilitation Hospital Co., Ltd.	Chairman	From March 2021 to present
Mr. JIN Weiguang	Cangnan Yining Nursing Centre Co., Ltd.	Executive Director, General manager	From March 2021 to present
Ms. WANG Hongyue	Cangnan Yining Nursing Centre Co., Ltd.	Supervisor	From March 2021 to present
Mr. WANG Jian	Hangzhou Yining Medical Equipment Research and Development Co., Ltd.	Executive Director, General manager	From April 2021 to present
Mr. ZHOU Chaoyi	Chun'an Qiandao Lake Kangning Hospital Co., Ltd.	Executive Director, General manager	From May 2021 to present

Save as disclosed above, the Company is not aware of other changes in the Directors', the Supervisors' or the chief executives' biographical details which are required to be disclosed pursuant to Rule 13.51B of the Hong Kong Listing Rules.

Corporate Governance and Other Information

DISCLOSURE OF INTERESTS

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

As of June 30, 2021, the interests and short positions of the Directors, the Supervisors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Hong Kong Stock Exchange purst5 (Ho4uanr9anck)0.

Corporate Governance and Other Information

Save as disclosed above, as of June 30, 2021, to the knowledge of the Board, none of the Directors, the Supervisors or the chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, the Supervisors and the chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Interests of Substantial Shareholders

As of June 30, 2021, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following person/entity (other than the Directors, the Supervisors or the chief executives of the Company) had an interest or short position which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class [1]	Approximate Percentage of the Company's Total Issued Share Capital [1]
Guangzhou GL Capital Investment Fund L.P. ("**Defu Fund**") (廣州德福股權投資基金合夥企業(有限合夥)("德福基金"))	Domestic Shares	Beneficial owner	5,384,875(L)	9.74%	7.22%
Guangzhou GL Capital GP L.P. (廣州德福投資諮詢合夥企業(有限合夥))[2]	Domestic Shares	Interest in a controlled corporation	5,384,875(L)	9.74%	7.22%
Guangzhou Automobile Group Capital Co., Ltd. [3] (廣汽資本有限公司)	Domestic Shares	Interest in a controlled corporation	5,384,875(L)	9.74%	7.22%
Mr. HOU Ming	Domestic Shares	Interest in a controlled corporation	5,384,875(L)	9.74%	7.22%

Corporate Governance and Other Information

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in Shares of the Same Class [1]	Approximate Percentage of the Company's Total Issued Share Capital [1]
Mr. XU Yi [4]	Domestic Shares	Interest of spouse	5,984,350(L)	10.83%	8.02%
Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥))	Domestic Shares	Beneficial owner	4,519,003(L)	8.18%	6.06%
Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥)) [5]	Domestic Shares	Interest in a controlled corporation	4,519,003(L)	8.18%	6.06%
Mr. LIN Lijun	Domestic Shares	Interest in a controlled corporation	6,506,309(L)	11.77%	8.72%
Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) [6]	Domestic Shares	Interest in a controlled corporation	6,506,359(L)	11.77%	8.72%
Qingdao Jinshi Haorui Investment Co., Ltd. (青島金石灝沄投資有限公司)	Domestic Shares	Beneficial owner	2,780,000(L)	5.03%	3.73%
Jinshi Investment Co., Ltd. (金石投資有限公司) [7]	Domestic Shares	Interest in a controlled corporation	2,780,000(L)	5.03%	3.73%
Central SOEs Industrial Fund for Poor Area Co., Ltd. (中央企業貧困地區產業投資基金股份有限公司) (now known as Central Enterprises Rural Industry Investment Fund Co., Ltd. (中央企業鄉村產業投資基金股份有限公司))	Domestic Shares	Beneficial owner	6,666,666(L)	12.06%	8.94%

Corporate Governance and Other Information

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate Percentage in

Corporate Governance and Other Information

Notes:

(L)： Long position

(S)： Short position

(1) The shareholding percentages are calculated on the basis of 55,260,000 Domestic Shares and 19,340,300 H Shares (an aggregate of 74,600,300 Shares) issued by the Company as of June 30, 2021.

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

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

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

(5) Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥)) holds 99.99% equity interest in Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)). Therefore, by virtue of Part XV of the SFO, Shanghai Lejin Investment L.P. (上海樂進投資合夥企業(有限合夥)) is deemed to be interested in all the Domestic Shares held by Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)) in the Company.

(6) Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) is the general partner of Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥)) and Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)). Therefore, by virtue of Part XV of the SFO, Shanghai Shengge Investment Management Co., Ltd. (上海盛歌投資管理有限公司) is deemed to be interested in all the Domestic Shares held by Shanghai Qiangang Investment Management L.P. (上海乾剛投資管理合夥企業(有限合夥)) (directly holding 1,987,356 Domestic Shares of the Company) and Shanghai Tanying Investment L.P. (上海檀英投資合夥企業(有限合夥)) in the Company.

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

Save as disclosed above, as of June 30, 2021, to the knowledge of the Directors, no other person (other than a Director, a Supervisor or a chief executive of the Company) had, or was deemed or taken to have interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

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

Zhejiang, the PRC
August 27, 2021

Consolidated Balance Sheet

As at 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Current assets			
Cash at bank and on hand	4(1)	**296,970,557**	206,499,564
Accounts receivable	4(2)	**372,917,472**	321,407,965
Other receivables	4(3)	**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	4(4)	**122,971,948**	93,726,511
Investment properties	4(5)	**–**	107,804,936
Fixed assets	4(6)	**669,724,131**	533,743,384
Construction in progress	4(7)	**12,609,215**	134,941,286
Right-of-use assets	4(8)	**276,494,473**	227,568,279
Intangible assets	4(9)	**177,459,129**	162,536,728
Goodwill	4(10)	**84,959,992**	71,605,598
Long-term prepaid expenses	4(11)	**153,405,333**	153,550,840
Deferred tax assets		**43,126,042**	46,576,821
Other non-current assets	4(12)	**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

Consolidated Balance Sheet

As at 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Current liabilities			
Short-term borrowings	4(14)	313,000,000	312,500,000
Notes payable		–	36,080
Accounts payable	4(15)	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	4(16)	64,262,900	35,540,617
Total current liabilities		554,168,676	599,050,882
Non-current liabilities			
Long-term borrowings	4(17)	232,400,000	110,992,970
Lease liabilities	4(18)	227,210,276	189,801,284
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	4(19)	74,600,300	74,600,300
Capital surplus	4(20)	814,055,511	804,566,529
Less: Treasury stock	9(b)(4)	–	(23,311,144)
Surplus reserve		37,300,150	36,593,229
Retained earnings	4(21)	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	6	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

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

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

Company Balance Sheet

As at 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Current assets			
Cash at bank and on hand		**183,740,562**	118,136,805
Accounts receivable	16(1)	**86,263,359**	78,544,241
Advances to suppliers		**5,233,991**	1,931,488
Other receivables	16(2)	**474,056,254**	521,673,904
Inventories		**9,667,879**	10,374,364
Total current assets		**758,962,045**	730,660,802
Non-current assets			
Other non-current financial assets		**57,749,854**	57,404,918
Long-term equity investments	16(3)	**498,213,506**	453,843,360
Fixed assets		**318,372,301**	299,191,394
Construction in progress		**295,959**	3,144,167
Intangible assets		**22,131,055**	22,383,643
Long-term prepaid expenses		**21,530,602**	17,188,510
Other non-current assets		**24,296,448**	556,900
Deferred tax assets		**7,548,770**	7,655,891
Total non-current assets		**950,138,495**	861,368,783
TOTAL ASSETS		**1,709,100,540**	1,592,029,585

Company Balance Sheet

As at 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Current liabilities			
Short-term borrowings		310,000,000	310,000,000
Accounts payable		28,793,174	32,572,146
Contract liabilities		4,121,249	3,480,240
Employee benefits payable		11,086,609	15,629,766
Taxes payable		1,858,841	8,267,931
Other payables		1,628,647	25,329,546
Current portion of non-current liabilities		3,300,000	–
Total current liabilities		360,788,520	395,279,629
Non-current liabilities			
Long-term borrowings		146,700,000	38,000,000
Deferred income		9,493,579	9,645,475
Deferred tax liabilities		–	1,607,649
Total non-current liabilities		156,193,579	49,253,124
Total liabilities		516,958,393	444,532,753
Shareholders' equity			
Share capital		74,600,300	74,600,300
Capital surplus		838,005,588	828,516,606
Less: Treasury stock		–	(23,311,144)
Surplus reserve		37,300,150	36,593,229
Retained earnings		242,212,403	231,097,841
Total shareholders' equity		1,192,118,441	1,147,496,832
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,709,100,540	1,592,029,585

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

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

Consolidated Income Statement

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
1. Revenue	4(22)	622,811,396	465,150,452
Less: Cost of sales	4(22), 4(23)	(454,149,859)	(336,864,754)
Taxes and surcharges		(2,244,722)	(1,999,246)
Selling and distribution expenses	4(23)	(4,898,585)	(3,697,157)
General and administrative expenses	4(23)	(72,934,744)	(54,639,015)
Research and development expenses	4(23)	(11,805,726)	(2,637,407)
Financial expenses – net	4(24)	(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 gains		5,362,468	5,443,616
Investment income/(losses)	4(25)	5,364,428	(923,557)
Including: Share of losses of associates		(754,563)	(1,019,927)
Gains on changes in fair value	4(26)	1,354,970	–
Credit impairment losses	4(27)	(11,968,935)	(16,112,650)
2. Operating profit		59,771,797	41,874,086
Add: Non-operating income	4(28)	604,970	564,961
Less: Non-operating expenses	4(29)	(2,711,520)	(3,035,064)
3. Total profit		57,665,247	39,403,983
Less: Income tax expenses	4(30)	(16,522,097)	(10,502,748)
4. Net profit		41,143,150	28,901,235
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		41,143,150	28,901,235
Total comprehensive income attributable to shareholders of the parent company		42,913,178	36,409,947
Total comprehensive loss attributable to non-controlling interests		(1,770,028)	(7,508,712)
6. Earnings per share			
Basic (RMB per share)	4(31)	0.59	0.50
Diluted (RMB per share)	4(31)	0.59	0.50

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

Company Income Statement

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
1. Revenue	16(4)	189,532,979	193,700,484
Less: Cost of sales	16(4)	(132,706,621)	(128,713,539)
Taxes and surcharges		(1,338,471)	(1,494,969)
Selling and distribution expenses		(1,440,490)	(1,162,605)
General and administrative expenses		(29,238,287)	(26,524,061)
Research and development expenses		(7,692,665)	(780,493)
Financial expenses – net		(1,638,974)	(5,751,653)
Including: Interest expenses		(9,789,645)	(7,510,983)
Interest income		8,365,975	2,934,052
Add: Other gains		2,342,712	2,957,512
Investment losses	16(5)	(1,629,854)	(168,461)
Including: Share of losses of associates		(1,629,854)	(264,831)
Gains on changes in fair value		344,936	–
Credit impairment losses		(1,213,974)	(3,160,065)
2. Operating profit		15,321,291	28,902,150
Add: Non-operating income		267,584	503,210
Less: Non-operating expenses		(375,904)	(971,105)
3. Total profit		15,212,971	28,434,255
Less: Income tax expenses		(3,391,488)	(6,597,519)
4. Net profit		11,821,483	21,836,736
Classified by continuity of operations			
Net profit from continuing operations		11,821,483	21,836,736
Net profit from discontinued operations		–	–
5. Total comprehensive income		11,821,483	21,836,736

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

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

Consolidated Cash Flow Statement

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (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	4(32)(a)	37,315,721	17,798,747
2. Cash flows used in 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)

Item	Note	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (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		453,000,000	367,285,789
Sub-total of cash inflows		455,445,056	390,647,289
Cash repayments of borrowings		(314,892,970)	(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		(362,306,477)	(295,702,193)
Net cash flows 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	4(32)(a)	200,092,665	164,951,950
6. Cash and cash equivalents at the end of the period	4(32)(d)	269,607,921	201,376,292

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

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

Company Cash Flow Statement

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
1. Cash flows from/(used in) operating activities			
Cash received from sales of goods or rendering of services		179,943,716	182,347,818
Cash received relating to other operating activities		41,059,176	5,622,960
Sub-total of cash inflows		221,002,891	187,970,778
Cash paid for goods and services		(79,367,409)	(83,758,805)
Cash paid to and on behalf of employees		(69,299,239)	(67,550,942)
Payments of taxes and surcharges		(11,108,308)	(7,296,491)
Cash paid relating to other operating activities		(13,989,174)	(35,959,606)
Sub-total of cash outflows		(173,764,130)	(194,565,844)
Net cash flows from/(used in) operating activities		47,238,761	(6,595,066)
2. Cash flows used in investing activities			
Cash received from disposal of investments		–	30,000,000
Cash received from returns on investments		–	96,370
Cash received relating to other investing activities		21,061,699	–
Sub-total of cash inflows		21,061,699	30,096,370
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(32,867,069)	(7,376,533)
Cash paid to acquire investments		(69,436,000)	(45,247,608)
Cash paid relating to other investing activities		(2,650,000)	(60,000,000)
Sub-total of cash outflows		(104,953,069)	(112,624,141)
Net cash flows used in investing activities		(83,891,370)	(82,527,771)

Company Cash Flow Statement

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
3. Cash flows from financing activities			
Cash received from capital contributions		2,445,056	1,590,000
Cash received from borrowings		140,000,000	318,000,000
Sub-total of cash inflows		142,445,056	319,590,000
Cash repayments of borrowings		(28,000,000)	(201,000,000)
Cash payments for distribution of dividends or interest expenses		(9,776,470)	(7,409,931)
Cash paid relating to other financing activities		(2,391,185)	(18,851,105)
Sub-total of cash outflows		(40,167,655)	(227,261,036)
Net cash flows from financing activities		102,277,401	92,328,964
4. Effect of foreign exchange rate changes on cash		(21,035)	116,743
5. Net increase in cash and cash equivalents		65,603,757	3,322,870
Add: Cash and cash equivalents at the beginning of the period		118,136,805	90,212,206
6. Cash and cash equivalents at the end of the period		183,740,562	93,535,076

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

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

Consolidated Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

		Equity attributable to shareholders of the parent company						
	Note	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Non-controlling interests	Total shareholders' equity
Balance at 1 January 2021		74,600,300	804,566,529	(23,311,144)	36,593,229	319,396,941	102,578,542	1,314,424,397
Movements for the six months ended 30 June 2021								
Total comprehensive income								
Net profit		–	–	–	–	42,913,178	(1,770,028)	41,143,150
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders		–	2,445,056	(2,445,056)	–	–	–	–
Share-based payment included in shareholders' equity	9	–	5,512,658	–	–	–	–	5,512,658
Cancellation of repurchase obligation to transfer back to treasury stock	9	–	–	25,756,200	–	–	–	25,756,200
Disposal of subsidiaries	5	–	–	–	–	–	(15,959,186)	(15,959,186)
Others	4(20)	–	1,531,268	–	–	–	–	1,531,268
Profit distribution								
Appropriation to surplus reserve		–	–	–	706,921	(706,921)	–	–
Profit distribution to shareholders	4(21)	–	–	–	–	–	(312,000)	(312,000)
Balance at 30 June 2021 (Unaudited)		74,600,300	814,055,511	–	37,300,150	361,603,198	84,537,328	1,372,096,487

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

Legal representative:
GUAN Weili

Principal in charge of accounting:
WANG Hongyue

Head of accounting department:
XU Qunyan

Consolidated Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

		Attributable to shareholders of the parent company						
	Note	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Non-controlling interests	Total shareholders' equity
Balance at 1 January 2020		75,500,000	824,715,445	(21,721,144)	33,189,321	252,800,715	97,024,925	1,261,509,262
Movements for the six months ended 30 June 2020								
Total comprehensive income								
Net profit		–	–	–	–	36,409,947	(7,508,712)	28,901,235
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders		–	–	–	–	–	21,771,500	21,771,500
Share-based payment included in shareholders' equity	9	–	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 combinations involving enterprises not under common control	5(1)	–	–	–	–	–	18,385,531	18,385,531
Balance at 30 June 2020 (Unaudited)		75,500,000	826,376,743	(37,817,508)	33,189,321	289,210,662	127,964,021	1,314,423,239

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

Legal representative:
GUAN Weili

Principal in charge of accounting:
WANG Hongyue

Head of accounting department:
XU Qunyan

Company Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

	Note	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Total shareholders' equity
Balance at 1 January 2021		74,600,300	828,516,606	(23,311,144)	36,593,229	231,097,841	1,147,496,832
Movements for the six months ended 30 June 2021							
Total comprehensive income							
Net profit		–	–	–	–	11,821,483	11,821,483
Capital contribution and withdrawal by shareholders							
Capital contribution by shareholders		–	2,445,056	(2,445,056)	–	–	–
Share-based payment included in shareholders' equity	9	–	5,512,658	–	–	–	5,512,658
Cancellation of repurchase obligation to transfer back to treasury stock	9	–	–	25,756,200	–	–	25,756,200
Others	4(20)	–	1,531,268	–	–	–	1,531,268
Profit distribution							
Appropriation to surplus reserve		–	–	–	706,921	(706,921)	–
Balance at 30 June 2021 (Unaudited)		74,600,300	838,005,588	–	37,300,150	242,212,403	1,192,118,441

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

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

Company Statement of Changes in Shareholders' Equity

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

	Note	Share capital	Capital surplus	Less: Treasury stock	Surplus reserve	Retained earnings	Total shareholders' equity
Balance at 1 January 2020		75,500,000	834,663,559	(21,721,144)	33,189,321	200,462,672	1,122,094,408
Movements for the six months ended 30 June 2020							
Total comprehensive income							
Net profit		–	–	–	–	21,836,736	21,836,736
Capital contribution and withdrawal by shareholders							
Share-based payment included in shareholders' equity	9	–	3,914,851	(1,590,000)	–	–	2,324,851
Others		–	–	(14,506,364)	–	–	(14,506,364)
Balance at 30 June 2020 (Unaudited)		75,500,000	838,578,410	(37,817,508)	33,189,321	222,299,408	1,131,749,631

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

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

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

1 General information

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

On 15 October 2014, the Company was converted into a joint stock limited liability company and renamed as Wenzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司).

The principal activities of the Company and its subsidiaries (the "Group") include the operation of psychiatric hospitals and provision of a full range of specialised medical services for patients with mental and psychological illnesses in the PRC.

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

The scope of consolidated financial statements and changes are detailed in Note 5 "Changes in the consolidation scope" and Note 6 "Interests in other entities".

The financial statements have been approved for issue by the Company's Board of Directors on 16 September 2021.

2 Summary of significant accounting policies and accounting estimates

(1) Basis of preparation

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

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

The accounting policies adopted in these financial statements are consistent with those adopted in the Group's financial statements for the year ended 31 December 2020. The interim financial statements shall be read together with the financial statements for the year ended 31 December 2020 of the Group.

The financial statements are prepared on a going concern basis.

The new Hong Kong *Companies Ordinance* took effect from 2016 and certain disclosures in the financial statements have been adjusted in accordance with requirements therein.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

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

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

The financial statements of the Company for the six months ended 30 June 2021 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and company financial position of the Company as at 30 June 2021 and their financial performance, cash flows and other information for the six months ended 30 June 2021.

3 Taxation

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

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

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

3 Taxation *(continued)*

(a) On 1 December 2020, Hangzhou Yelimi Information Technology Co., Ltd. ("Hangzhou Yelimi"), a subsidiary of the Group, obtained the *Certificate of High and New Technology Enterprise* (No. GR202033002789) issued by the Science and Technology Department of Zhejiang Province, with a term of validity of 3 years. Under Article 28 of the *Enterprise Income Tax Law of the People's Republic of China*, the enterprise income tax rate applicable to Hangzhou Yelimi for years of 2021 and 2020 is 15%.

In accordance with the *Enterprise Income Tax Law of the People's Republic of China* and its implementing regulations, and *Notice of the Ministry of Finance and the State Taxation Administration on Implementing the Inclusive Tax Deduction and Exemption Policies for Micro and Small Enterprises* (Cai Shui [2019] No. 13), for the six months ended 30 June 2021, the Group's subsidiaries, Yiwu Kangning Hospital Management Co., Ltd. ("Yiwu Kangning Hospital"), Guanxian Yining Hospital Co., Ltd. ("Guanxian Yining Hospital"), Quzhou Yining Hospital Co., Ltd. ("Quzhou Yining Hospital"), Pujiang Yining Huangfeng Hospital Co., Ltd. ("Pujiang Yining Hospital"), Yining Psychology Internet Hospital (Wenzhou) Co., Ltd. ("Yining Psychology Internet Hospital"), and Hangzhou Yining Foster Care Service Co., Ltd. ("Hangzhou Yining Foster Care") were qualified as small low-profit enterprises and subject to the enterprise income tax rate of 20%.

Pursuant to the *Circular on Enterprise Income Tax Policy Concerning Deductions for Equipment and Appliances* (Cai Shui [2018] No. 54) and *Announcement on Extending the Implementation Period of Certain Preferential Tax Policies* (Cai Shui [2021] No. 6) issued by the Ministry of Finance and the State Taxation Administration and relevant regulations, during the period from 1 January 2018 to 31 December 2023, the cost of newly purchased equipment and appliances with the original unit cost less than RMB5 million can be fully deducted against taxable profit, instead of being depreciated annually for tax filing. Fixed assets purchased by the Company and its subsidiaries with the original unit cost less than RMB5 million can be recognised as cost or expense in full, and deducted against taxable profit when calculating the taxable income during tax filling in 2020.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

3 Taxation *(continued)*

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

Pursuant to relevant tax regulations, during the reporting period, the revenue from judicial forensic services provided by the Judicial Forensic Centre, a subsidiary of the Company, shall be subject to VAT at the rate of 3%.

Pursuant to the relevant tax regulations, since 1 May 2016, the rental income of the Company's subsidiary, Wenzhou Guoda Investment Co., Ltd. ("Wenzhou Guoda Investment"), arising from the rental of the properties purchased before 30 April 2016 was subject to the simple VAT calculation method with the rate of 5%, the sales of the properties built before 30 April 2016 was subject to the simple VAT rate of 5%. The advance proceeds from the sales of real estate is subject to the advance tax rate of 3% and should be prepaid.

Pursuant to the *Measures for the Implementation of the Pilot Plan for Levying VAT in Place of Business Tax* under the *Circular on the Overall Promotion of Pilot Program of Levying VAT in Place of Business Tax* (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Taxation Administration, during the reporting period, the revenue from rendering of management and consultation services provided by the Company and its subsidiaries was subject to VAT at the rate of 6% or 3%.

Pursuant to the *Announcement on Relevant Policies for Deepening Value-Added Tax Reform* ([2019] No. 39) issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs and relevant regulations, since 1 April 2019, the sales of drugs, medical apparatus and instrument by the Company's subsidiaries Wenzhou Yining Pharmacy Co., Ltd. ("Wenzhou Yining Pharmacy") and Zhejiang Dening Medical Co., Ltd. ("Zhejiang Dening Medical") are subject to VAT at the rate of 13% which is adjusted from the original rate of 16%.

Pursuant to the *Announcement on the Value-Added Tax Policies on Supporting the Resumption of Work and Business of Individual Industrial and Commercial Households* (Announcement [2020] No. 13) and the *Announcement on Extending the Applicable Period of the Policies for Reduction and Exemption of Value-added Tax on Small-scale Taxpayers* (Announcement [2020] No. 24) jointly issued by MOF and STA, taxable sales revenue of small-scale taxpayers in other provinces, autonomous regions and municipalities directly under the central government excluding Hubei Province subject to VAT at the rate of 3% before shall be subject to VAT at the preferential rate of 1%. Revenue from rendering of management consulting services of the Company and its subsidiaries was subject to VAT at the preferential rate of 1% from 1 March 2020 to 31 December 2021.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

3 Taxation *(continued)*

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

(d) Pursuant to Article 7 of the Decision of the State Council on Amending the 'Interim Regulations of the People's Republic of China on City and Town Land Use Tax' (Order of the State Council No. 483) and the Notice of the Ministry of Finance and the State Taxation Administration on Taxation Policies Concerning Medical and Health Institutions (Cai Shui [2000] No. 42), the Company and its subsidiaries, Cangnan Kangning Hospital, Qingtian Kangning Hospital and Yongjia Kangning Hospital, enjoyed 100% exemption on urban land use tax for the year of 2021.

4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Cash on hand	275,366	374,287
Cash at bank	269,332,555	199,718,378
Other cash balances	27,362,636	6,406,899
	296,970,557	206,499,564

As at 30 June 2021, term deposits over three months in the cash at bank amounted to RMB14,000,000 (31 December 2020: Nil). Such term deposits were restricted cash with a term from 15 April 2020 to 15 April

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(2) Accounts receivable

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Due from related parties (Note 8(5)(a))	**6,689,035**	7,250,000
Due from third parties	**410,399,543**	348,065,571
Sub-total	**417,088,578**	355,315,571
Less: Provision for bad debts	**(44,171,106)**	(33,907,606)
	372,917,472	321,407,965

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

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

	30 June 2021 (Unaudited)	31 December 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	**6,736,630**	128,832
	417,088,578	355,315,571

(b) Provision for bad debts

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

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(2) Accounts receivable *(continued)*

(b) Provision for bad debts (continued)

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

	30 June 2021 (unaudited)		31 December 2020 (audited)	
	Book value	Provision for bad debts	Book value	Provision for bad debts

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(3) Other receivables

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Loans to third parties (i)	–	11,623,500
Prepayments	1,155,451	11,131,467
Due from related parties (Note 8(5)(a))	38,500,000	26,113,638
Deposits and guarantees	13,134,269	8,682,306
Others	7,188,936	10,698,415
	59,978,656	68,249,326
Less: Provision for bad debts	(2,471,799)	(4,813,513)
	57,506,857	63,435,813

(i) As at 30 June 2021, the amounts that the Group lent to the Pujiang Hospital (hospital managed by the Group) were RMB11,623,500, of which RMB6,143,513 was exempted as the consideration for the acquisition of the business of Pujiang Hospital (Note 4(10)).

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(3) Other receivables *(continued)*

Provision for losses and changes in book value

	Stage 1		Stage 3		
	12-month ECL (on the grouping basis)		Lifetime ECL (credit-impaired)		Total
	Book value	Provision for bad debts	Book value	Provision for bad debts	Provision for bad debts
31 December 2020 (Audited)	66,093,211	3,115,055	2,156,115	1,698,458	4,813,513
Increase in the current period	28,531,961	990,057	–	–	990,057
Write-off in the current period	(179,759)	(179,759)	(1,698,458)	(1,698,458)	(1,878,217)
Reversal/recovery in the current period	(34,466,757)	(1,453,554)	(457,657)	–	(1,453,554)
30 June 2021 (Unaudited)	**59,978,656**	**2,471,799**	**–**	**–**	**2,471,799**

(i) As at 30 June 2021, for other receivables at Stage 1, the related provision for bad debts was analysed below:

	Book value	12-month ECL rate	Provision for bad debts
Provided on the grouping basis:			
Prepayments	1,155,451	7%	80,881
Due from related parties	38,500,000	5%	1,925,000
Deposits and guarantees	13,134,269	3%	394,029
Others	7,188,936	1%	71,889
	59,978,656		2,471,799

(ii) As at 30 June 2021, the Group did not have any other receivables at Stage 2.

(iii) As at 30 June 2021, the Group did not have any other receivables at Stage 3.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(4) Long-term equity investments

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Associates	**122,971,948**	93,726,511
Less: Provision for impairment of long-term equity investments	**–**	–
	122,971,948	93,726,511

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

Associates

	31 December 2020 (Audited)	Increase in investment	Share of net profit/(loss) under equity method	30 June 2021 (Unaudited)
Hangzhou Anken Information Technology Co., Ltd. ("Hangzhou Anken Information Technology")	12,555,177	–	(1,629,854)	**10,925,323**
Chongqing Hechuan Kangning Hospital Co., Ltd. ("Hechuan Kangning")	17,758,287	–	543,272	**18,301,559**
Shaanxi Shanda Hospital Management Co., Ltd. ("Shaanxi Shanda")	25,574,989	–	609,035	**26,184,024**
Chengdu Yining Hospital Co., Ltd. ("Chengdu Yining")	13,152,284	–	(468,088)	**12,684,196**
Wenzhou Longwan Yining Hospital Co., Ltd.	22,500,000	27,000,000	–	**49,500,000**
Jinyun Shuning Hospital Co., Ltd. ("Jinyun Shuning Hospital")	2,185,774	3,000,000	191,072	**5,376,846**
	93,726,511	30,000,000	(754,563)	**122,971,948**

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(6) Fixed assets

	Buildings	Medical equipment	Motor vehicles	Electronic equipment and other equipment	Total
Cost					
31 December 2020 (audited)	521,775,799	113,024,169	5,290,548	52,990,199	693,080,715
Increase in the current period					
Business combinations involving enterprises not under common control (Note 5(1)(c))	–	–	–	860,163	860,163
Purchase	–	6,030,423	198,346	5,523,026	11,751,795
Transfer from investment properties (Note 4(5))	26,300,700	–	–	–	26,300,700
Transfer from construction in progress (Note 4(7))	145,170,509	–	–	–	145,170,509
Decrease in the current period					
Disposal and retirement	–	(1,516,504)	–	(517,261)	(2,033,765)
Disposal of subsidiaries	(28,075,383)	–	–	(265,141)	(28,340,524)
30 June 2021 (unaudited)	**665,171,625**	**117,538,088**	**5,488,894**	**58,590,986**	**846,789,593**
Accumulated depreciation					
31 December 2020 (audited)	59,274,559	63,206,184	1,403,702	35,452,886	159,337,331
Increase in the current period					
Provision	7,965,008	9,575,472	460,809	4,235,511	22,236,800
Decrease in the current period					
Disposal and retirement	–	(1,079,832)	–	(467,234)	(1,547,066)
Disposal of subsidiaries	(2,709,719)	–	–	(251,884)	(2,961,603)
30 June 2021 (unaudited)	**64,529,848**	**71,701,824**	**1,864,511**	**38,969,279**	**177,065,462**
Carrying amount					
30 June 2021 (unaudited)	**600,641,777**	**45,836,264**	**3,624,383**	**19,621,707**	**669,724,131**
31 December 2020 (audited)	462,501,240	49,817,985	3,886,846	17,537,313	533,743,384

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(6) Fixed assets *(continued)*

(i) On 1 June 2021, the Company acquired investment properties from Wenzhou Guoda Investment, a subsidiary of the Group, mainly for use in research and development projects sites, and for self-use in office. The lease agreement on investment properties was terminated. Therefore, the fair value of investment properties of RMB26,300,700 was transferred to the carrying amount of fixed assets.

For the six months ended 30 June 2021, the depreciation of fixed assets amounted to RMB22,236,800 (for the six months ended 30 June 2020: RMB21,667,516), of which the amounts charged to cost of sales, general and administrative expenses, research and development expenses and selling and distribution expenses were RMB18,082,890, RMB3,814,762, RMB263,718 and RMB75,430 (for the six months ended 30 June 2020: RMB18,248,544, RMB3,199,936, RMB151,988 and RMB67,048) respectively.

As at 30 June 2021, the Group had no fixed assets pledged.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(7) Construction in progress

(i) Movements of construction in progress

	31 December 2020 (Audited)	Increase in the current period	Transfer to long-term prepaid expenses in the current period (Note 4(11))	Transfer to fixed assets in the current period (Note 4(6))	30 June 2021 (Unaudited)	Accumulative amount of capitalised borrowing costs	Including: Borrowing costs capitalised in the current period	Capitalisation rate
The expansion and renovation project of Cangnan Kangning Hospital	4,935,713	2,014,328	–	–	6,950,041	–	–	–
The decoration project of Wenzhou Kangning Hospital	3,030,566	4,781,375	(7,811,941)	–	–	–	–	–
The decoration project of Huainan Kangning Hospital	3,542,619	575,510	(4,118,129)	–	–	–	–	–
Main body and decoration project of Qingtian Kangning Hospital	61,342,801	9,953,764	–	(71,296,565)	–	3,671,562	964,234	4.40%
Main body and decoration project of Yongjia Kangning Hospital	60,278,867	13,595,077	–	(73,873,944)	–	3,383,686	726,137	4.40%
Main body and decoration project of Lucheng Yining Hospital	391,631	3,025,958	–	–	3,417,589	–	–	–
The decoration project of Wenzhou Ouhai Yining Rehabilitation Hospital	–	1,424,852	–	–	1,424,852	–	–	–
Others	1,419,089	5,924,049	(6,526,405)	–	816,733	–	–	–
	134,941,286	41,294,913	(18,456,475)	(145,170,509)	12,609,215	7,055,248	1,690,371	

As at 30 June 2021 and 31 December 2020, management of the Group considered that there did not exist the objective evidence that indicated the construction in progress was impaired and no provision for impairment was required.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(8) Right-of-use assets

	Buildings
Cost	
31 December 2020 (Audited)	290,544,319
Increase in the current period	
New lease contracts	69,472,564
30 June 2021 (Unaudited)	**360,016,883**
Accumulated depreciation	
31 December 2020 (Audited)	62,976,040
Provision	20,546,370
30 June 2021 (Unaudited)	**83,522,410**
Carrying amount	
30 June 2021 (Unaudited)	**276,494,473**
31 December 2020 (Audited)	227,568,279

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(9) Intangible assets

	Land use rights	Software	Contractual right to provide management services	Licences	Trademark rights	Favourable contracts	Total
Cost							
31 December 2020 (Audited)	64,166,940	10,828,626	36,973,869	82,837,000	2,829,386	–	197,635,821
Increase in the current period							
Purchase	26,110,500	371,679	–	–	200,000	–	26,682,179
Business combinations involving enterprises not under common control (Note 5(1)(c))	–	–	–	–	–	2,400,000	2,400,000
Decrease in the current period (i)	–	–	(6,973,869)	–	–	–	(6,973,869)
30 June 2021 (Unaudited)	**90,277,440**	**11,200,305**	**30,000,000**	**82,837,000**	**3,029,386**	**2,400,000**	**219,744,131**
Accumulated amortisation							
31 December 2020 (Audited)	6,173,771	6,828,639	6,650,848	15,396,628	49,207	–	35,099,093
Increase in the current period							
Provision in the current period	964,792	830,521	759,783	5,404,538	147,620	114,286	8,221,540
Decrease in the current period (i)	–	–	(1,09 1Qq 1 0 0 1 457,067		53 333.8504 cm0 0 m45.354 0cre33.8504 cm0 0 m45.354 04c		

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(9) Intangible assets *(continued)*

(i) The Group entered into an entrusted management service agreement with Pujiang Hospital in March 2016. The entrusted management service period is from March 2015 to February 2046. During the agreement period, the Group provides management services to Pujiang Hospital and charges management service fees. According to the agreement, the Group recognises the contractual rights to provide management services as intangible assets. On 15 January 2021, the Group's newly established subsidiary, Pujiang Yining Hospital, obtained control over the businesses of Pujiang Hospital and the Group terminated the original entrusted management service agreement. The Group regarded the above transaction as a business combination, thus it derecognised the contractual rights of management service provision of RMB5,938,238, exempted the borrowings receivable from Pujiang Hospital of RMB6,143,513, and paid the cash consideration of RMB5,489, totalling RMB12,087,240. The difference of RMB12,081,751 between above three items and the fair value of identifiable net assets of the hospital was recognised in goodwill (Note 4(10)).

For the six months ended 30 June 2021, the amortisation of intangible assets amounted to RMB8,221,540 (for the six months ended 30 June 2020: RMB6,179,251), of which the amounts of amortisation expenses charged to cost of sales and general and administrative expenses were RMB6,577,066 and RMB1,644,474 (for the six months ended 30 June 2020: RMB5,223,160 and RMB956,091) respectively.

As at 30 June 2021 and 31 December 2020, the Group had no intangible assets pledged.

As at 30 June 2021 and 31 December 2020, management of the Group assessed that no impairment loss should be recognised for intangible assets.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(10) Goodwill

	31 December 2020 (Audited)	Increase in the current period (Note 5)	Decrease in the current period	30 June 2021 (Unaudited)
Goodwill -				
Wenzhou Guoda Investment	8,533,389	–	(8,533,389)	–
Wenling Nanfang Hospital	7,784,850	–	–	7,784,850
Nanjing Yining Hospital	9,271,800	–	–	9,271,800
Beijing Yining Hospital	22,987,331	–	–	22,987,331
Huainan Kangning Hospital	5,068,960	–	–	5,068,960
Changchun Kanglin Hospital	6,843,289	–	–	6,843,289
Wenzhou Cining Hospital	11,822,030	–	–	11,822,030
Chun'an Kangning Hospital	13,448,538	–	–	13,448,538
Pujiang Yining Hospital	–	12,081,751	–	12,081,751
Others	2,390,403	1,272,643	–	3,663,046
Sub-total	88,150,590	13,354,394	(8,533,389)	92,971,595
Less: Provision for impairment				
Wenzhou Guoda Investment	(8,533,389)	–	8,533,389	–
Beijing Yining Hospital	(8,011,603)	–	–	(8,011,603)
Sub-total	(16,544,992)	–	8,533,389	(8,011,603)
	71,605,598	13,354,394	–	84,959,992

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(10) Goodwill *(continued)*

All goodwill of the Group has been allocated to the related asset groups or groups of asset groups on the day of purchase, which is summarised by operating segments as follows:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Healthcare service segment		
Nanjing Yining Hospital	**9,271,800**	9,271,800
Wenling Nanfang Hospital	**7,784,850**	7,784,850
Beijing Yining Hospital	**22,987,331**	22,987,331
Huainan Kangning Hospital	**5,068,960**	5,068,960
Changchun Kanglin Hospital	**6,843,289**	6,843,289
Wenzhou Cining Hospital	**11,822,030**	11,822,030
Chun'an Kangning Hospital	**13,448,538**	13,448,538
Pujiang Yining Hospital	**12,081,751**	–
Others	**3,663,046**	2,390,403
	92,971,595	79,617,201

In conducting the impairment test of goodwill, the Group compares the carrying amount of the related asset groups or groups of asset groups (including goodwill) with the recoverable amount. If the recoverable amount is lower than the carrying amount, the difference shall be recognised in profit or loss for the current year. The Group's goodwill allocation remained unchanged as at 30 June 2021.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(11) Long-term prepaid expenses

	31 December 2020 (Audited)	Business combinations involving enterprises not under common control (Note 5(1)(c))	Increase in the current period – Transfer from construction in progress (Note 4(7))	Amortisation in the current period	**30 June 2021 (Unaudited)**
Leasehold improvements	153,212,840	447,463	18,456,475	(19,009,845)	**153,106,933**
Others	338,000	–	–	(39,600)	**298,400**
	153,550,840	447,463	18,456,475	(19,049,445)	**153,405,333**

(12) Other non-current assets

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Prepayments for fixed assets and projects	**5,162,739**	4,708,451
Term deposits	**–**	14,000,000
Prepayments for equity investments (i)	**23,436,000**	–
	28,598,739	18,708,451

(i) As at 30 June 2021, the amount included the Group's prepayments for investments of RMB16,500,000 for acquisition of 100% equity in Pingyang Heci Hospital Co., Ltd. (renamed as Pingyang Changgeng Yining Hospital Co., Ltd. ("Pingyang Changgeng Hospital") in July 2021) and prepayments of RMB6,936,000 for acquisition of 10% non-controlling equity in Zhejiang Huangfeng Co., Ltd., a subsidiary of the Group.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(13) Provision for asset impairment

	31 December 2020 (Audited)	Increase in the current period	Decrease in the current period		**30 June 2021 (Unaudited)**
			Recovery	Write-off	
Provision for bad debts of accounts receivable	33,907,606	15,186,004	(2,753,572)	(2,168,932)	**44,171,106**
Provision for bad debts of other receivables	4,813,513	990,057	(1,453,554)	(1,878,217)	**2,471,799**
Provision for goodwill impairment	16,544,992	–	–	(8,533,389)	**8,011,603**
	55,266,111	16,176,061	(4,207,126)	(12,580,538)	**54,654,508**

(14) Short-term borrowings

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Guaranteed borrowings (Note 8(4)(g)) (i)	**313,000,000**	312,500,000

(i) As at 30 June 2021, the guaranteed borrowing amounting to RMB210,000,000 (31 December 2020: RMB280,000,000) was guaranteed by Guan Weili, Wang Lianyue and Wang Hongyue, the shareholders of the Company (Note 8(4)(g)).

As at 30 June 2021, the guaranteed borrowing amounting to RMB100,000,000 (31 December 2020: Nil) was guaranteed by Guan Weili, Wang Lianyue, Wang Hongyue and Xu Yi, the shareholders of the Company (Note 8(4)(g)).

As at 30 June 2021, the guaranteed borrowing amounting to RMB3,000,000 (31 December 2020: RMB2,500,000) was guaranteed by the Company and its shareholders Guan Weili and Wang Lianyue (Note 8(4)(g)).

As at 30 June 2021, the interest rate of short-term borrowings was 4.05%-4.95% annually (31 December 2020: 4.05%-5.22%).

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(15) Accounts payable

Accounts payable are analysed by nature as follows:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Payables for medicines	46,897,129	44,078,027
Payables for purchase of materials	22,115,102	25,495,900
	69,012,231	69,573,927

(16) Current portion of non-current liabilities

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Current portion of long-term borrowings (Note 4(17))	19,200,000	3,000,000
Current portion of lease liabilities (Note 4(18))	45,062,900	32,540,617
	64,262,900	35,540,617

(17) Long-term borrowings

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Guaranteed borrowings (i)	221,600,000	95,992,970
Pledged borrowings (ii)	30,000,000	18,000,000
Less: Current portion of long-term borrowings (Note 4(16))		
Guaranteed borrowings	(19,200,000)	(3,000,000)
	232,400,000	110,992,970

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(17) Long-term borrowings *(continued)*

(i) As at 30 June 2021, the guaranteed borrowing amounting to RMB20,000,000 (31 December 2020: Nil) was guaranteed by Guan Weili, Wang Lianyue and Wang Hongyue, the shareholders of the Company, and Xu Yi, a related shareholder (Note 8(4)(g)). The loan term was from 11 June 2021 to 11 June 2024, and the principal will be repaid starting from 2021.

As at 30 June 2021, the guaranteed borrowing amounting to RMB80,000,000 (31 December 2020: Nil) was guaranteed by Guan Weili, Wang Lianyue and Wang Hongyue, the shareholders of the Company, and Xu Yi, a related shareholder (Note 8(4)(g)). The loan term was from 26 February 2021 to 26 February 2024, and the principal will be repaid starting from 2021.

As at 30 June 2021, the guaranteed borrowing amounting to RMB51,600,000 (31 December 2020: RMB45,000,000) was guaranteed by the Company, Guan Weili, Wang Lianyue and Wang Hongyue, the shareholders of the Company, and Xu Yi, a related shareholder (Note 8(4)(g)). The loan term was from 20 August 2019 to 20 August 2029, and the principal will be repaid starting from 2021.

As at 30 June 2021, the guaranteed borrowing amounting to RMB20,000,000 (31 December 2020: RMB20,000,000) was guaranteed by the Company and its shareholders Guan Weili, Wang Lianyue and Wang Hongyue (Note 8(4)(g)). The loan term was from 16 April 2020 to 15 April 2023.

As at 30 June 2021, the guaranteed borrowing amounting to RMB50,000,000 (31 December 2020: RMB30,000,000) was guaranteed by the Company, its shareholders Guan Weili, Wang Hongyue and Wang Lianyue, and Xu Yi, a related shareholder (Note 8(4)(g)). The loan term was from 31 December 2019 to 31 December 2024, and the principal will be repaid starting from 2022.

(ii) As at 30 June 2021, the pledged borrowing amounting to RMB30,000,000 (31 December 2020: RMB18,000,000) was pledged by 100% equity of Wenzhou Cining Hospital with a total value of RMB30,000,000 (Note 8(4)(g)). The loan term was from 30 June 2020 to 20 June 2027, and the principal will be repaid starting from 2022.

As at 30 June 2021, the weighted average interest rate for long-term borrowings varied from 4.35% to 5.70% (31 December 2020: 4.35% to 7.20%).

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(18) Lease liabilities

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Lease liabilities	272,273,176	222,341,901
Less: Current portion of lease liabilities (Note 4(16))	(45,062,900)	(32,540,617)
	227,210,276	189,801,284

As at 30 June 2021, the Group had no items that were not included in lease liabilities but would lead to potential cash outflows in the future.

As at 30 June 2021, the Group had no lease payments of lease contracts that had been signed but had not yet been performed.

(19) Share capital

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Share capital	74,600,300	74,600,300

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(20) Capital surplus

	31 December 2020 (Audited)	Increase in the current period	Decrease in the current period	30 June 2021 (Unaudited)
Share premium (i)	749,889,082	2,445,056	–	**752,334,138**
Other capital surplus				
– Share-based payment (Note 9)	16,710,203	5,512,658	–	**22,222,861**
– Others (ii)	37,967,244	1,531,268	–	**39,498,512**
	804,566,529	9,488,982	–	**814,055,511**

(i) For the six months ended 30 June 2021, the reason for the increase in the share premium of capital surplus is that RMB2,445,056 contributed by employees was included in the capital surplus – share premium under the restricted share incentive plan II.

(ii) For the six months ended 30 June 2021, the reason for the increase in other capital surplus is that, the amount of tax deduction in the future estimated by the Company's equity incentive plan based on the fair value of the equity at the end of the period exceeded the costs and expenses recognised over the vesting period, and the deferred tax assets of RMB1,531,268 recognised for the excess were included in other capital surplus.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(21) Retained earnings

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Retained earnings at the beginning of the period	319,396,941	252,800,715
Add: Net profit attributable to shareholders of the parent company for the current period	42,913,178	36,409,947
Less: Appropriation to statutory surplus reserve	(706,921)	–
Retained earnings at the end of the period	361,603,198	289,210,662

(i) Pursuant to the resolution of the shareholders' meeting dated 18 June 2021, the Company did not declare cash dividends of 2020.

(22) Revenue and cost of sales

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

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(22) Revenue and cost of sales *(continued)*

(a) Revenue and cost of sales from main businesses

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

(b) Revenue and cost of sales from other businesses

	For the six months ended 30 June 2021 (Unaudited)		For the six months ended 30 June 2020 (Unaudited)	
	Revenue	Cost	Revenue	Cost
Property sales	16,043,548	15,204,373	3,870,905	3,727,800
Management service	1,485,149	750,000	11,263,399	3,529,618
Rental income	3,325,241	679,909	3,277,376	–
Revenue from wholesale and retail of pharmaceuticals and medical devices	16,289,271	13,031,017	5,814,571	5,317,089
Revenue from foster care	1,102,453	386,896	–	–
Others	8,146,399	6,450,481	2,038,453	827,202
	46,392,061	36,502,676	26,264,704	13,401,709

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(23) Expenses by nature

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

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Employee benefits (i)	**198,127,840**	149,480,704
Pharmaceutical and turnover materials consumed	**166,444,558**	116,661,313
Property sale cost	**15,204,373**	3,727,800
Depreciation of fixed assets	**22,236,800**	21,667,516
Depreciation of right-of-use assets	**20,546,370**	15,427,246
Amortisation of intangible assets	**8,221,540**	6,179,251
Amortisation of long-term prepaid expenses	**19,049,445**	16,750,732
Housing lease and property management expenses	**2,462,785**	2,313,594
Canteen expenditure	**26,360,750**	19,946,526
Utilities	**9,999,144**	8,289,961
Outsourcing expenses	**11,263,015**	6,887,683
Testing fee	**13,396,417**	11,646,744
Consulting expenses	**3,385,834**	2,844,300
Promotion expenses	**1,775,096**	1,478,600
Travelling expenses	**1,962,301**	1,827,856
Office expenses	**2,910,015**	2,709,492
Share-based payment (Note 9)	**5,512,658**	2,324,851
Others	**14,929,973**	7,674,164
	543,788,914	397,838,333

(i) The retirement benefits provided by the Group to its employees only include defined contribution plans. The defined contribution plans of the Group mainly consist of basic pension insurance and unemployment insurance paid for employees under social welfare plans operated by the government, and pension insurance plans purchased from pension insurance companies. The Group should make contributions to the pension insurance scheme according to a certain percentage of the employees' basic salary for the previous year. Employees are required to return part of their entitlements to the corporate public account (the "Forfeited Contributions") if they withdraw from the pension insurance scheme before they receive relevant contributions. The Forfeited Contributions cannot be used to reduce existing contributions.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(24) Financial expenses – net

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Borrowing interest expense	13,365,696	10,775,637
Less: Capitalised interest (Note 4(7))	(1,690,371)	(1,609,921)
Add: Interest expenses on lease liabilities	6,557,708	4,920,913
Interest expenses	18,233,033	14,086,629
Less: Interest income	(1,684,441)	(2,454,371)
Exchange losses/(gains)	22,532	(125,084)
Others	547,770	339,022
	17,118,894	11,846,196

(25) Investment (income)/losses

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Share of net profit or loss of investees under the equity method (Note 4(4))	754,563	1,019,927
Investment income from disposal of long-term equity investments	(6,118,991)	–
Interest from structured deposit	–	(96,370)
	(5,364,428)	923,557

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(26) Gains on changes in fair value

	For the six months ended 30 June 2021	For the six months ended 30 June 2020
Investment properties measured at fair value (Note 4(5))	2,133,061	–
Reversal of gains or losses from accumulated changes in fair value on disposal of investment properties	(1,123,027)	–
Financial assets at fair value through profit or loss – investment fund	344,936	–
	1,354,970	–

(27) Credit impairment losses

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Losses on bad debts of accounts receivable	12,432,432	15,548,219
(Reversal of)/Losses on bad debts of other receivables	(463,497)	564,431
Total	11,968,935	16,112,650

(28) Non-operating income

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Government grants	296,728	30,000
Sponsorship fee	153,521	–
Others	154,721	534,961
	604,970	564,961

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(29) Non-operating expenses

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Donation to charities	972,642	2,626,606
Medical liability compensation	1,087,225	157,912
Others	651,653	250,546
	2,711,520	3,035,064

(30) Income tax expenses

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

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(30) Income tax expenses *(continued)*

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

(31) Earnings per share

(a) Basic earnings per share

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

(i) As stated in Note 9, following the approval by the shareholders at the general meeting on 13 June 2018, the Company issued 2,460,000 ordinary shares for a share incentive plan, and these stocks were regarded as treasury stocks. In June 2021, as the Company cancelled the repurchase obligation for the incentive stocks not unlocked and the above stocks were no longer regarded as treasury stocks, the basic earnings per share for the six months ended 30 June 2021 were calculated based the number of ordinary shares issued by the Company only deducting 2,378,000 weighted average restricted shares.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(31) Earnings per share *(continued)*

(b) Diluted earnings per share

Diluted earnings per share were calculated by the consolidated net profit attributable to the ordinary shareholders of the parent company adjusted by the dilutive potential ordinary shares divided by the adjusted weighted average number of outstanding ordinary shares. For the six months ended 30 June 2021, the consolidated net profit attributable to the ordinary shareholders of the parent company adjusted by 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 amounted to RMB0.59. For the six months ended 30 June 2020, the consolidated net profit attributable to the ordinary shareholders of the parent company adjusted by the dilutive 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 amounted to RMB0.50.

(32) Supplementary information to the cash flow statements

(a) Supplementary information to the cash flow statements

Reconciliation from net profit to cash flows from operating activities

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Net profit	**41,143,150**	28,901,235
Credit impairment losses	**11,968,935**	16,112,650
Depreciation of fixed assets	**22,236,800**	21,667,516
Depreciation of right-of-use assets	**20,546,370**	15,427,246
Amortisation of intangible assets	**8,221,540**	6,179,251
Amortisation of long-term prepaid expenses	**19,049,445**	16,750,732
Gains on disposal of fixed assets, intangible assets and other long-term assets	**(352,476)**	(143,105)
Gains on changes in fair value	**(1,354,970)**	
Financial expenses	**17,333,743**	13,969,886
Investment (income)/losses	**(5,364,428)**	923,557
Share-based payment expenses	**5,512,658**	2,324,851
Decrease in deferred income	**(151,896)**	(151,896)
Decrease/(Increase) in deferred tax assets	**3,119,715**	(9,711,564)
Decrease in deferred tax liabilities	**(8,403,912)**	(3,564,522)
Increase in inventories	**(4,142,843)**	(9,447,276)
Increase in operating receivables	**(77,144,226)**	(63,233,008)
Decrease in operating payables	**(14,901,884)**	(18,206,806)
Net cash flows from operating activities	**37,315,721**	17,798,747

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(32) Supplementary information to the cash flow statements *(continued)*

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

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

For the six months ended 30 June 2021, significant non-cash transactions in relation to investing and financing activities are listed as follows:

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Right-of-use assets increased in the current period (Note 4(8))	69,472,564	33,480,658

Net movement in cash

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Cash balance at the end of the period	269,607,921	201,376,292
Less: Cash balance at the beginning of the period	(200,092,665)	(164,951,950)
Net increase in cash	69,515,256	36,424,342

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements *(continued)*

(32) Supplementary information to the cash flow statements *(continued)*

`(b) Acquisition of subsidiaries

For the six

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

5 Changes in the consolidation scope

Zhejiang Kangning (a subsidiary of the Group) set up a wholly-owned subsidiary Hangzhou Yining Foster Care on 14 December 2020 and entered into a business transfer agreement with Hangzhou Yuhang Foster Care on 5 January 2021. A total of RMB3,344,494 was paid for the business transfer.

The Group set up Wenzhou Ouhai Yining Rehabilitation Hospital Co., Ltd. ("Wenzhou Ouhai Yining") jointly with Wenzhou Green City Yiju Healthcare Service Co., Ltd. on 8 March 2021, with a registered capital of RMB10 million. The Group contributed RMB6.5 million, holding 65% of the shares of Wenzhou Ouhai Yining.

Cangnan Kangning Hospital (a subsidiary of the Group) set up a wholly-owned subsidiary Cangnan Yining Nursing Centre Co., Ltd. on 9 March 2021, with a registered capital of RMB10 million.

Zhejiang Kangning (a subsidiary of the Group) set up a wholly-owned subsidiary Hangzhou Yining Medical Equipment R&D Co., Ltd. on 1 April 2021, with a registered capital of RMB5 million.

Zhejiang Kangning (a subsidiary of the Group) set up a wholly-owned subsidiary Chun'an Qiandao Lake Kangning Hospital Co., Ltd. on 18 May 2021, with a registered capital of RMB10 million.

Zhejiang Kangning (a subsidiary of the Group) disposed of 75% of equity in Wenzhou Guoda Investment on 25 June 2021, resulting in a gain of RMB6,118,991 (Note 5(2)(a)).

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

5 Changes in the consolidation scope *(continued)*

(1) Business combinations involving enterprises not under common control

(a) Business combinations involving enterprises not under common control in the current period

Acquiree	Date of acquisition	Purchase consideration	% of equity interest	Date of purchase	Basis for determination of date of purchase	Revenue of the acquiree from the date of purchase to the end of the period	Net profit of the acquiree from the date of purchase to the end of the period	Cash flows from operating activities of the acquiree from the date of purchase to the end of the period	Net cash flows of the acquiree from the date of purchase to the end of the period
Business of Pujiang Hospital	15 January 2021	12,087,240	100%	15 January 2021	Transaction was completed	9,238,643	853,694	4,863,459	850,231
Hangzhou Yuhang Foster Care	5 January 2021	3,344,494	100%	5 January 2021	Transaction was completed	1,399,483	454,113	(295,145)	704,795

(b) Combination cost and goodwill are analysed as follows:

	Business of Pujiang Hospital	Hangzhou Yining Foster Care
Combination cost -		
Cash	5,489	271,851
Fair value of non-cash assets transferred	12,081,751	3,072,643
Total combination cost	12,087,240	3,344,494
Less: Share of fair value of the identifiable net assets acquired	(5,489)	(2,071,851)
Goodwill	12,081,751	1,272,643

The Group determined the fair value of the transferred non-cash assets and liabilities by using valuation techniques.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

5 Changes in the consolidation scope *(continued)*

(1) Business combinations involving enterprises not under common control *(continued)*

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

5 Changes in the consolidation scope *(continued)*

(1) Business combinations involving enterprises not under common control *(continued)*

(c) The assets and liabilities of the acquiree at the date of purchase are listed as below: (continued)

(ii) Hangzhou Yining Foster Care

	Fair value at the date of purchase	Carrying amount at the date of purchase	Carrying amount as at 31 December 2020
Cash at bank and on hand	–	–	410,364
Receivables	–	–	84,714
Inventories	–	–	8,824
Advances to suppliers	–	–	28,500
Other receivables	–	–	6,667
Fixed assets	271,851	271,851	271,851
Long-term prepaid expenses	–	–	858,392
Intangible assets	2,400,000	–	–
Other payables	–	–	(3,602,107)
Accounts payable	–	–	(1,679)
Contract liabilities	–	–	(81,000)
Employee benefits payable	–	–	(82,831)
Other liabilities	–	–	(1,248)
Deferred tax liabilities	(600,000)	–	–
Net assets	2,071,851	271,851	(2,099,553)
Less: Non-controlling interests	–	–	–
Net assets obtained	2,071,851	271,851	(2,099,553)

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

5 Changes in the consolidation scope *(continued)*

(2) Disposal of subsidiaries

(a) Information on disposal of subsidiaries in the current year is summarised as follows:

Name of subsidiaries	Disposal payment	Disposal percentage	Disposal method	Timing of losing control	Basis for determining the timing of losing control	Difference between proceeds from disposal and corresponding shares of net assets in the consolidated financial statements	Amount transferred to investment income or losses from other comprehensive income related to initial equity investment in the subsidiary
Wenzhou Guoda Investment	55,000,000	75%	Sales of equity	25 June 2021	Completion of delivery	6,118,991	–

On 24 June 2021, Zhejiang Kangning, a subsidiary of the Group, and the actual controller Guan Weili signed an equity transfer agreement, stipulating that Zhejiang Kangning transfers its 75% equity of Wenzhou Guoda Investment to Guan Weili at a consideration of RMB55,000,000, among which, 30% of the equity transfer payment of RMB16,500,000 had been paid before 30 June 2021, and the remaining 70% of the equity transfer payment of RMB38,500,000 had been recovered in [August] 2021. Wenzhou Guoda Investment completed the change of investor's industrial and commercial registration and the delivery of shareholder rights on 25 June 2021. The Group recognised the investment income of RMB6,118,991 from the equity disposal, which reduced the minority shareholders' equity by RMB15,959,186.

(b) Information on disposal gains or losses is summarised as follows:

(i) Wenzhou Guoda Investment

Disposal gains or losses are calculated as follows:

	Amount
Disposal price	55,000,000
Less: Share of net assets of Wenzhou Guoda Investment in the consolidated financial statements	(48,881,009)
Investment income from disposal	6,118,991

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities

(1) Interests in subsidiaries

(a) Structure of the Group

Name of the subsidiaries/units	Type of entity	Major business location	Place of registration	Nature of business	Shareholding (%)		Method of acquisition
					Direct	Indirect	
Qingtian Kangning Hospital	LLC	Qingtian	Qingtian	Medical service	100.00%	–	Incorporation
Cangnan Kangning Hospital	LLC	Cangnan	Cangnan	Medical service	100.00%	–	Incorporation
Yongjia Kangning Hospital	LLC	Yongjia	Yongjia	Medical service	100.00%	–	Incorporation
Yueqing Kangning Hospital	LLC	Yueqing	Yueqing	Medical service	100.00%	–	Incorporation
Linhai Kangning Hospital	Other LLC	Linhai	Linhai	Medical service	80.00%	–	Incorporation
Zhejiang Huangfeng Co., Ltd.	LLC	Hangzhou	Hangzhou	Hospital Management	66.00%	–	Asset acquisition
Judicial Forensic Centre	-	Wenzhou	Wenzhou	Forensic authentication	100.00%	–	Incorporation
Shenzhen Yining Investment	LLC	Shenzhen	Shenzhen	Investment	100.00%	–	Incorporation
Shenzhen Yining Hospital	LLC	Shenzhen	Shenzhen	Medical service	–	55.00%	Incorporation
Zhejiang Kangning	LLC	Ningbo	Ningbo	Hospital Management	100.00%	–	Incorporation
Hangzhou Yining Hospital	LLC	Hangzhou	Hangzhou	Medical service	–	60.00%	Incorporation
Quzhou Yining Hospital	LLC	Quzhou	Quzhou	Medical service	–	60.00%	Incorporation
Wenzhou Yining Geriatric Hospital	LLC	Wenzhou	Wenzhou	Medical service	–	100.00%	Incorporation
Pingyang Kangning Hospital	LLC	Pingyang	Pingyang	Medical service	–	100.00%	Incorporation
Taizhou Kangning Hospital	LLC	Taizhou	Taizhou	Medical service	–	51.00%	Incorporation
Wenzhou Guoda Investment (i)	LLC	Wenzhou	Wenzhou	Properties	–	Not applicable	Asset acquisition
Luqiao Cining Hospital	Other LLC	Taizhou	Taizhou	Medical service	–	51.00%	Incorporation
Yiwu Kangning Hospital	LLC	Yiwu	Yiwu	Hospital Management	–	100.00%	Incorporation

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities *(continued)*

(1) Interests in subsidiaries *(continued)*

(a) Structure of the Group (continued)

Name of the subsidiaries/units	Type of entity	Major business location	Place of registration	Nature of business	Shareholding (%)		Method of acquisition
					Direct	Indirect	
Hangzhou Cining Hospital	LLC	Hangzhou	Hangzhou	Medical service	–	100.00%	Incorporation
Wenzhou Tianzhentang	One-person LLC	Wenzhou	Wenzhou	Medical service	–	100.00%	Incorporation
Beijing Yining Hospital	Other LLC	Beijing	Beijing	Medical service	–	51.00%	Asset acquisition
Wenzhou Yixin Health Technology	LLC	Wenzhou	Wenzhou	Health technology service	–	100.00%	Asset acquisition
Huainan Kangning Hospital	Other LLC	Huainan	Huainan	Medical service	–	95.00%	Asset acquisition
Hangzhou Yelimi	LLC	Hangzhou	Hangzhou	Software and information technology service	–	100.00%	Incorporation
Pujiang Yining Hospital	LLC	Jinhua	Jinhua	Medical service	–	66.00%	Incorporation
Wenling Nanfang Hospital	Other LLC	Taizhou	Taizhou	Medical service	–	51.00%	Equity acquisition
Nanjing Yining Hospital	LLC	Nanjing	Nanjing	Medical service	–	65.38%	Equity acquisition
Heze Yining Hospital	LLC	Heze	Heze	Medical service	–	51.00%	Equity acquisition
Guanxian Yining Hospital	Other LLC	Liaocheng	Liaocheng	Medical service	–	90.00%	Equity acquisition
Changchun Kanglin Hospital	Other LLC	Changchun	Changchun	Medical service	–	64.55%	Asset acquisition
Zhejiang Dening Medical	Other LLC	Wenzhou	Wenzhou	Medical company	–	65.00%	Incorporation
Lucheng Yining Hospital	LLC	Wenzhou	Wenzhou	Medical service	60.00%	–	Incorporation
Wenzhou Cining Hospital	LLC	Wenzhou	Wenzhou	Medical service	53.33%	–	Equity acquisition
Zhejiang Yining Health	LLC	Hangzhou	Hangzhou	Health technology service	–	100.00%	Incorporation
Wenzhou Yining Pharmacy	LLC	Wenzhou	Wenzhou	Retail of medicine	–	100.00%	Incorporation
Yining Psychology Internet Hospital	LLC	Wenzhou	Wenzhou	Internet hospital	–	100.00%	Incorporation
Linhai Cining Hospital	LLC	Taizhou	Linhai	Medical service	–	100.00%	

(i) The Group's subsidiary Langfang Yining Hospital completed its cancellation on 2 August 2020.

(ii) The Group's subsidiary Wenzhou Guoda Investment completed the equity transfer on 25 June 2021.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities *(continued)*

(1) Interests in subsidiaries *(continued)*

(b) Non-controlling interests

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Hangzhou Yining Hospital	4,066,806	1,073,968
Lucheng Yining Hospital	19,714,212	19,893,809
Quzhou Yining Hospital	8,362,273	7,703,174
Shenzhen Yining Hospital	4,718,600	6,994,726
Wenzhou Guoda Investment	–	15,159,737
Zhejiang Huangfeng Co., Ltd.	12,326,484	11,764,309
Beijing Yining Hospital	8,452,390	9,845,907
Heze Yining Hospital	11,379,313	11,262,400
Others	15,517,250	18,880,512
Total	84,537,328	102,578,542

(c) Subsidiaries with significant non-controlling interests

Name of subsidiaries	Shareholding of non-controlling shareholders (%)	Profit or loss attributable to non-controlling shareholders as at 30 June 2021	Dividends distributed to non-controlling shareholders as at 30 June 2021	Non-controlling interests as at 30 June 2021
Wenzhou Lucheng Yining	40%	(179,597)	–	19,714,212
Zhejiang Huangfeng Co., Ltd.	34%	562,175	–	12,326,484
Heze Yining Hospital	49%	116,913	–	11,379,313
		499,491	–	43,420,009

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities *(continued)*

(1) Interests in subsidiaries *(continued)*

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

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

	30 June 2021 (Unaudited)					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Lucheng Yining Hospital	22,338,616	30,431,914	52,770,530	3,485,000	–	3,485,000
Zhejiang Huangfeng Co., Ltd.	30,182,758	51,734,479	81,917,237	7,642,200	12,378,586	20,020,786
Heze Yining Hospital	18,914,745	33,303,502	52,218,247	19,726,096	9,269,062	28,995,158
	71,436,119	115,469,895	186,906,014	30,853,296	21,647,648	52,500,944

	For the six months ended 30 June 2021 (Unaudited)			
	Revenue	Net (loss)/profit	Total comprehensive (loss)/income	Cash flows from operating activities
Lucheng Yining Hospital	–	(448,993)	(448,993)	486,589
Zhejiang Huangfeng Co., Ltd.	17,908,153	1,653,457	1,653,457	14,645,140
Heze Yining Hospital	10,495,247	238,598	238,598	2,104,657
	28,403,400	1,443,062	1,443,062	17,236,386

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities *(continued)*

(1) Interests in subsidiaries *(continued)*

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

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

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities *(continued)*

(2) Interests in associates

(a) Summarised information of significant associates

	Major business location	Place of registration	Nature of business	Whether strategic to the Group's activities	Shareholding (%)	
					Direct	Indirect
Hangzhou Anken Information Technology	Hangzhou	Hangzhou	Hospital Management	No	–	29%

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

(b) Major financial information of significant associates

	30 June 2021
	Hangzhou Anken Information Technology
Current assets	22,628,773
Non-current assets	20,225,266
Total assets	42,854,039
Current liabilities	17,958,931
Non-current liabilities	2,000,000
Total liabilities	19,958,931
Non-controlling interests	1,014,639
Equity attributable to shareholders of the parent company	22,182,676
Share of net assets calculated by shareholding ratio (i)	6,425,323
Adjustment	
– Goodwill	4,500,000
Carrying amount of equity investment in associates	10,925,323

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

6 Interests in other entities *(continued)*

(2) Interests in associates *(continued)*

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

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

7 Segment information

According to definition of operating segment stipulated in the Accounting Standards for Business Enterprises, the Group only has one operating segment during the reporting period.

8 Related parties and related party transactions

(1) General information of the parent company

The Company does not have a parent company. During the reporting period, the equity of the Company held by Guan Weili and his spouse Wang Lianyue was over 30%, and therefore they were regarded as actual controlling persons of the Company.

(2) The information of the subsidiaries

The general information and other related information of the subsidiaries are set out in Note 6(1).

(3) The information of other related parties

The related parties of the Company except those disclosed in other place of the financial statement are as follows:

	Relationship with the Group
Yiwu Health Centre	Non-profit organisation invested by the Group with council members assigned
Zhejiang Tianqu Environment Construction Co., Ltd. ("Zhejiang Tianqu")	Non-controlling shareholders of subsidiaries of the Group
Shandong Furen Hospital Management Co., Ltd. ("Shandong Furen")	Non-controlling shareholders of subsidiaries of the Group
Jilin Nuoyazhizhou Investment Co., Ltd. ("Nuoyazhizhou Investment")	Non-controlling shareholders of subsidiaries of the Group
Qu Kaisheng	Non-controlling shareholders of subsidiaries of the Group
Wu Lianxi	Non-controlling shareholders of subsidiaries of the Group
Ding Min	Non-controlling shareholders of subsidiaries of the Group
Chen Xianfa	Non-controlling shareholders of subsidiaries of the Group
Lin Yuanlong	Non-controlling shareholders of subsidiaries of the Group
Xu Yi	Spouse of the main shareholder of the Group
Wenzhou Anken Pharmacy Co., Ltd.	A shareholder of the Group
Hangzhou Ruiyi Enterprise Management Consulting Co., Ltd.	A legal entity under direct control of the Group's senior management
Other individuals	Immediate relatives of directors, supervisors and senior management

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions *(continued)*

(4) Related party transactions

(a) Pricing policies

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

(b) Provision of medical management service

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Yiwu Health Centre	1,485,149	1,485,149

(c) Rendering of medical services

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Related person	319,962	525,263

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions *(continued)*

(4) Related party transactions *(continued)*

(d) Leases

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

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Zhejiang Tianqu	116,205	149,558

(e) Payments on behalf of related parties

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Non-profit organisation established by the Group	1,232	1,000,000
Chengdu Yining Hospital	39,600	186,328
Others	–	26,683
	40,832	1,213,011

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions *(continued)*

(4) Related party transactions *(continued)*

(f) Key management emolument

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Key management emolument	3,415,992	2,501,812

(g) Acceptance of guarantee by the Group

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Guan Weili/Wang Lianyue/Wang Hongyue	230,000,000	339,000,000
Guan Weili/Wang Lianyue	30,000,000	20,500,000
Guan Weili/Wang Lianyue/Wang Hongyue/Xu Yi	200,000,000	64,000,000
The Company/Guan Weili/Wang Lianyue/Wang Hongyue/Xu Yi	101,600,000	–
The Company/Guan Weili/Wang Lianyue	3,000,000	–
	564,600,000	423,500,000

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions *(continued)*

(4) Related party transactions *(continued)*

(h) Borrowings from related parties

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Wu Lianxi	–	2,726,131

(5) Receivables from and payables to related parties

(a) Receivables from related parties

		30 June 2021 (Unaudited)		31 December 2020 (Audited)	
		Book value	Provision for bad debts	Book value	Provision for bad debts
Accounts receivable	Yiwu Health Centre	6,000,000	(720,000)	7,250,000	(970,000)
	Jinyun Shuning Hospital	675,843	(27,034)	–	–
	Hechuan Kangning	13,192	(528)	–	–
		6,689,035	(747,562)	7,250,000	(970,000)
Other receivables	Chengdu Yining Hospital	–	–	15,771,065	(788,553)
	Guan Weili	38,500,000	(1,925,000)	–	–
	Hangzhou Anken Information Technology	–	–	4,032,036	(201,602)
	Longwan Yining Hospital	–	–	10,000	(500)
	Ding Min	–	–	1,000,000	(50,000)
	Chen Xianfa	–	–	991,654	(49,583)
	Lin Yuanlong	–	–	92,186	(4,609)
	Non-profit organisation established by the Group	–	–	4,216,697	(210,835)
		38,500,000	(1,925,000)	26,113,638	(1,305,682)

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions *(continued)*

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

(b) Payables to related parties

		30 June 2021 (Unaudited)	31 December 2020 (Audited)
Other payables	Shandong Furen	6,077,650	5,844,383
	Qu Kaisheng	4,074,900	4,074,900
	Wu Lianxi	3,047,494	2,917,717
	Lin Jianguo	1,526,419	848,394
	Zhejiang Tianqu	–	23,252
	Others	–	9,989
		14,726,463	12,870,241
Lease liabilities	Zhejiang Tianqu	5,120,575	5,665,172

(6) The five individuals whose emoluments were the highest

The five individuals whose emoluments were the highest in the Group for the six months ended 30 June 2021 included 0 director (for the six months ended 30 June 2020: 0). The total emoluments of the remaining five individuals (for the six months ended 30 June 2020: five) are as follows:

	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2020 (Unaudited)
Basic salaries, bonus, housing subsidies and others	1,894,118	2,196,879
Equity incentive plan	296,014	152,744
	2,190,132	2,349,623

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

9 Share-based payment *(continued)*

(a) The restricted share incentive plan I *(continued)*

(1) General information (continued)

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

(i) The employees with 12 month vesting period resigning before the expiration of the selling restricted period do not have to withdraw from the LLP but their equity is frozen and cannot be transferred, pledged or otherwise disposed of during the lock-in period. After the expiration of the selling restricted period, the general partner or the third party designated by the general partner acquires their equity shares. The purchase price is the payment of contribution plus interests of payment of contribution calculated based on the interest rate of bank time deposits during the same period.

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

The Company did not have any repurchase arrangement or commitment with the LLPs or the employees.

(2) As at 30 June 2021, the related costs were all amortised (30 June 2020: the related costs were all amortised).

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

9 Share-based payment *(continued)*

(a) The restricted share incentive plan I *(continued)*

(3) The fair value of restricted shares unlocked in 2018 calculated on the vesting date was RMB26.78.

(4) *Method for determining the fair value of restricted shares on grant date*

The Group determines the fair value of restricted shares on grant date with reference to the fair value of 100% shareholders' equity and considering liquidity discounts. On grant date, the fair value of each restricted share was RMB25.26, and the difference between the fair value and the price of capital injection per share from participating employees, amounting to RMB18.68, was included in share-based payment expenses.

(b) The restricted share incentive plan II

(1) *General information*

On 13 June 2018, Wenzhou Kangning Hospital held its annual shareholders' meeting of 2018 and approved *Wenzhou Kangning Hospital Equity Payment Plan 2018*, which authorised the board of directors to handle the Company's employee share incentive plan. The Board of Directors of the Group reviewed and approved *Proposal on the Granting of Incentive Shares to Incentive Objects* on 29 June 2018 and 20 August 2018. Wenzhou Kangning Hospital prepared to establish five employee share ownership platforms, including Wenzhou Zhenyan Kangning Investment Management Partnership (Limited Liabilities Partnership) ("Wenzhou Zhenyan"), Wenzhou Jiamei Kangning Investment Management Partnership (Limited Liabilities Partnership) ("Wenzhou Jiamei"), Wenzhou Enquan Kangning Investment Management Partnership (Limited Liabilities Partnership) ("Wenzhou Enquan"), Wenzhou Jiate Kangning Investment Management Partnership (Limited Liabilities Partnership) ("Wenzhou Jiate") and Wenzhou Shouwang Kangning Investment Management Partnership (Limited Liabilities Partnership) ("Wenzhou Shouwang") to issue 2,460,000 domestic shares (accounted for 3.37% of the total equity before issuance and 3.26% of the total equity after issuance) at issue price of RMB10.47 per share. Among them, the number of incentive shares granted in 2018 was 1,818,529, that granted in 2019 was 180,516, and that granted for the six months ended 30 June 2021 was 540,229. As at 30 June 2021, 79,274 incentive shares were repurchased by general partners due to the withdrawal of incentive objects.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

9 Share-based payment *(continued)*

(b) The restricted share incentive plan II *(continued)*

(1) General information (continued)

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

The unlocking conditions for incentive shares include performance appraisal targets at the entity level and appraisal requirements at the individual level. The incentive shares can be unlocked for incentive object according to the prescribed ratio based on the appraisal results as the aforementioned appraisal requirements are met.

If the incentive object resigns during the lock-in period or there are other situations that do not meet the unlocking conditions, the unlocked share of incentive share is repurchased by the general partner of the partnership at the price of payment of contribution. The cash dividend received by the motivator during the lock-in period will be deducted from the repurchase price. The Company will repurchase and cancel the unregistered or unlocked incentive share from the partnership at RMB10.47 per share 12 months after the expiration of incentive plan lock-in period. On 24 June 2021, the Board of Directors of the Company reviewed and passed the *Proposal on Further Amendments to the Equity Incentive Plan*, which cancelled the performance appraisal requirements of the equity incentive plan and the Company's repurchase obligation of locked incentive shares.

On 31 December 2020, the Company regarded the shares held by the above-mentioned share ownership platform as inventory stock and recognised an obligation of repurchase for the restricted shares at RMB23,311,144. On 30 June 2021, as the Company cancelled an obligation of repurchase for the locked incentive shares, the Company hedged the above inventory stock with the amount of liabilities.

(2) Movement of restricted shares in the current period/year

	For the six months ended 30 June 2021	For the six months ended 30 June 2020
Number of outstanding restricted shares at the beginning of the current period	1,948,424	1,977,077
Number of restricted shares granted in the current period	540,229	–
Number of restricted shares ineffective in the current period	(28,653)	(28,653)
Number of outstanding restricted shares at the end of the current period	2,460,000	1,948,424
Share-based payment expenses in the current period	5,512,658	2,324,851
Cumulative share-based payment expenses	19,280,397	12,204,987

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

9 Share-based payment *(continued)*

(b) The restricted share incentive plan II *(continued)*

(3) As at 30 June 2021, the remaining term of the restricted share incentive plan was 1 year, ended on 19 August 2022 (30 June 2020: 2 years).

(4) There were no unlocked restricted shares for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Nil).

(5) *Method for determining the fair value of restricted shares on grant date*

For the six months ended 30 June 2021, the Group determined the fair value of restricted shares on grant date with reference to the recent share price of investors. On grant date, the fair value of each restricted share was RMB30, and the difference between the fair value and the price of capital injection per share from incentive objects, amounting to RMB10.47, was included in share-based payment expenses.

10 Commitments

(1) Capital expenditure commitments

Capital expenditures contracted for by the Group at the balance sheet date but are not yet necessary to be recognised on the statement of financial position are as follows:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Buildings, machinery and equipment	**55,209,937**	113,011,463
Intangible assets	**2,874,200**	27,156,900
	58,084,137	140,168,363

(2) External investment commitments

As at 30 June 2021, there were no external investment commitments for the Group.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

11 Operating leasing collection after the balance sheet date

As the lessor, the undiscounted lease proceeds receivable after the balance sheet date are as follows:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Within 1 year	3,475,500	5,379,188
1 – 2 years	24,000	4,013,156
2 – 3 years	6,000	3,618,884
3 – 4 years	–	3,618,884
4 – 5 years	–	3,848,600
Over 5 years	–	8,482,920
	3,505,500	28,961,632

12 Events after the balance sheet date

In August 2021, the Company entered into an investment agreement with the existing shareholders of Pingyang Changgeng Hospital. The agreement stipulated that the Company would acquire 100% equity of Pingyang Changgeng Hospital at a total consideration of RMB154,744,700, of which RMB71,234,900 was the capital injection to Pingyang Changgeng Hospital from the Company. After the capital injection, the Company held 46.03% equity of Pingyang Changgeng Hospital. The remaining RMB83,509,800 was the equity transfer payment for the transfer of 53.97% equity of Pingyang Changgeng Hospital from the existing shareholders. The aforementioned investments would be paid in four instalments. As at the date on which the financial statements were authorised for issue, the Company had paid the first capital injection of RMB34 million.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

13 Financial risk

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

(1) Market risk

(a) Foreign exchange risk

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

As at 30 June 2021 and 31 December 2020, the carrying amounts in RMB equivalent of the Group's financial assets denominated in foreign currencies were summarised below:

	30 June 2021 (Unaudited)		
	HKD	USD	Total
Cash at bank and on hand	402,332	994,804	1,397,136

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

As at 30 June 2021, for the Group's various financial assets denominated in HKD and USD, if the RMB strengthened/weakened by 3% against the HKD and USD while all other variables had been held constant, the Group's net profit for the year will be approximately RMB31,435 (31 December 2020: RMB49,034) lower/higher.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

13 Financial risk *(continued)*

(1) Market risk *(continued)*

(b) Interest rate risk

The Group's interest rate risk arises from long-term interest bearing borrowings including long-term bank borrowings. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 30 June 2021, the Group's long-term interest bearing borrowings were mainly RMB-denominated with fixed rates, amounting to RMB88,000,000 (31 December 2020: RMB68,992,970). As at 30 June 2021, the Group had RMB163,600,000 of long-term borrowings measured at floating rate (Note 4(17)) (31 December 2020: RMB45,000,000).

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new interest bearing borrowings and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. Management makes adjustments timely with reference to the latest market conditions.

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arises from cash at bank, accounts receivable and other receivables, etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The accounts receivable of the Group are mainly from sale of medicines to patients, the provision of medical services, and management service. According to the social insurance policies of each hospital's location, the medical expenses of the patients are usually borne by the patients themselves and the social insurance. The Company usually collects part of the advances when the patient goes through the hospitalisation procedures, and settle part of the patient's personal debt when he leaves the hospital. For the patients with outstanding payment after leaving the hospital, the Company will recover the debt by collecting on a regular basis. For the medical expense that borne by the social insurance, the Company will apply for reimbursement to the social insurance institutions after issuing invoices to patients. The reimbursement is usually collected 2 – 9 months after application for reimbursement. The Company believed that there was no material credit risk in this part of payment. There was part of medical expenses of the Group that was paid by government departments such as Civil Affairs and Disabled Persons' Federation where the hospitals are located. The Group would adopt different collection monitoring mechanisms for different payment methods.

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

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

13 Financial risk *(continued)*

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and cash equivalent to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions to meet the short-term and long-term liquidity requirements.

The financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	30 June 2021 (Unaudited)				
	Within 1 year	1 – 2 years	2 – 5 years	Over 5 years	Total
Accounts payable	69,012,231	–	–	–	69,012,231
Other payables	35,785,120	–	–	–	35,785,120
Lease liabilities	48,549,447	47,769,975	53,397,267	236,955,884	386,672,573
Bank borrowings	336,712,625	20,477,518	206,250,950	45,253,349	608,694,442
	490,059,423	68,247,493	259,648,217	282,209,233	1,100,164,366

	31 December 2020 (Audited)				
	Within 1 year	1 – 2 years	2 – 5 years	Over 5 years	Total
Accounts payable	69,573,927	–	–	–	69,573,927
Other payables	76,603,400	–	–	–	76,603,400
Lease liabilities	38,384,734	39,272,932	92,385,066	110,734,079	280,776,811
Bank borrowings	325,997,624	17,585,751	72,583,828	39,988,734	456,155,937
	510,559,685	56,858,683	164,968,894	150,722,813	883,110,075

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

13 Financial risk *(continued)*

(3) Liquidity risk *(continued)*

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
	Bank borrowings	Bank borrowings
Within 1 year	332,200,000	315,500,000
1 – 2 years	18,600,000	15,992,970
2 – 5 years	190,300,000	64,000,000
Over 5 years	23,500,000	31,000,000
	564,600,000	426,492,970

14 Fair value estimates

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

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

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

Level 3: Unobservable inputs for the asset or liability.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

14 Fair value estimates *(continued)*

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

As at 30 June 2021 and 31 December 2020, the financial assets measured at fair value by the above three levels were analysed below:

	30 June 2021 (Unaudited)		
	Level 1	Level 2	Level 3
Financial assets –			
Other non-current financial assets	–	–	57,749,854

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

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

14 Fair value estimates *(continued)*

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

The Group engaged Wenzhou Huaxin Assets Valuation Co., Ltd. to determine the fair value of the investment properties. The method of valuation adopted is the income method. The input values adopted were the rental, ultimate return rate/capitalisation rate and vacancy rate, with no significant change from 31 December 2020.

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

(2) Assets and liabilities not measured at fair value but for which the fair value is disclosed

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

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

15 Capital management

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

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

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

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

15 Capital management *(continued)*

As at 30 June 2021 and 31 December 2020, the Group's gearing ratio was as follows:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Gearing ratio	43.09%	41.55%

16 Notes to the company's financial statements

(1) Accounts receivable

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Accounts receivable	98,589,118	89,073,254
Less: Provision for bad debts	(12,325,759)	(10,529,013)
	86,263,359	78,544,241

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

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Within 1 year	76,099,700	65,324,295
1 – 2 years	12,983,968	15,285,769
2 – 3 years	6,231,225	8,461,922
Over 3 years	3,274,225	1,268
	98,589,118	89,073,254

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

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

(1) Accounts receivable *(continued)*

(b) Provision for bad debts

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

As at 30 June 2021, there were no accounts receivable for which the related provision for bad debts was provided on the individual basis.

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

	30 June 2021 (Unaudited)		
	Book value	Provision for bad debts	
	Amount	Lifetime ECL rate	Amount
Not overdue – unbilled	10,932,734	1%	109,327
Overdue – Within 3 months	44,301,008	4%	1,772,040
Within 1 year	20,865,958	4%	834,638
1 – 2 years	12,983,968	20%	2,596,794
2 – 3 years	6,231,225	60%	3,738,735
Over 3 years	3,274,225	100%	3,274,225
Total	98,589,118		12,325,759

(ii) The amount of provision for bad debts during the current period was RMB2,511,154 with no provision for bad debts reserved.

(c) The balance of accounts receivable that were written off in the current year was RMB714,408, and the provision for bad debts was RMB714,408, mainly including receivables due from patients for over 3 years.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

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

(2) Other receivables

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Due from related parties	**471,363,474**	518,639,070
Prepayments	**1,082,046**	4,671,223
Deposits and guarantees	**859,100**	859,992
Others	**861,768**	609,392
	474,166,388	524,779,677
Less: Provision for bad debts	**(110,134)**	(3,105,773)
	474,056,254	521,673,904

(a) Provision for losses and changes in book value

	Stage 1		Stage 3		
	12-month ECL (grouping)		Lifetime ECL (credit-impaired)		Total
	Book value	Provision for bad debts	Book value	Provision for bad debts	Provision for bad debts
31 December 2020 (Audited)	522,623,562	1,407,315	2,156,115	1,698,458	3,105,773
Increase in the current period	126,183,761	49,493	–	–	49,493
Write-off in the current period	–	–	(1,698,458)	(1,698,458)	(1,698,458)
Reversal in current period	(174,640,935)	(1,346,674)	(457,657)	–	(1,346,674)
30 June 2021 (Unaudited)	**474,166,388**	**110,134**	**–**	**–**	**110,134**

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

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

(2) Other receivables *(continued)*

(a) Provision for losses and changes in book value (continued)

(i) As at 30 June 2021, for other receivables at Stage 1, the related provision for bad debts was analysed below:

	Book value	12-month ECL rate	Provision for bad debts
Provided on the grouping basis:			
Prepayments	1,082,046	7%	75,743
Deposits and guarantees	859,100	3%	25,773
Due from related parties – inside of the Group	471,363,474	–	–
Others	861,768	1%	8,618
	474,166,388		110,134

(ii) As at 30 June 2021, the Group did not have any other receivables at Stage 2.

(iii) As at 30 June 2021, the Group did not have any other receivables at Stage 3.

(b) The amount of provision for bad debts during the current period was RMB49,493. The provision for bad debts at Stage 1 recovered or reversed was RMB1,346,674, and the corresponding book value was RMB174,640,935. The provision for bad debts at Stage 3 recovered or reversed was RMB0, and the corresponding book value was RMB457,657.

(c) For the six months ended 30 June 2021, other receivables of RMB1,698,458 were written off by the Company.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

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

(3) Long-term equity investments

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Subsidiaries (a)	**439,377,432**	420,377,432
Associates (b)	**58,836,074**	33,465,928
	498,213,506	453,843,360

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

(a) Subsidiaries

	31 December 2020 (Audited)	Additional investment for the current period	**30 June 2021 (Unaudited)**
Qingtian Kangning Hospital	32,000,000	–	**32,000,000**
Yongjia Kangning Hospital	20,000,000	7,000,000	**27,000,000**
Cangnan Kangning Hospital	37,150,000	6,500,000	**43,650,000**
Yueqing Kangning Hospital	1,000,000	–	**1,000,000**
Judicial Forensic Centre	500,000	–	**500,000**
Shenzhen Yining Investment	10,000,000	–	**10,000,000**
Linhai Kangning Hospital	1,600,000	–	**1,600,000**
Zhejiang Huangfeng Co., Ltd.	34,627,432	–	**34,627,432**
Zhejiang Kangning	200,000,000	–	**200,000,000**
Lucheng Yining Hospital	30,000,000	–	**30,000,000**
Wenzhou Cining Hospital	53,500,000	–	**53,500,000**
Ouhai Yining Hospital	–	5,500,000	**5,500,000**
	420,377,432	19,000,000	**439,377,432**

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

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

(3) Long-term equity investments *(continued)*

(b) Associates

	31 December 2020 (Audited)	Initial investment	Share of net profit/(loss) under equity method	**30 June 2021 (Unaudited)**
Hangzhou Anken Information Technology	10,965,928	–	(1,629,854)	**9,336,074**
Longwan Yining Hospital	22,500,000	27,000,000	–	**49,500,000**
	33,465,928	27,000,000	(1,629,854)	**58,836,074**

(4) Revenue and cost of sales

	For the six months ended 30 June 2021 (Unaudited)		For the six months ended 30 June 2020 (Unaudited)	
	Revenue	**Cost**	Revenue	Cost
Main businesses	**188,862,114**	**132,147,411**	187,312,349	124,850,475
Other businesses	**670,865**	**559,210**	6,388,135	3,863,064
	189,532,979	**132,706,621**	193,700,484	128,713,539

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB Yuan unless otherwise stated)

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

(4) Revenue and cost of sales *(continued)*

(b) Revenue and cost of sales from other businesses

	For the six months ended 30 June 2021 (Unaudited)		For the six months ended 30 June 2020 (Unaudited)	
	Revenue	Cost	Revenue	Cost
Rental income	24,000	–	–	–
Management service	–	–	4,488,756	2,412,232
Others	646,865	559,210	1,899,379	1,450,832
	670,865	559,210	6,388,135	3,863,064

(5) Investment losses

For the six months ended 30 June 2021	For the six months ended

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 of Directors" or "Board"	the board of directors of the Company
"Cangnan Kangning Hospital"	Cangnan Kangning Hospital Co., Ltd. (蒼南康寧醫院有限公司), a company established in the PRC with limited liability on June 15, 2012, one of the Company's wholly-owned subsidiaries
"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

Definitions

"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
"HK$"	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"	Linhai Cining Hospital Co., Ltd. (臨海慈寧醫院有限公司), 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
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
"Nomination Committee"	the nomination committee of the Board

Definitions

"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
"PRC" or "China"	the People's Republic of China which, for the purpose of this interim report, 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
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
"Shareholder(s)"	holder(s) of the Share(s)
"Strategy and Risk Management Committee"	the strategy and risk management committee of the Board
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

Definitions

"substantial Shareholder(s)"	has the meaning ascribed thereto in the Hong Kong Listing Rules
"Supervisor(s)"	the members of the Supervisory Committee
"Supervisory Committee"	the Company's supervisory committee established pursuant to the PRC Company Law
"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)
"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

溫州康寧醫院股份有限公司
Wenzhou Kangning Hospital Co., Ltd.