廣東康華醫療股份有限公司
GUANGDONG KANGHUA HEALTHCARE CO., LTD.*

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

(Stock Code: 3689)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

- Revenue for the year increased by 12.0% to RMB1,953.9 million (2020: RMB1,745.0 million).
- Profit for the year amounted to RMB66.9 million (2020: loss of RMB50.1 million).
- Profit for the year attributable to owners of the Company amounted to RMB94.3 million (2020: loss of RMB25.4 million).
- Earnings per share amounted to RMB28.2 cents (2020: loss per share of RMB7.6 cents).
- The Group recognised an impairment loss on goodwill amounting to RMB15.5 million for the year (2020: RMB77.4 million).
- Adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation[#] ("**Adjusted EBITDA**") for the year increased by 56.8% to RMB308.1 million (2020: RMB196.5 million).
- The Board does not recommend the distribution of a final dividend for the year (2020: nil).

\# *Adjusted EBITDA is earnings before accounting for bank and other interest income, interest expenses, taxes, depreciation and amortisation, fair value gain/loss and investment income from financial assets at FVTPL, net exchange gain/loss and impairment loss on goodwill.*

UNAUDITED ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Guangdong Kanghua Healthcare Co., Ltd. (the "**Company**" or "**our Company**", "**we**" or "**us**") is pleased to announce the unaudited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**" or "**our Group**") for the financial year ended 31 December 2021 (the "**Reporting Period**") together with the comparative audited figures for the preceding financial year ended 31 December 2020.

The consolidated annual results for the Reporting Period have not been audited or reviewed by the Company's auditor. In addition, the consolidated annual results for the Reporting Period have not been agreed by the Company's auditor as required under Rule 13.49(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). The recent government measures adopted to curb the spread of the COVID-19 pandemic in Dongguan, Guangdong province, the People's Republic of China (the "**PRC**" or "**China**") have resulted in, among other things, travel restrictions, lockdowns and temporary interruptions of mailing services. In turn, the Company's audit procedures and field work have been subject to considerable delay. After discussing with the Company's auditor, the Company currently expects that the audit procedures will be completed by or around 14 April 2022. The Company will publish a further announcement as and when appropriate.

The unaudited consolidated annual results for the Reporting Period have been reviewed by the Company's audit committee.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	NOTES	**2021** ***RMB'000*** **(unaudited)**	2020 *RMB'000* (audited)
Revenue	3	**1,953,944**	1,745,023
Cost of revenue		**(1,601,196)**	(1,481,868)
Gross profit		**352,748**	263,155
Other income	4	**45,149**	41,201
Other expenses, gains and losses, net	5	**(5,210)**	(5,123)
(Net provision) net reversal of impairment losses under expected credit loss model		**(2,931)**	1,847
Impairment loss on goodwill	11	**(15,512)**	(77,400)
Administrative expenses		**(225,223)**	(227,774)
Finance costs	6	**(19,812)**	(21,995)
Profit (loss) before taxation	7	**129,209**	(26,089)
Income tax expenses	8	**(62,284)**	(23,967)
Profit (loss) and total comprehensive income (expense) for the year		**66,925**	(50,056)
Profit (loss) and total comprehensive income (expense) for the year attributable to:			
– owners of the Company		**94,307**	(25,372)
– non-controlling interests		**(27,382)**	(24,684)
		66,925	(50,056)
Earnings (loss) per share, basic *(RMB cents)*	10	**28.2**	(7.6)

CONSOLIDATED STATEMENT OF FINANICAL POSITION
At 31 December 2021

	NOTES	2021 RMB'000 (unaudited)	2020 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**1,031,363**	976,272
Right-of-use assets		**354,133**	382,845
Goodwill	11	**29,101**	44,613
Deposits paid for acquisition of property, plant and equipment		**91,597**	91,218
Financial assets at fair value through profit or loss	12	**73,326**	67,663
		1,579,520	1,562,611
Current assets			
Inventories		**83,939**	56,756
Accounts and other receivables	13	**268,208**	248,679
Financial assets at fair value through profit or loss	12	**530,000**	400,000
Restricted bank balances	14	**2,592**	1,182
Fixed bank deposits	14	**3,000**	5,000
Bank balances and cash	14	**237,343**	179,673
		1,125,082	891,290
Current liabilities			
Accounts and other payables and provision	15	**633,410**	516,868
Amounts due to non-controlling shareholders of subsidiaries		**49,939**	18,856
Tax payables		**29,082**	22,907
Bank loans – due within one year	16	**28,727**	7,574
Lease liabilities		**36,490**	30,685
		777,648	596,890
Net current assets		**347,434**	294,400
Total assets less current liabilities		**1,926,954**	1,857,011

	NOTE	2021 RMB'000 (unaudited)	2020 RMB'000 (audited)
Non-current liabilities			
Bank loans – due after one year	16	**282,119**	250,256
Lease liabilities		**147,201**	177,308
Deferred tax liabilities		**23,207**	21,945
		452,527	449,509
Net assets		**1,474,427**	1,407,502
Capital and reserves			
Share capital		**334,394**	334,394
Reserves		**1,092,443**	998,136
Equity attributable to owners of the Company		**1,426,837**	1,332,530
Non-controlling interests		**47,590**	74,972
Total equity		**1,474,427**	1,407,502

NOTES:

1. GENERAL

廣東康華醫療股份有限公司 (Guangdong Kanghua Healthcare Co., Ltd.*) (the "**Company**") was established as a limited liability company in the People's Republic of China (the "**PRC**") and its overseas listed ordinary shares ("**H Shares**") are listed on the Main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Company's immediate and ultimate holding company is 東莞市康華投資集團有限公司 (Dongguan Kanghua Investment Group Co., Ltd.*), a limited liability company established in the PRC. The addresses of the registered office and the principal place of business in Hong Kong of the Company are 3/F, Outpatient Zone One, Dongguan Kanghua Hospital, Nancheng Street, Dongguan, Guangdong Province, PRC and Unit 3207, Metroplaza Tower 2, 223 Hing Fong Road, Kwai Fong, New Territories, Hong Kong, respectively.

The Company and its subsidiaries (collectively referred as the "**Group**") are principally engaged in the provision of hospital services, provision of rehabilitation and other healthcare services, sale of pharmaceutical products and provision of elderly healthcare services in the PRC.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

2. AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the amendments to IFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the: (i) provision of hospital services; (ii) provision of rehabilitation and other healthcare services; (iii) sale of pharmaceutical products; and (iv) provision of elderly healthcare services.

Revenue

An analysis of the Group's revenue for the year is as follows:

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Recognised over time – output method:		
Hospital services:		
– Inpatient healthcare services	**1,079,632**	977,929
– Outpatient healthcare services	**616,776**	528,826
– Physical examination services	**143,067**	113,697
Rehabilitation and other healthcare services:		
– Rehabilitation hospital services	**40,841**	64,210
– Rehabilitation centre services and other healthcare services	**60,666**	36,201
Elderly healthcare services	**12,236**	6,622
	1,953,218	1,727,485
Recognised at a point in time:		
Sale of pharmaceutical products	**726**	17,538
	1,953,944	1,745,023

Segment information

Information reported to the executive directors of the Company, being the chief operating decision maker (the "**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on types of service provided.

The Group's operating segments are classified as: (i) hospital services; (ii) rehabilitation and other healthcare services; (iii) sale of pharmaceutical products; and (iv) elderly healthcare services. The details of the Group's operating segments are as follows:

(i)	Hospital services:	Provision of hospital services includes: (i) inpatient healthcare services which generally refer to the treatment of patients who are hospitalised overnight or for an indeterminate period of time; (ii) outpatient healthcare services which generally refer to the treatment of patients who are hospitalised for less than 24 hours; and (iii) physical examinations services which generally refer to the clinical examination of individuals for signs of diseases and health advisory services.
(ii)	Rehabilitation and other healthcare services:	Provision of rehabilitation services generally refers to provision of special care services to patients with permanent or long-term physical or mental disabilities. Other healthcare services include elderly healthcare and training services for the disabled.
(iii)	Sale of pharmaceutical products:	Sales of pharmaceutical products to patients of the Group's hospitals and outside customers.
(iv)	Elderly healthcare services:	Provision of elderly healthcare services, including assisted living, adult daycare, long-term care, residential care and hospice care to the aged patients.

These operating segments also represent the Group's reportable segments. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segments:

For the year ended 31 December 2021 (unaudited)

	Hospital services *RMB'000* *(note)*	**Rehabilitation and other healthcare services** *RMB'000*	**Sale of pharmaceutical products** *RMB'000*	**Elderly healthcare services** *RMB'000*	**Total** *RMB'000*
SEGMENT REVENUE					
External sales	**1,839,475**	**101,507**	**726**	**12,236**	**1,953,944**
Segment profit	**316,669**	**16,273**	**116**	**4,178**	**337,236**
Other income					**45,149**
Other expenses, gains and losses, net					**(5,210)**
Net impairment losses under expected credit loss model					**(2,931)**
Administrative expenses					**(225,223)**
Finance costs					**(19,812)**
Profit before taxation					**129,209**

For the year ended 31 December 2020 (audited)

	Hospital services *RMB'000* *(note)*	Rehabilitation and other healthcare services *RMB'000* *(note)*	Sale of pharmaceutical products *RMB'000*	Elderly healthcare services *RMB'000*	Total *RMB'000*
SEGMENT REVENUE					
External sales	1,620,452	100,411	17,538	6,622	1,745,023
Segment profit (loss)	179,323	3,141	3,523	(232)	185,755
Other income					41,201
Other expenses, gains and losses, net					(5,123)
Net reversal of impairment losses under expected credit loss model					1,847
Administrative expenses					(227,774)
Finance costs					(21,995)
Loss before taxation					(26,089)

Note: During the year ended 31 December 2021, impairment loss on goodwill of RMB15,512,000 is allocated to hospital services segment. During the year ended 31 December 2020, impairment loss on goodwill of RMB49,900,000 and RMB27,500,000 were allocated to hospital services segment and rehabilitation and other healthcare services segment, respectively.

There were no inter-segment sales during both years.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of other income, other expenses, gains and losses, (net provision) net reversal of impairment losses under expected credit loss model, administrative expenses and finance costs. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

Except as disclosed above, no other amounts are regularly provided to the CODM of the Group and therefore, no further analysis is presented.

Segment assets and liabilities

The CODM makes decisions according to the operating results of each segment. No analysis of segment assets and segment liabilities is presented as the CODM does not regularly review such information for the purpose of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Geographical information and information about major customers

All revenue are generated in the PRC where almost all of the non-current assets of the Group are also located. The Group has a highly diversified patient portfolio. No single patient contributed over 10% of the Group's total revenue during both years.

4. OTHER INCOME

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Government subsidies *(note)*	**11,186**	6,345
Investment income from financial assets at fair value through profit or loss ("**FVTPL**")	**8,612**	16,439
Compensation pursuant to a profit guarantee given by a shareholder of a subsidiary	**6,520**	–
Clinical trial and related income	**4,842**	3,088
Fixed operating lease income	**3,873**	5,426
Bank and other interest income	**1,869**	4,038
Others	**8,247**	5,865
	45,149	41,201

Note: The government subsidies mainly represented subsidies on costs incurred for operation of rehabilitation centers and hospitals, research and development projects, medical related seminars and other COVID-19 related subsidies with no special and unfulfilled conditions attached.

5. OTHER EXPENSES, GAINS AND LOSSES, NET

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Fair value (loss) gain on financial assets at FVTPL	**(2,328)**	4,130
Net exchange loss	**(2,290)**	(4,906)
Loss on disposals of property, plant and equipment, net	**(451)**	(1,513)
Donations	**(141)**	(2,834)
	(5,210)	(5,123)

6. FINANCE COSTS

	2021 *RMB'000* (unaudited)	2020 *RMB'000* (audited)
Interest on bank loans	**17,991**	15,332
Interest on lease liabilities	**11,479**	12,493
	29,470	27,825
Less: Amount capitalised in property, plant and equipment	**(9,658)**	(5,830)
	19,812	21,995

7. PROFIT (LOSS) BEFORE TAXATION

	2021 *RMB'000* (unaudited)	2020 *RMB'000* (audited)
Profit (loss) before taxation has been arrived at after charging:		
Directors' remuneration	**3,040**	3,068
Other staff costs:		
Supervisors' emoluments	**918**	820
Other salaries and allowances	**532,696**	532,428
Retirement benefit schemes contributions	**31,979**	12,744
Total staff costs	**568,633**	549,060
Depreciation of property, plant and equipment	**113,603**	109,266
Depreciation of right-of-use assets	**35,840**	33,622
Research and development expenditure	**835**	1,595
Short-term lease rentals in respect of rehabilitation centers and staff quarters	**2,578**	276
Variable lease rentals in respect of hospitals	**11,412**	6,569
Cost of inventories recognised as expenses (representing pharmaceutical products, consumables and others used, included in cost of revenue)	**875,486**	805,426

8. INCOME TAX EXPENSES

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
PRC Enterprise Income Tax ("**EIT**")		
Current tax	**61,505**	23,109
Overprovision of EIT in prior years	**(402)**	(160)
	61,103	22,949
Hong Kong Profits tax		
Current tax	**72**	167
(Over) underprovision of Hong Kong Profits Tax in prior years	**(153)**	289
	61,022	23,405
Deferred tax charge	**1,262**	562
	62,284	23,967

Under the Law of the PRC on EIT (the "**EIT Law**") and Implementation Regulation of the EIT Law, the statutory income tax rate of the Company and its PRC subsidiaries is 25% for both years.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25% and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2,000,000 of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2,000,000.

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2021 (2020: nil), nor has any dividend been proposed since the end of the Reporting Period.

10. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share attributable to owners of the Company is based on the following data:

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Earnings (loss):		
Profit (loss) for the year attributable to the owners of the Company for the purpose of calculating earnings (loss) per share	**94,307**	(25,372)

	2021	2020
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**334,394,000**	334,394,000

No diluted earnings (loss) per share has been presented since there was no potentially dilutive ordinary shares in issue for both years.

11. GOODWILL

During the year ended 31 December 2021, impairment loss on goodwill of RMB15,512,000 was recognised on goodwill allocated to the cash-generating unit ("**CGU**") of Kangxin Hospital in view of the recoverable amount of the Kangxin Hospital CGU being less than its own carrying amount.

As at 31 December 2021, the carrying amounts of goodwill allocated to the CGUs of Anhui Hualin and Kangxin Hospital amounted to RMB29,101,000 (2020: RMB29,101,000) and nil (2020: RMB15,512,000), respectively.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Portfolio investment fund *(note (i))*	**63,326**	67,663
Fund investment *(note (ii))*	**10,000**	–
Structured bank deposits *(note (iii))*	**530,000**	400,000
	603,326	467,663
Analysed for reporting purpose as:		
Current assets	**530,000**	400,000
Non-current assets	**73,326**	67,663
	603,326	467,663

Notes:

(i) The Group has a portfolio investment fund as part of the Group's cash management activities, the underlying portfolio of which includes a mixture of cash and shares that are primarily listed in Hong Kong. The portfolio investment fund was maintained by a discretionary fund manager and measured at fair value. As at 31 December 2020 and 2021, the Group intended to invest in the fund for long-term purposes and did not expect any immediate use of the portfolio investment fund in the short term. Accordingly, the portfolio investment fund is classified as non-current assets and measured at fair value. The Group may at its discretion redeem the fund subject to the relevant procedures, requirements and restrictions.

(ii) During the year ended 31 December 2021, the Group entered into a partnership agreement with two independent third parties for establishment of a fund, namely, Guangdong Bosong Kanghua Equity Investment Partnership, L.P.* (廣東鉑頌康華股權投資合夥企業(有限合夥)), a limited partnership established under the laws of the PRC pursuant to the partnership agreement. The purpose of the fund is to achieve investment returns and capital appreciation through carrying out investment, investment management and other activities in accordance with PRC laws, business scope under business registration, and the partnership agreement. To the extent permitted by the applicable laws, the fund will invest primarily in the fields of medical services, biotechnology, medical equipment, and medical informatics. The initial term of the fund shall be seven years. As at 31 December 2021, the fund had made equity investments and the carrying amount of the fund was RMB10,000,000 (2020: nil), which was maintained by the general partner, executive partner and manager and measured at fair value.

(iii) The Group has structured deposits with commercial banks in the PRC for variable investment returns. Majority of these structured deposits are with maturities of less than six months and the principal is generally renewed when matured.

13. ACCOUNTS AND OTHER RECEIVABLES

	2021 ***RMB'000*** **(unaudited)**	2020 *RMB'000* (audited)
Accounts receivable	**235,665**	212,400
Less: allowance for credit loss	**(9,194)**	(7,694)
	226,471	204,706
Prepayments to suppliers	**13,341**	16,442
Interest receivables	**–**	594
Others	**30,293**	27,413
	43,634	44,449
Less: allowance for credit loss	**(1,897)**	(476)
	41,737	43,973
Total accounts and other receivables	**268,208**	248,679

The individual patients of the Group would usually settle payments by cash, credit cards and mobile payment or government's social insurance schemes. For credit card and mobile payments, the banks and counterparties will normally settle the amounts approximately 30 days after the transaction date. Payments by the PRC government's social insurance schemes will normally be settled by the local social insurance bureau or similar government departments responsible for the reimbursement of medical expenses for patients who are covered by the government's medical insurance schemes, which ranged from 30 to 180 days from the transaction date. Corporate customers will normally settle the amounts within 90 days after the transaction date by bank transfers.

The following is an aged analysis of accounts receivables, net of allowance for credit loss, presented based on the revenue recognition date at the end of the reporting period:

	2021 *RMB'000* (unaudited)	2020 *RMB'000* (audited)
Within 30 days	**133,762**	121,199
31 to 90 days	**61,106**	36,124
91 to 180 days	**14,273**	43,012
181 to 365 days	**8,905**	2,992
Over 365 days	**8,425**	1,379
	226,471	204,706

14. FIXED BANK DEPOSITES/RESTRICTED BANK BALANCES/BANK BALANCES AND CASH

At 31 December 2021, the fixed bank deposits carried fixed interest rates ranging from 1.05% to 2.30% (2020: 3.10%) per annum with original maturity at 7-days and is classified as current assets since their remaining maturity is less than 3 months from the end of the Reporting Period.

Restricted bank balances mainly represented (i) deposits required by Dongguan Social Insurance Bureau which are based on annual assessment on the medical service quality of the hospitals, such deposits will be discharged upon completion of the annual assessment; (ii) proceeds from the initial public offering of the Company's H Shares remitted to PRC banks, the usage of which is subject to relevant approval; and (iii) a fixed-term guarantee deposit. The restricted bank balances carried fixed interest rates ranging from 0.3% to 2.10% (2020: ranging from 0.30% to 0.35%) per annum as at 31 December 2021.

Bank balances carried prevailing market rates ranging from 0.00% to 2.03% (2020: 0.00% to 1.05%) per annum as at 31 December 2021.

15. ACCOUNTS AND OTHER PAYABLES AND PROVISION

	2021 *RMB'000* (unaudited)	2020 *RMB'000* (audited)
Accounts payable	**321,645**	256,802
Accrued expenses	**98,166**	94,045
Receipt in advance	**147,243**	100,659
Payables for acquisition of property, plant and equipment	**30,550**	41,681
Other tax payables	**3,634**	3,070
Others	**30,275**	17,655
Other payables	**309,868**	257,110
Sub-total accounts and other payables	**631,513**	513,912
Provision for medical dispute claims	**1,897**	2,956
Total accounts and other payables and provision	**633,410**	516,868

Note: Included in the balance are advances from the PRC social insurance which represent operating cash of RMB102,966,000 (2020: RMB52,533,000) advanced from the PRC government for the daily operations of the hospitals operated by the Group.

The credit period of accounts payables is ranged from 30 to 90 days from the invoice date.

The following is an aged analysis of accounts payables based on the date of receipt of goods:

	2021 *RMB'000* (unaudited)	2020 *RMB'000* (audited)
Within 30 days	**116,643**	72,662
31 to 90 days	**122,212**	108,215
91 to 180 days	**39,820**	42,749
181 to 365 days	**17,003**	15,473
Over 365 days	**25,967**	17,703
	321,645	256,802

Included in other payables is provision for medical dispute claims which the Group is involved as defendants in certain medical disputes arising from its ordinary course of business. The following is the movement in provision for medical dispute claims:

	2021 *RMB'000* (unaudited)	2020 *RMB'000* (audited)
At the beginning of the year	**2,956**	375
Provision to the year	**2,326**	4,558
Reversal of the provision	**(1,146)**	–
Utilisation of the provision	**(2,239)**	(1,977)
At the end of the year	**1,897**	2,956

16. BANK LOANS

	2021 *RMB'000* (unaudited)	2020 *RMB'000* (audited)
Variable rate secured bank loan	**265,237**	204,647
Fixed-rate secured loan	**45,609**	53,183
	310,846	257,830

	2021 *RMB'000* (unaudited)	2020 *RMB'000* (audited)
The carrying amounts of the loans are repayable*:		
Within one year	**28,727**	7,574
Within a period of more than one year but not exceeding two years	**29,025**	21,897
Within a period of more than two years but not exceeding five years	**88,865**	73,549
Within a period of more than five years	**164,229**	154,810
	310,846	257,830
Less: Amount due within one year shown under current liabilities	**(28,727)**	(7,574)
Amount shown under non-current liabilities	**282,119**	250,256

* The amounts due are based on scheduled repayment dates as set out in the loan agreements.

17. CAPITAL COMMITMENTS

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**149,561**	255,496

18. CONTINGENT LIABILITIES

The Group is involved as defendants in certain medical disputes arising from its normal business operations. Except for those disputes with provision made as disclosed in Note 15, the management of the Group believes that the final result of other medical disputes with total claims of RMB7,501,000 (2020: RMB6,792,000) as at 31 December 2021 will not have a material impact on the financial position or operations of the Group and the amount of outflow, if any, cannot be determined with sufficient reliability prior to judicial appraisals. Accordingly, no provision is made.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Overview for 2021

In 2021, as the impact of the coronavirus disease 2019 ("**COVID-19**") pandemic continued, China has entered into a period of pandemic prevention and control focusing on the stabilisation and normalisation of the impact of COVID-19. With the roll out of mass vaccination programs across the country, the economy, in particular the healthcare market and hospital operation sector, demonstrated signs of gradual recovery from the effects of the pandemic. Despite a fluctuation in the number of COVID-19 cases in certain regions, the pandemic was generally under control and economic activities remained stable.

According to preliminary estimation by the National Bureau of Statistics, the gross domestic product in 2021 was RMB114,367.0 billion, up by 8.1% over the previous year with an average two-year growth of 5.1%. This growth rate is significantly higher than other major economies in Asia. The Chinese economy demonstrated strong resilience, enormous potential and favourable momentum for development in the post pandemic era. Despite the unprecedented impact of COVID-19, China formed its own unique process in encouraging new pandemic prevention policies and pursuing effective healthcare system development. The country has maintained a leading position in epidemic prevention and control in the world.

During the year 2021, cities in and around the Guangdong province had experienced a new wave of COVID-19 cases. With the effective implementation of pandemic alert reform and support driven by local government, the Group responded promptly with a pandemic prevention emergency team to control the outbreak and minimize the impact on our Group's operation. In addition, the Group has also strengthened the disinfection of our medical facilities to provide a safe environment for our staff and patients. Although, isolated cases identified at our medical facilities have resulted in temporary restrictions and disruption to our business, the pandemic has not had any significant impact on the Group's operation and financial performance for the year.

In 2021, the Group's consolidated revenue for the year amounted to RMB1,953.9 million (2020: RMB1,745.0 million), representing a year-on-year increase of 12.0%. This was mainly attributable to the increase in revenue from our hospital services segment and an increase in overall patient visits as well as number of surgical operations at our hospitals. Two of the Group's owned-hospitals (making up our hospital services segment), namely Dongguan Kanghua Hospital (康華醫院) ("**Kanghua Hospital**") and Dongguan Renkang Hospital (仁康醫院) ("**Renkang Hospital**") have both recorded an increase in revenue of 12.4% and 22.8%, respectively. However, the other Group's owned-hospital, namely, Chongqing Kanghua Zhonglian Cardiovascular Hospital (康心醫院) ("**Kangxin Hospital**"), continued to be dampened by the effects from prior year and recorded a mild decrease in revenue of 2.1% as compared with year 2020.

Our rehabilitation and other related healthcare services segment, through our ownership of 57% equity interest in Anhui Hualin Medical Investment Co., Ltd.* (安徽樺霖醫療投資有限公司) ("**Anhui Hualin**") (Anhui Hualin directly and indirectly (through its wholly-owned subsidiaries) holds sponsor interests in the managed and controlled entities, certain of which are private non-enterprise entities in Anhui Province, the PRC), has recorded a revenue for the year of RMB101.5 million (2020: RMB100.4 million), representing a slight year-on-year increase of 1.1%. Our rehabilitation and other related healthcare services segment mainly consists of our two major rehabilitation hospitals, namely, Hefei Kanghua Rehabilitation Hospital (合肥康華康復醫院) and Hefei Jingu Hospital (合肥金谷醫院), a Grade A class I general hospital, Bengbu Renkang Hospital (蚌埠仁康醫院) and an out-patient centre (these hospitals and out-patient centre represent our rehabilitation hospital operation), twelve rehabilitation centres and one vocational training school (representing our rehabilitation centre services and other healthcare services). Revenue from our rehabilitation hospitals operation declined by 36.4%. However, this was offset by an increase in revenue from our rehabilitation centre services and other healthcare services of 67.6% primarily due to strong recovery from the pandemic and, in particular, the significant growth in revenue from our children rehabilitation centres and expansion in the operation of rehabilitation centres.

The Group's consolidated profit for the year ended 31 December 2021 amounted to RMB66.9 million (2020: loss for the year of RMB50.1 million). The turnaround from loss in the corresponding period last year to profit for the Reporting Period is mainly attributable to: (i) the increase in revenue and profit recorded at Kanghua Hospital and Renkang Hospital primarily as a result of the increase in overall patient visits across all its service offerings and increase in the number of surgical operations. Our revenue from hospital services segment recorded an increase in revenue of 13.5% from RMB1,620.5 million for the year 2020 to RMB1,839.5 million for the Reporting Period; (ii) an increase in revenue from our elderly healthcare services segment from RMB6.6 million for the year 2020 to RMB12.2 million for the Reporting Period; (iii) the Group recognised an impairment loss on goodwill in respect of the cash generating unit of Kangxin Hospital ("**Kangxin Hospital CGU**") for the Reporting Period of RMB15.5 million (2020: an impairment loss on goodwill in respect of Kangxin Hospital CGU and cash generating unit of Anhui Hualin ("**Anhui Hualin CGU**") in aggregate of RMB77.4 million); and (iv) an improved overall operating margin from 15.1% for the year 2020 to 18.1% for the Reporting Period. However, our performance had continued to be affected by the loss incurred at Kangxin Hospital for the Reporting Period, primarily due to the residual impact of the COVID-19 pandemic from year 2020 and other on-going challenges including huge burden on professional headcounts and fixed costs, and the limitation to drive revenue growth due to unstable professional workforce that constrain short-term patient visits growth. However, the Board considers that the underperformance of Kangxin Hospital was temporary and a number of measures have been taken to stimulate revenue growth in the long term.

The Group's Adjusted EBITDA (Adjusted EBITDA is earnings before accounting for bank and other interest income, finance costs, taxes, depreciation and amortisation, fair value gain (loss) and investment income from financial assets at FVTPL, net exchange gain (loss) and impairment loss on goodwill) recorded a year-on-year increase of 56.8% to RMB308.1 million (2020: RMB196.5 million), which indicates that the Group's core operation as a whole remained profitable and solidly rebounded from the prior year, after eliminating the effects of financing, investment-related income, fair value changes of investments, effects of exchange rates, capital expenditures and extraordinary non-cash related losses.

Since 2021 and onwards into 2022, the Group has continued to proactively respond to the impact brought by the COVID-19 pandemic, and has maintained high alert over isolated outbreaks to minimize the potential effects on our operations across all our operating segments. Our Group's results for the Reporting Period have indicated that our business operations have been showing signs of recovery from the pandemic and our consolidated revenue has returned close to the pre-pandemic period in year 2019. In 2021, the Group had adhered to the strategy of focusing on its core operations and pandemic prevention and control, and expanding our efforts to upgrade our hospitals and elderly healthcare medical facilities.

Hospital Services

The Group's owned hospitals, namely, Kanghua Hospital (our Grade A Class III general hospital), Renkang Hospital (our Grade A Class II general hospital) and Kangxin Hospital (our private hospital specializing in cardiovascular discipline), represent our Group's hospital services segment. During the Reporting Period, the Group had seen a solid recovery from the effects of COVID-19 pandemic. Our key operating performance indicators are as follows: (i) the total number of inpatient visits increased to 67,546 (2020: 56,589), representing a year-on-year increase of 19.4%; (ii) the overall average spending per inpatient visit amounted to RMB15,983.7 (2020: RMB17,281.3), representing a year-on-year decline of 7.5%; (iii) the overall bed utilisation rate improved to 72.1% (2020: 65.2%), primarily attributable to the increase in number of inpatient visits; (iv) the average length of stay slightly decreased to 7.1 days (2020: 7.6 days); (v) the total number of outpatient visits increased to 1,487,674 (2020: 1,358,516), representing a year-on-year increase of 9.5%; (vi) the overall average spending per outpatient visit amounted to RMB414.6 (2020: RMB389.3), representing a year-on-year increase of 6.5%; and (vii) the total number of surgical operations increased to 46,647 (2020: 39,082), representing a year-on-year increase of 19.4%.

The table below sets forth certain key operational data of the Group's owned hospitals of the hospital services segment for the years indicated:

		For the year ended 31 December	
	Change	**2021**	2020
Inpatient healthcare services			
Inpatient visits	+19.4%	**67,546**	56,589
Average length of stay *(days)*	–0.5	**7.1**	7.6
Average spending per visit *(RMB)*	–7.5%	**15,983.7**	17,281.3
Outpatient healthcare services			
Outpatient visits	+9.5%	**1,487,674**	1,358,516
Average spending per visit *(RMB)*	+6.5%	**414.6**	389.3
Physical examination services			
Physical examination visits	+2.0%	**170,702**	167,388
Average spending per visit *(RMB)*	+23.4%	**838.1**	679.2

Kanghua Hospital

The year 2021 was the 100th anniversary of the founding of the Communist Party of China, and it also marked the beginning of the implementation of the "14th Five-Year Plan" and the starting of the 4th Five-Year Plan of Kanghua Hospital. In the post-pandemic era where the economic situation is complex and challenging, the medical industry is forced to coexist with the crisis. The leaders of the Group have designed and specified the strategic theme of "Being Open to New Opportunities and Creating a New Pathway", and asked all Kanghua people to be prepared for new opportunities arising from the crisis and to create new circumstances in the changing environment, aiming to comprehensively improve the quality of medical care and enhance the survivability, competitiveness, development and sustainability of Kanghua. In 2021, in addition to actively fighting against the pandemic, Kanghua Hospital incorporated reforms, innovation and improvement of medical technology, management ability and service quality as the guidelines in the daily work throughout the year. By virtue of the efforts of all staff of Kanghua Hospital, and through departmental reform, innovative management, system improvement, procedure standardization and continuous improvement, the medical quality and safety are well guaranteed. The teaching ability and academic research level have also been significantly improved, and the service quality and the comprehensive strength of the hospital have been comprehensively strengthened.

In 2021, all pandemic prevention and control measures were strictly implemented on the basis of our experience from 2020. There was no case of nosocomial infection among the staff, patients or accompanying persons in the hospital. The medical staff in our hospital were deployed to administer the COVID-19 vaccination in the centralized vaccination point (Dongguan Gymnasium), schools, communities and hospitals in the south part of the city, which lasted for 198 days. Up to now, more than 400,000 doses of COVID-19 vaccine have been administered, with the busiest day recording over 1,000 people receiving vaccination. Our work has been highly praised by the government, society and other hospitals.

During the year, Kanghua Hospital introduced and improved the use of information-based tools to monitor and analyze key medical quality process indicators and result indicators, and utilized big data analysis tools such as Zhongong web (中公網) and clinical pathways to actively improve the quality of our departments, which significantly improved the awareness of quality and safety throughout the hospital. With a focus on acute, critical and severe illnesses, the department has been gradually strengthened. The hospital continues to place emphasis on the diagnosis and treatment of patients with intractable disease and acute and critical illness, with the ability to treat critically ill patients being improved and the department being pushed forward at the same time. Relying on the 2+6 department development plan, the hospital has established the aortic dissection diagnosis and treatment center for the department of cardiothoracic surgery, the medical alliance for the obstetrics and gynecology center, the stroke medical alliance for the neurology center, and the endoscopy center for the department of otolaryngology – head and neck surgery.

In 2021, the project jointly established by Kanghua Hospital and Northeastern University was successfully approved and supported by the 2022 National Natural Science Foundation of China, which is the first national-level scientific research project that Kanghua Hospital directly participated in and was awarded. Throughout the year, 19 projects of Kanghua Hospital were approved and supported by Dongguan social science and technology development program, and the hospital has made breakthroughs in the applications for provincial key projects. The Laboratory Department of Kanghua Hospital was rated as a key clinical specialty in Dongguan in 2021. In 2021, Kanghua Hospital was successively awarded as the Medical Association Centre of Chinese Non-government Medical Institutions Association, and has been awarded the top 100 single-hospitals among the private hospitals, the top 100 best hospitals in the Guangdong-Hong Kong-Macao Greater Bay Area, the top 80 listed medical service companies, the top 100 hospital groups, the top 300 prefecture-level city hospitals, the HIC500 smart hospitals and the center unit of Medical Association. It was also rated as the demonstration site of the party building project of private hospitals in Guangdong Province, the five-star party organization in Dongguan, and the best branch (headquarter) of the Communist Youth League in Dongguan.

Kanghua Hospital promoted the high-quality development by strengthening the digitalisation aspects and enhancing the overall data based strength of the hospital. In 2021, Kanghua Hospital introduced the Diagnosis Related Groups (DRGs) hospital quality evaluation system that can detect some clinical business data indicators of the hospital departments. By comparing and evaluating the medical output (production capacity, efficiency and safety) among hospitals, departments and doctors, the decision-making capability of the hospital was further improved. The information department of the hospital has independently developed and completed the interface between the Hospital Information System (HIS) system and the provincial medical insurance platform in only under six months. As a result, more than 120 information processes were optimized throughout the year, which helps to improve the clinical work efficiency, simplify the patient consultation process, increase the efficiency of information extraction, and effectively improve the service level of the hospital.

By employing the “Internet +” connectivity, Kanghua Hospital created a seamless offering of medical services. As an internet-enabled hospital, the online functions have been incorporated to achieve end-to-end connection between online appointment registration, online consultation, electronic prescription and offline inspection, report inquiry, and drug delivery. In addition, functions such as online payment, inspection appointments, self-collection of medicines, and delivery are integrated to create a full-process medical service. During the year, the hospital improved the Internet + nursing service function and added service positioning, evaluation forms, etc., to provide professional nursing services for discharged patients or special groups suffering from diseases and inconvenience.

In the future, Kanghua Hospital will gradually realize a high degree of information-based integration of daily administrative management, medical management, medical record management, nursing management, performance management, and financial management, further introduce smart nursing, and implement three-level quality control management among the hospital, the department and the district. With the application of management tools, the nursing management ability and level of the hospital will be comprehensively improved. Along with improved hospital management efficiency, the information and data can provide a basis for hospital leaders to make decisions at any time.

During the Reporting Period, Kanghua Hospital recorded a revenue of RMB1,526.0 million (2020: RMB1,357.3 million), representing a year-on-year increase of 12.4%.

Renkang Hospital

In 2021, adhering to the ethos of “Caring for the Common People and Practicing Medicine with Virtue”, Renkang Hospital adopted all-round actions and devoted unremitting efforts in providing medical services. Through multiple initiatives of re-learning, re-mobilization, re-deployment, re-implementation, and re-promotion, the hospital implemented regular pandemic prevention and control measures and safeguarded public health. Meanwhile, Renkang Hospital responded to the call of the government and actively participated in the large-scale nucleic acid screening and the COVID-19 vaccination work in Houjie Town, Dongguan city. During the year, the Dongguan New Crown Epidemic Prevention and Control Headquarters were deployed to carry out nucleic acid testing for all people in the city. Renkang Hospital responded voluntarily, and completed the nucleic acid testing and sampling work for residents in the relevant areas within 24 hours in a timely, efficient and successful manner. Medical workers of Renkang Hospital have been deployed more than 760 times and participated and collected and tested more than 400,000 nucleic acid samples from residents in the relevant areas, which received the satisfaction of the government and the trust of the public. Renkang Hospital also actively responded to the nation’s call to establish standardized clinics for immunization. So far, medical workers have been deployed more than 4,300 times and voluntarily participated in the vaccination carried out in and out of the hospital simultaneously and has completed more than 450,000 doses of vaccination, contributing to the establishment of a mass immune barrier and epidemic prevention and control.

As for the application of Renkang Hospital for Grade A Class II hospital grading, in May 2021, Renkang Hospital received a formal notification from the Municipal Health Bureau stating that it has entrusted the Municipal Hospital Management Evaluation and Quality Control Center to carry out the general training for six hospitals including Renkang Hospital. Due to interruptions of the COVID-19 pandemic, the training has not yet been carried out. However, Renkang Hospital's preparation work remains ongoing. The hospital recruited the director of the office for Grade A Class II hospital and set up the evaluation committee and work supervision group for the Grade A Class II hospital classification. The hospital further clarified the responsibilities of the management level, improved the management system of the hospital, continuously improved the quality of medical care and service, and ensured medical safety. Meanwhile, the hospital has promoted and strengthened the supervision of various offices and departments, and assisted the clinical sections and departments in completing the document preparation and the relevant training programs.

Renkang Hospital has tightened the management on medical insurance, strictly implemented medical insurance-related regulations, and regularly provided trainings on medical insurance policies and pricing policies for medical workers so that they are fully aware of the relevant requirements. The hospital also strengthened the management of medical quality and improved the technical level within the hospital. In terms of medical management, the relevant management system has been improved and revised according to the actual situation in daily operation and many aspects of the work have been further standardized, institutionalized and procedural. In 2021, Renkang Hospital enhanced the development of the department of acute, critical and severe illness. In the second half of the year, leaders of neurosurgery disciplines were introduced to comprehensively improve the level of treatment against acute, critical and severe illness in the hospital, which further promoted the development of the "Chest Pain Center" and "Stroke Center".

During the Reporting Period, Renkang Hospital recorded a revenue of RMB275.6 million (2020: RMB224.6 million), representing a year-on-year increase of 22.7%.

Kangxin Hospital

In 2021, Kangxin Hospital further improved the level of medical technology, actively developed new technologies, and deepened its capabilities. During the year, Kangxin Hospital made a number of remarkable achievements, including: (1) the implantation of the first permanent artificial cardiac pacemaker through the axillary vein by the intervention center; (2) the usage of wireless Fractional Flow Reserve (FFR) examination and the usage of Flow Doppler (RFR) examination without the injection of Adenosine Triphosphate (ATP) by the intervention center; (3) the multi-center treatment of Angiotensin Receptor-Neprilysin Inhibitor (ARNI) for heart failure patients led by the cardiology department; (4) Transcatheter Aortic Valve Replacement (TAVR) operations newly carried out by both the cardiology department and cardiac surgery department; (5) the transcatheter left atrial appendage occlusion and the pericardial fenestration and drainage recently conducted by the cardiac surgery department; and (6) the stress echocardiography and painless transesophageal echocardiography conducted by the ultrasound department.

Meanwhile, Kangxin Hospital continued to strengthen and deepen cooperation with the Cardio Union (Beijing), invited well-known professors to the hospital for consultation and guidance, and maintained the international academic exchanges of the medical team. During the year, relying on training and scientific research, Kangxin Hospital conducted quality talent training and promoted the continuous development of the hospital. In 2021, Kangxin Hospital successfully passed the assessment of the National Standardized Cardiac Rehabilitation Center, the inspection of the National Health Promotion Hospital and the acceptance of the Jiangbei District Emergency Center, which laid the foundation for Kangxin Hospital to carry out multi-disciplinary development including chronic disease management and rehabilitation treatment. Upon the hospital being adopted as the emergency center, the chest pain center of the hospital can also leverage such status. The second phase of Kangxin Hospital is under construction. However, due to the COVID-19 pandemic and other reasons, the second phase construction has been subject to delay. The general office and the engineering department of the hospital have accordingly adjusted the construction schedule and attend to the project approval procedures.

In terms of COVID-19 prevention and control, Kangxin Hospital has made considerable effort in the pandemic prevention and control. Under the background of the normalization of the COVID-19 pandemic, the hospital has strictly followed the pandemic prevention and control requirements, formulated and improved the patient diagnosis and treatment process, strictly implemented the infection control system throughout the hospital, strengthened pre-examination and triage, conducted strict screening of the patients, enhanced the personal protection and environmental disinfection for medical staff and regularly organized nucleic acid testing throughout the hospital. Kangxin Hospital also volunteered to undertake vaccination and nucleic acid testing to promote the Kangxin brand.

The work plan of Kangxin Hospital in 2022 includes promoting the growth of the hospital's income by: (1) increasing the number of patients and the business volume for the surgery department to ensure the achievement of the 2022 annual tasks; (2) focusing on breakthroughs in the development of internal medical businesses such as atrial fibrillation and supraventricular tachycardia, highlighting the technical capabilities of Kangxin Hospital; (3) improving the functions of the rehabilitation center and hypertension center, and bringing a certain amount of patients to the hospital through chronic disease management; (4) inviting well-known outside experts to visit the hospital for consultation, and attracting patient flow by taking advantage of the reputation of highly-regarded doctors; increasing the pipeline development of the Health Division to ensure that the hospital beds are occupied in an optimal manner; consolidating the technical highlights; and (5) introducing and recruiting medical talent, especially experts at the senior level, to gradually build a well-known doctor team, and establishing the specialty brand of Kangxin Hospital with prominent hospital and highly-regarded doctors.

During the Reporting Period, Kangxin Hospital had recorded a revenue of RMB37.8 million (2020: RMB38.6 million), representing a year-on-year decrease of 2.1%. Despite its operating potential, Kangxin Hospital has continued to face many ongoing challenges, including huge burden on professional headcounts, overhead expenditure and fixed costs, as well as unstable professional workforce that has dampened short-term patient visit growth. The competition for healthcare professionals and experts has remained intense in the local Chongqing market. The loss of certain key medical experts in year 2020 resulted in reduced patient visits at Kangxin Hospital during the current year. However, the Group has stepped up its recruitment of experienced medical experts and improved our medical capabilities to regain and attract local patients. The Board believes such initiative will gradually regain the momentum of revenue growth at Kangxin Hospital in the long term.

The table below sets forth the revenue contribution by healthcare disciplines of our hospital services segment for the years indicated:

		For the year ended 31 December			
Healthcare disciplines	**Change**	**2021** *RMB'000*	% of revenue of the Group's owned hospitals	2020 *RMB'000*	% of revenue of the Group's owned hospitals
O&G related disciplines (婦產科有關科室)	+3.1%	**264,436**	14.4	256,581	15.8
Internal medicine related disciplines (內科有關科室)	+11.3%	**209,894**	11.4	188,515	11.6
Cardiovascular related disciplines (心血管有關科室)	+3.4%	**204,550**	11.1	197,902	12.2
General surgery related disciplines (普通外科有關科室)	+2.7%	**133,923**	7.3	130,441	8.1
Neurology related disciplines (神經醫學有關科室)	+10.1%	**124,301**	6.8	112,929	7.0
Emergency medicine related disciplines (急診有關科室)	+4.2%	**111,153**	6.0	106,720	6.6
Orthopaedics related disciplines (骨科有關科室)	+7.3%	**106,851**	5.8	99,589	6.1
Oncology related disciplines (腫瘤科有關科室)	+26.7%	**68,189**	3.7	53,823	3.3
Nephrology related disciplines (腎臟科有關科室)	+19.8%	**62,574**	3.4	52,218	3.2
Medical aesthetic related disciplines (醫學美容有關科室)	+39.2%	**53,283**	2.9	38,268	2.4
Paediatrics related disciplines (兒童醫學有關科室)	+26.3%	**42,581**	2.3	33,702	2.1
Physical examination (體檢科)	+25.8%	**143,068**	7.8	113,697	7.0
Other disciplines (其他臨床科室)	+33.3%	**314,672**	17.1	236,068	14.6
Total		**1,839,475**	100.0	1,620,453	100.0

Note: The Group's healthcare disciplines can generally be classified into clinical disciplines and medical technology disciplines. Medical technology disciplines provide diagnostic and treatment support according to the requirements of clinical disciplines from time to time. Revenue derived from services delivered through medical technology disciplines is generally recognised in the relevant clinical disciplines that utilised such services.

In 2021, the Group had performed a total of 46,647 surgeries (2020: 39,170), including 13,687 surgeries (2020: 15,346) with level 3 or level 4 complexities, representing a year-on-year increase of 19.1% and decrease of 10.8%, respectively. The increase as primarily attributable to gradual normalization over scheduling of surgeries in the Group's hospitals operations after the COVID-19 pandemic. The Board believes that the impact of the pandemic on our hospital operations is temporary. Despite occasional disturbances to the business operations due to isolated cases identified in Guangzhou and other regions of the PRC, our medical service operations had substantially returned to normal in year 2021.

During the Reporting Period, all the major medical disciplines of our hospitals had recorded an increase in revenue, which was mainly due to recovery of our business operations and increase in patient visits after normalization from the COVID-19 pandemic. The obstetrics and gynaecology ("**O&G**") related disciplines remained as our largest medical discipline and recorded an increase in revenue with a year-on-year increase of 3.1%. Our O&G related disciplines continued to be our stable revenue driver for the Group. However, the effects of the pandemic have caused a general decline in pregnancy and birth rates during year 2020, which reduced the demand of our service and constrain our growth. The revenue from O&G related disciplines for the current year has yet to return to our normal level in 2019.

Revenue from medical aesthetic, oncology, paediatrics, physical examination, nephrology and internal medicine related disciplines recorded substantial growth, with a year-on-year increase of 39.2%, 26.7%, 26.3%, 25.8%, 19.8% and 11.3%, respectively. In particular, revenue from neurology, oncology, medical aesthetic, nephrology and physical examination related disciplines have surpassed the level before the pandemic in year 2019, indicating strong demand for our services as soon as the impact of the pandemic began to subside in the second half of year 2020.

Special Services

The Group's special services are high-end healthcare services that extend beyond basic medical services and are specifically catered for more affluent patients who are willing to pay a premium for higher quality and customised services that are not generally available in public hospitals. The Group's special services consist of VIP healthcare services, reproductive medicine, plastic and aesthetic surgery and laser treatment. In 2021, the total revenue derived from special services amounted to RMB173.6 million (2020: RMB157.2 million), representing a year-on-year increase of 10.4%.

In 2021, the operation of our VIP healthcare services had improved. In particular, the demand for our service offerings from Huaxin Building (華心樓) (a complex in Kanghua Hospital dedicated to VIP healthcare services) had rebounded from the effects of the pandemic. Our revenue from VIP healthcare services (included VIP inpatient and outpatient services and VIP O&G services) recorded RMB100.1 million (2020: RMB93.4 million), representing a year-on-year increase of 7.2%, primarily attributable to an increase in the number of VIP inpatient and outpatient visits at Kanghua Hospital.

Our revenue from reproductive medicine has increased to RMB46.9 million (2020: RMB43.6 million) with a year-on-year increase of 7.6%. The increase in revenue of reproductive medicine is again due to recovery of our reproductive medicine service after the pandemic and at the same time, Kanghua Hospital had increased investment and deployed more resources in its business development team over this discipline.

The table below sets forth the revenue contribution for the Group's special services for the years indicated:

		For the year ended 31 December	
	Change	**2021**	2020
		RMB'000	*RMB'000*
VIP healthcare services	+7.6%	**100,467**	93,392
Reproductive medicine	+7.5%	**46,900**	43,627
Laser treatment	+38.4%	**21,659**	15,654
Plastic and aesthetic surgery	+1.7%	**4,591**	4,515
Total revenue from special services		**173,617**	157,188

Rehabilitation and other Healthcare Services

During the Reporting Period, the Group's rehabilitation and other related healthcare services, through its ownership of 57% equity interest in Anhui Hualin, had recorded a revenue of RMB101.5 million (2020: RMB100.4 million), representing a year-on-year increase of 1.1%. Anhui Hualin directly and indirectly (through its wholly-owned subsidiaries) holds sponsor interests in the managed and controlled entities, some of which are private non-enterprise entities in Anhui Province, the PRC (collectively referred to as "**Anhui Hualin Group**"). As at 31 December 2021, it primarily operated two rehabilitation hospitals, a general hospital, an outpatient centre, twelve rehabilitation centres and one vocational training school. The operation of Anhui Hualin Group demonstrated expansion of our Group's presence in the rehabilitation healthcare sector in Anhui Province, the PRC. Since its acquisition, Anhui Hualin Group has developed steadily, with its network of medical institutions and rehabilitation hospitals and centres constantly expanding.

Anhui Hualin Group currently employs more than 840 staff and has a stable cooperation with the Anhui Disabled Persons Federation (安徽省殘疾人聯合會) and local governments in the provision of training services for the disabled. The Anhui Hualin Group is also a major organisation offering children rehabilitation services in Auhui Province, the PRC. As at 31 December 2021, the two major rehabilitation hospitals operated by Anhui Hualin Group, namely, Hefei Kanghua Rehabilitation Hospital (合肥康華康復醫院) and Hefei Jingu Hospital (合肥金谷醫院) had a total of 200 (2020: 200) registered beds. During the Reporting Period, the two rehabilitation hospitals have 28,761 (2020: 32,046) outpatient visits and 2,255 (2020: 2,941) inpatient visits. In the first half of year 2021, Hefei Kanghua Rehabilitation Hospital and Hefei Jingu Hospital were under periodical investigation by the relevant authority, and were required to be temporarily closed for two months before its reopening later in June 2021. This temporary closure had resulted to certain extent operational disturbance and loss of patient visits.

In 2021, although the overall revenue from this segment had recorded a mild increase of 1.1%, revenue from rehabilitation hospital services has recorded a year-on-year decline of 36.4% to RMB40.8 million (2020: RMB64.2 million). Revenue from rehabilitation centres services and other healthcare service (in particular our children rehabilitation operations) had recorded a year-on-year increase of 67.7% to RMB60.7 million (2020: RMB36.2 million), mainly driven by the significant growth in our children rehabilitation services.

In January 2021, Hefei Kanghua Rehabilitation Hospital passed and obtained ISO9001 quality management system certification, ISO45001 occupational health and safety management system certification and GB/T24001–2016/ISO14001:2015 environmental management system certification, signifying that our quality management level of the hospital has excelled to a new level. In December 2021, Hefei Kanghua Rehabilitation Hospital successfully became a member unit of the Anhui Maternal and Child Health Association (安徽省婦幼保健協會).

As to professional academic development, in 2021, Anhui Hualin Group hired a number of external experts and consultants, setting the foundation for continuous improvement and quality management. With the strengthening of national standardized management reform in place, Anhui Hualin Group is required to recruit and nurture more talents and professional management personnel to keep up with business expansion. In 2022, Anhui Hualin Group aims to deploy more resources in developing its children rehabilitation sector, as the Board believes this sector will become the core revenue driver in the rehabilitation healthcare business segment.

Sale of Pharmaceutical Products

Revenue from sales of pharmaceutical products for the Reporting Period amounted to RMB0.7 million (2020: RMB17.5 million), representing a year-on-year decrease of 96.0%. From the beginning of the pandemic in year 2020, the operation of our pharmaceutical stores within our hospitals has been difficult, mainly as a result of the decline in patient visits and various pharmaceutical reform policies and measures being implemented at the national level. In 2021, the Group had retrenched the operation of this segment and gradually integrated with our hospital services segment.

Elderly Healthcare Services

The Group's elderly healthcare services segment comprised our comprehensive elderly healthcare centre located inside Renkang Hospital, namely, Renkang Elderly Care Centre (仁康護理院) with the aim of providing quality high-end elderly care services to local residents in Houjie Town, Dongguan City, the PRC. In view of the accelerating aging population problem in the PRC that leads to the high development potential of the healthcare and elderly care industry, Renkang Elderly Care Centre signifies our Group's presence and extension of our big health concept business development.

In 2021, Renkang Elderly Care Centre continued to upgrade and achieved outstanding performance. Up to December 2021, the centre has a total of 108 beds with a daily average elderly inpatient of 93 persons and achieved an average annual bed utilisation rate of 86.1%. Revenue from provision of elderly healthcare services for the Reporting Period amounted to RMB12.2 million (2020: RMB6.6 million), representing a year-on-year increase of 84.8%, primarily due to an increase in intake of patients during the year. As the operation matures, as well as the centre became a designated medical institution covered by the social insurance system in Dongguan, the PRC since 2020, Renkang Elderly Care Centre has gradually gained reputation in the local area and received more enquiry from local potential patients.

In 2022, Renkang Elderly Care Centre had further improved its service quality and management efficiency. According to the requirements of the national healthcare security information platform, Renkang Elderly Care Centre manages the information of the resident elderly according to the standards applicable to medical insurance qualified institutions, and updates and manages the information about testing, examination, drugs and consumables in a timely manner. The elderly centre provides various services including health consultation, health examination, health management and intervention, drug management, and daily care services, and can provide in-house diagnosis and treatment of common diseases, management and treatment of chronic disease and first aid for resident elderly. In addition, Renkang Elderly Care Centre conducts a comprehensive geriatric assessment (CGA) for each of our elderly resident and according to the assessment results, formulates scientific, reasonable and effective prevention, healthcare, treatment, rehabilitation and care plans, and makes efforts to improve various functions of the elderly, thereby improving the quality of life and self-care ability of the elderly. According to relevant national and provincial industry standards, technical codes, and safety goals, the applicable rules and regulations, process guidelines, emergency action plans, diagnosis and treatment protocols, and care protocols of the Care Centre are promptly updated to provide guidance for various work, and perfect its rules, regulations, process guidelines and emergency action plans. In preventing and controlling COVID-19 pandemic, the centre takes decisive measures to block any import of infected cases, and has achieved the goal of "zero occurrence, zero infected cases and zero fatality cases). In 2021, the centre actively prepared and applied for the qualification as a training institution of elderly care workers under the "South Guangdong Domestic Service" program, and was granted the qualification in July 2021 after passing the onsite expert acceptance procedure organized by the provincial expert team.

In 2021, the development of the third phase elderly care centre building had commenced inside Renkang Hospital (construction cost will be provided by the landlord of Renkang Hospital), aiming to provide the best in the class elderly healthcare services and satisfy the overwhelming demand for elderly healthcare service in the district. With respect to the land use rights of a land parcel acquired in year 2020, the management expects that the construction of the main facilities will commence in year 2022. The Group intends to develop such land parcel into a comprehensive elderly healthcare medical facility with a particular focus on geriatric patients and rehabilitation. The Board expects that such development will further enhance the Group's capability in providing high-end integrated medical care to meet the increasing demand for such services in Guangdong Province, the PRC (and in particular Dongguan City, the PRC).

Industry Outlook and Strategy

In 2021, as the first year of the 14th Five-Year Plan, the medical and healthcare industry, known as the "never-declining sunrise industry", is shrouded in shadow. But in fact, the rigid demand of the industry has not changed and in the future, the industry's potential and innovation are vigorous. The development of the industry will enter a rational stage of development and return to a basic core value position. The industry's entrance and professional barriers are extremely high, and it is greatly affected by policy supervision and reforms launched by the Chinese government. The healthcare industry is characterised by high-risk, high-investment and long-term investment return. The accelerated aging of the population, the improvement of national health awareness stimulated by the epidemic, coupled with the support of new technologies and policy support, the development of the industry may experience some transitional pains, but the general direction has not changed, and opportunities for development still continue to emerge.

Post Pandemic Era and Deepening the Reform of the Disease Prevention and Control System

Moving forward, the impact of the COVID-19 pandemic on the healthcare industry will continue. With a vaccination rate of over 85% in the PRC population, the economy enters the new period of normalization in year 2022. However, at the same time, China has maintained its strict border control, with tight quarantine requirements and measures still in place. These policies hinder economic growth. Furthermore, with the uncertainty created by the Omicron variant, these policies are expected to remain in place into year 2022. While the Chinese government's zero-tolerance COVID-19 policy remains in place, restrictions to contain outbreaks may continue to periodically suppress economic activities and businesses will continue to experience various kinds of operational interruptions, particularly in the healthcare service provider's sector. It is expected that the prevention and control of the COVID-19 pandemic and deepening reforms relating to disease prevention and control system will continue. Although the COVID-19 pandemic in the PRC was sporadic and locally clustered, it continued to consume a lot of social resources. Hospitals also had to tighten the COVID-19 pandemic prevention and control measures at all times. The Group therefore had to carry out a procurement plan under the normalisation of the COVID-19 pandemic, pay attention to market changes in a timely manner, and respond quickly.

Healthcare Digitisation and Online Healthcare Development

In this new era, the healthcare industry in the PRC faces both challenges and opportunities with the rise of online medical consultation, smart hospitals and the advancement of communication technology, all of which have enabled patients to choose alternative online medical treatments. According to the latest data available, as of year 2020, a total of 172 hospitals in China have obtained electronic medical record ratings (電子病歷評級), of which 145 are Grade A Class III hospitals, accounting for 84.3% and a total of 162 are Class III hospitals, accounting for 94.2%. For interconnection (互聯互通) hospitals, the numbers increased from 9 in year 2016 to 148 in year 2020.

The implementation of the COVID-19 pandemic prevention and control measures has led to an upsurge of online medical treatments. Various hospitals have broken through the limitations of traditional face-to-face medical treatments and have provided patients with more options of various forms of medical treatments. Online healthcare and digitalisation are expected to continue to evolve and develop rapidly in 2022. The medical and healthcare industry will continue to accelerate and upgrade by virtue of digitalisation, and provide patients with "Internet + hospital + out-of-hospital services". Products and solutions will be extended to the closed-loop service of "treatment, medicine, insurance, and health management". New technologies, such as digital therapy, are combined with the internet to provide patients with greater value. In addition, the COVID-19 pandemic has promoted the rapid development of online medical care and the further implementation of intelligent payment models, all of which have put forward higher requirements for the development of the informatisation of the medical services, especially for private medical institutions. The Company has fully accelerated the development of online healthcare in response to rising social needs. Since 2020, the Group has officially deployed online medical services, and established an online medical platform to contribute to the online and offline integration and development of Kanghua Hospital.

Development Trend of Rehabilitation Services

With an increasingly aging population, the percentage of labour force continues to drop. In addition, the increasing disease prevalence in the elderly population increases the healthcare needs and expenses of residents, and creates more burden for the social security system. With policy guidance, more resources will be directed to rehabilitation institutions in a faster pace. Rehabilitation medicine plays an important role in the national healthcare system, and helps patients rebuild dignity by improving their functions and quality of life. In recent years, the government pays great attention to rehabilitation medicine, and issues multiple regulations and policies to encourage the development of rehabilitation services. The need for rehabilitation services come from all age groups and patients with various diseases. However, as rehabilitation medicine started relatively late in China, and is less recognised by the general public, the imbalanced supply and demand of rehabilitation medical service in China has posed challenges to the development of rehabilitation business. This year is the first year of the "14th Five-Year Plan". The government recently issued multiple regulations, including the Circular on Printing and Distribution of the Opinion on Accelerating the Development

Rehabilitation Services (《關於印發加快推進康復醫療工作發展意見的通知》) and the Protection and Development Plan for the Disabled under the "14th Five-Year Plan" (《"十四五"殘疾人保障和發展規劃》), which significantly improves the strategic importance of rehabilitation services.

Deepening the Reform of the Pricing of the Medical Services

In November 2021, China issued the Three-Year Action Plan for Reform of the DRG/Diagnosis-Intervention Packet (DIP) Payment Models, which accelerated reform. The DRG payment model establishes an incentive and restraint mechanism for "retaining surplus and reasonably sharing over-budget costs", under which hospitals are required to control costs to achieve the goals of improving quality and efficiency, payers are required to consider medical history structure and corresponding weight when formulating payment plans, and service providers are required to refine their cost estimation, taking medical history structure and weight into consideration. The mechanism forces hospitals to control medical costs, improve treatment efficiency and provide reasonable diagnosis and treatment services.

In view of the reform of the pricing of the medical services, the PRC government will establish a sound and sensitive price adjustment mechanism, regularly carry out price adjustment evaluations, increase the price of medical services that reflect the value of the technique and labour involved, and increase guidance and supervision in areas where progress is lagging. The PRC government will also speed up the review of pricing new medical service projects, guide local governments in reforming and optimising their rules that regulate the pricing of medical services, and allow the relevant authorities to conduct cost investigations in an easy and efficient manner. The Group will increase the cost-effectiveness of its operation and continue to implement measures with regard to cost management and control. The Group will also strive to increase the rate of use of the inpatient bedside settlement function and online settlement of fees.

Future Development of Proactive Healthcare

Increased awareness of active health and increased consumer spending power promotes the growth of consumer healthcare. The continuation of the COVID-19 pandemic promotes the health awareness of the public. In addition, according to the statistics published by the National Bureau of Statistics, the total population had a net increase of 480,000 in 2021, and the trend of the age demographic change has reversed. As the middle-aged and elderly population is more willing to actively pursue and promote physical health, the consumer healthcare service continues to grow rapidly with an aging population. With the issuance of various policies such as the "Healthy China 2030" Planning Outline and the Promotion of the Implementation of Healthy China Action 2020 Work Plan, the big-health market with a value of RMB13 trillion provides numerous opportunities for business development. There is broad space for development of the consumer healthcare market.

Future Development of Patient-Centred Whole Course Management

The core of informatization is doctors and institutions. All data generated by medical activities occurs within medical institutions which are under the control of doctors. Informatization will become patient-centred, and expand the sources of health, diagnosis, treatment, prescription and other information for patients, from hospitals to other institutions, and from offline to online and other data collection and monitoring channels. The big-health industry has conducted various experiments and is gradually perfecting the close-loop of "hospital-patent-drug-insurance". The demand for consumer healthcare continues to grow with the increased proactive health awareness. In 2022, digital healthcare will gradually change from "hospital-centred" to "patient-centred".

Our Strategy

In 2022, the entire healthcare industry will continue to face both challenges and opportunities. The Group will strive to optimise its medical services, improve the operational efficiency of its medical service business, accelerate the development of disciplines over which the Group has competitive advantages, strengthen its quality management, accelerate the online transformation of the healthcare industry, promote breakthroughs in the consumer medical segment, and expand the scale of its operations. At the same time, the Group will continue to pay attention to the opportunities for carrying out mergers and acquisitions in the domestic market. In addition, the Group will continue to monitor the progress of the COVID-19 pandemic and adopt corresponding prevention and control measures to ensure the stability and orderliness of its business activities.

Future Plans for Material Investments and Capital Assets

Save as disclosed in this announcement, the Group did not have other plans for material investments or capital assets as of the date of this announcement.

FINANCIAL REVIEW

Segment Revenue

The Group generates revenue primarily from: (i) hospital services – providing healthcare services through its owned hospitals, namely Kanghua Hospital, Renkang Hospital and Kangxin Hospital, comprising inpatient healthcare services, outpatient healthcare services and physical examination services; (ii) rehabilitation and other healthcare services – providing rehabilitation services to patients with physical or mental disabilities and other healthcare-related services including elderly care and training service for the disabled; (iii) sale of pharmaceutical products and medical consumables to patients of the Group's hospitals and walk-in customers who may not be patients of the Group's hospitals; and (iv) elderly healthcare services – provision of elderly healthcare services, including assisted living, adult daycare, long-term care, residential care and hospice care to the aged patients.

The following tables below set forth the revenue, cost of revenue, gross profit and gross profit margin of the Group by segment for the years indicated:

For the year ended 31 December 2021

	Hospital services	**Rehabilitation and other healthcare services**	**Sale of pharmaceutical products**	**Elderly healthcare services**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue	**1,839,475**	**101,507**	**726**	**12,236**	**1,953,944**
Cost of revenue	**(1,507,294)**	**(85,234)**	**(610)**	**(8,058)**	**(1,601,196)**
Gross profit	**332,181**	**16,273**	**116**	**4,178**	**352,748**
Gross profit margin	**18.1%**	**16.0%**	**16.0%**	**34.1%**	**18.1%**

For the year ended 31 December 2020

	Hospital services	Rehabilitation and other healthcare services	Sale of pharmaceutical products	Elderly healthcare services	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,620,452	100,411	17,538	6,622	1,745,023
Cost of revenue	(1,391,229)	(69,770)	(14,015)	(6,854)	(1,481,868)
Gross profit	229,223	30,641	3,523	(232)	263,155
Gross profit margin	14.1%	30.5%	20.1%	-3.5%	15.1%

Revenue from the Group's hospital services amounted to RMB1,839.5 million (2020: RMB1,620.5 million), representing a year-on-year increase of 13.5% and accounting for 94.1% (2020: 92.9%) of the total revenue of the Group.

Revenue from hospital services comprised of: (i) revenue from inpatient healthcare services amounting to RMB1,079.6 million (2020: RMB977.9 million), representing a year-on-year increase of 10.4%, accounting for 55.3% (2020: 56.0%) of the total revenue of the Group; (ii) revenue from outpatient healthcare services amounting to RMB616.8 million (2020: RMB528.8 million), representing a year-on-year increase of 16.6%, accounting for 31.6% (2020: 30.3%) of the total revenue of the Group; and (iii) revenue from physical examination services amounting to RMB143.1 million (2020: RMB113.7 million), representing a year-on-year increase of 25.9%, accounting for 7.3% (2020: 6.5%) of the total revenue of the Group. The increase in revenue from hospital services is mainly due to: (i) an increase in the number of inpatient, outpatient and physical examination visits during the year across all of our hospitals due to recovery from the pandemic; (ii) the growth in revenue across all our major medical disciplines and our special services; and (iii) overall increase public health safety awareness since the pandemic and economic recovery in the Guangdong region. Revenue from physical examination has significantly which is primarily due to increase in the number of physical examination visits and the number of COVID-19 tests performed at our hospital during the year.

During the Reporting Period, the revenue from our special services accounted for approximately 8.9% (2020: 9.0%) of the Group's total revenue and 9.4% (2020: 9.7%) of the Group's revenue from our hospital services segment. The growth in revenue from our hospital services has demonstrated that the demand for our service continued to remain strong and the overall recovery in both economic activities and hospital operations in the Guangdong region ever since the outbreak of the COVID-19 pandemic in year 2020. In addition, Kanghua Hospital and Renkang Hospital have continued to upgrade their service quality and operation capabilities which gained public recognition and reputation during the year.

Revenue from rehabilitation and other healthcare services amounted to RMB101.5 million (2020: RMB100.4 million), representing a year-on-year increase of 1.1%, accounting for 5.2% (2020: 5.8%) of the total revenue of the Group. Although, revenue from this segment recorded a mild increase, revenue from rehabilitation hospital services has recorded a year-on-year decline of 36.4% to RMB40.8 million (2020: RMB64.2 million). In the first half of year 2021, Hefei Kanghua Rehabilitation Hospital and Hefei Jingu Hospital were under periodical investigation by the relevant authority, and were required to be temporarily closed for two months before its reopening later in June 2021. This temporary closure has caused to a certain extent operational disturbance and loss of patient visits. Furthermore, revenue from rehabilitation centres services and other healthcare service (in particular our children rehabilitation operations) has recorded a year-on-year increase of 67.7% to RMB60.7 million (2020: RMB36.2 million), mainly driven by the significant growth in our children rehabilitation services.

Revenue from the sale of pharmaceutical products and medical consumables amounted to RMB0.7 million (2020: RMB17.5 million), representing a year-on-year decrease of 96.0%, accounting for 0.04% (2020: 1.0%) of the total revenue of the Group. The decrease in revenue is mainly attributable to the decrease in the demand for pharmaceutical and medical consumables inside our hospitals and restructuring of business operation over this segment since early 2021. In 2021, the Group has retrenched the operation of this segment and gradually integrated with our hospital services segment.

Revenue from elderly healthcare services represented the provision of elderly healthcare services at Renkang Elderly Care Centre, which amounted to RMB12.2 million (2020: RMB6.6 million), representing a year-on-year increase of 84.8%, accounting for 0.6% (2020: 0.4%) of the total revenue of the Group. The increase in revenue is mainly attributable to the maturing business operation of Renkang Elderly Care Centre and rising demand for elderly healthcare services which drives an increase in intake of patients during the year.

Cost of Revenue

Cost of revenue of the Group's hospital services segment (consisting of inpatient healthcare services, outpatient healthcare services and physical examination services) primarily consisted of cost of pharmaceuticals and medical consumables, staff cost, depreciation and amortisation, service expenses, utilities expenses, rental expenses and other costs. Cost of revenue of the Group's hospital services segment increased to RMB1,507.3 million (2020: RMB1,391.2 million), representing a year-on-year increase of 8.3%. The increase in cost of revenue for hospital services segment is mainly attributable to increase in business operations of our hospitals and the increase in the number of patients across all medical disciplines during the Reporting Period. The growth in our business operation parallel with the increase in variable costs such as cost of pharmaceuticals and medical consumables and staff cost. Our Kangxin Hospital is still the stage of ramping up its operation and is running at negative gross margin during the Reporting Period.

Cost of revenue of the Group's rehabilitation and other healthcare services segment amounted to RMB85.2 million (2020: RMB69.8 million) representing a year-on-year increase of 22.1%, and primarily consisted of staff costs, medical consumables, depreciation, utilities and rental expenses. The increase in cost of revenue is in line with the increase in revenue for the year, mainly as a result of increase in operation of our rehabilitation centres and direct staff headcounts and departmental costs including direct consumables and office expenses.

Cost of revenue of the Group's sale of pharmaceutical products segment amounted to RMB0.6 million (2020: RMB14.0 million), representing a year-on-year decrease of 95.7%, mainly attributable to the decreased cost of pharmaceuticals and medical consumables products and the retrench in operation of this segment.

Cost of revenue of the Group's elderly healthcare services represented the cost of revenue at Renkang Elderly Care Centre, which amounted to RMB8.1 million (2020: RMB6.9 million), representing a year-on-year increase of 17.4%, which mainly represent the cost of services including direct staff cost and consumables incurred at the elderly care centre. The increase is due to the full deployment of its services since late 2020 with an increase in staff headcounts and other major costs.

For the year ended 31 December 2021, costs of pharmaceuticals, medical consumables and staff accounted for approximately 26.2% (2020: 27.6%), 28.5% (2020: 26.7%) and 30.8% (2020: 31.8%), respectively, of the total cost of revenue of the Group. The proportion of cost of pharmaceuticals as percentage of total cost of revenue has declined during the Reporting period, which is mainly attributable to the continuing adjustment on cost control and in line with medical reforms at the national level. Our total staff-related costs including salary, bonus and other benefits have increased by 4.5% as compared with the corresponding period last year, mainly attributable to an increase in professional headcounts and general salary level to cope with the rise in business operations.

Gross Profit and Gross Profit Margin

Total gross profit of the Group amounted to RMB352.7 million (2020: RMB263.2 million), representing a year-on-year increase of 34.0%. The overall gross profit margin increased to 18.1% (2020: 15.1%), primarily due to:

1. the increase in overall patient visits and revenue from all our major medical disciplines of our hospital services segment operations during the year has significantly improved our gross profit margin. Several of our major cost of revenue, such as direct staff costs, depreciation and amortisation and utilities expenses maintained relatively stable, regardless of the expansion in the business operations. Furthermore, during the peak of the pandemic in year 2020, the Group did not make substantial adjustments to professional medical staff level or conduct stringent cost control with the view to maintain staff morale, stable workforce and service quality, therefore, our hospitals are capable of absorbing higher growth in patient visits during the current year and hence, improved our gross profit margin;

2. the growth in revenue of special services that targeted patients with higher spending and typically command higher margin than basic healthcare services (our special services-related revenue recorded a year-on-year growth of 10.5%);

3. the increase in the average spending of our outpatients and physical examination services resulting from leveraging the reputation of the "Kanghua" brand that is gaining wider recognition in the Guangdong region. The average gross profit margin of our hospital services segment increased from 14.1% in year 2020 to 18.1% in year 2021, which is mainly due to the significantly improved operations and patient visits during the year. Furthermore, the gross profit margin of our elderly healthcare services segment also improved from -3.5% in year 2020 to 34.1% in year 2021, which indicated the gradually matured operation of our Renkang Elderly Care Centre; and

4. however, the above impact has been considerably offset by the loss incurred at Kangxin Hospital, which is currently running at negative gross margin. Kangxin Hospital has incurred significant amount of fixed staff costs and other fixed costs during the period of ramping up its operation.

Other Income

The other income of the Group primarily consisted of bank and other interest income, investment income from financial assets at FVTPL, government subsidies, fixed operating lease income (rental income), clinical trial and related income, compensation pursuant to a profit guarantee given by a shareholder of a subsidiary and others. In 2021, other income amounted to RMB45.1 million (2020: RMB41.2 million), representing a year-on-year increase of approximately 9.5%, primarily due to: (i) an increase in government subsidies to RMB11.2 million (2020: RMB6.3 million), primarily due to an increase in vaccination and other COVID-19 related subsidies received from government bodies and other subsidies from operation of our rehabilitation centres and hospitals as well as research and development projects; (ii) a decrease in investment income from financial assets at FVTPL of 47.6% to RMB8.6 million (2020: RMB16.4 million), which represents investment return from structured deposits with banks in the PRC, and the decline is due to decrease in average investment being placed during the year; (iii) an increase in clinical trial and related income to RMB4.8 million (2020: RMB3.1 million); (iv) a decrease in fixed operating lease income to RMB3.9 million (2020: RMB5.4 million) mainly due to the further continuing rental concession given to staff during the year; (v) compensation money received from the non-controlling shareholder of Anhui Hualin of RMB6.5 million in 2021 pursuant to a profit guarantee arrangement given by the non-controlling shareholder; and (vi) a decrease in bank and other interest income to RMB1.9 million (2020: RMB4.0 million).

As part of the Group's cash management to maximise return on idle cash, the Group invested in certain low-risk structured deposit products issued by a PRC commercial bank and investment funds (all classified as financial assets at FVTPL) to achieve higher interest income and capital gain return without interfering with business operations or capital expenditures to earn better return on our excess cash balance, which consistent with our cash management policy.

Other Expenses, Gains and Losses

The other expenses, gains and losses of the Group primarily consisted of fair value gain (loss) on financial assets at FVTPL, loss on disposals of property, plant and equipment, donations and net exchange gain (loss). In 2021, other expenses, gains and losses amounted to a net loss of RMB5.2 million (2020: RMB5.1 million), primarily comprising: (i) a recorded fair value loss on financial assets at FVTPL of RMB2.3 million for the current year (2020: fair value gain of RMB4.1 million); (ii) a recorded net exchange loss for the year of RMB2.3 million (2020: RMB4.9 million) mainly arising from our Hong Kong dollar denominated financial assets; (iii) a decrease in loss on disposal of property, plant and equipment to RMB0.5 million (2020: RMB1.5 million); and (iv) donations made during the year of RMB0.1 million (2020: RMB2.8 million).

(Net Provision) Net Reversal of Impairment Losses under Expected Credit Loss (ECL) Model

During the Reporting Period, impairment losses under expected credit loss model recorded a net provision of RMB2.9 million (2020: net reversal of provision of RMB1.8 million). The net provision for the current year is mainly attributable to: (i) an increase in the overall balance of accounts and other receivables at the end of the Reporting Period; and (ii) the effects of increase in the Group's accounts receivable aging and temporary delay in settlement from certain corporate customers which resulted in deterioration in credit rating. Over the past few years, the Group has increased its efforts to recover overdue debts, including recovering receivables from patients through legal actions, as well as tightening credit reviews given to corporate customers.

The Group collectively assesses ECL for the accounts and other receivables, except for accounts receivable from the PRC government's social insurance scheme and certain credit-impaired debtors which are assessed for ECL individually. The provision rates are based on internal credit ratings as groupings of various receivables that have similar loss patterns. The collective assessment is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and available without undue costs or effort. At every reporting date, the historically observed default rates are reassessed and changes in the forward-looking information are considered.

The management of the Group closely monitors the credit quality of accounts and other receivables and considers the debts that are neither past due nor impaired to be of a good credit quality. Receivables that were neither past due nor impaired related to the customers and debtors for whom there was no history of default. As part of the Group's credit risk management, the Group uses receivables' aging to assess the impairment for its receivables except for accounts receivables from the PRC government's social insurance schemes and certain credit impaired debtors of which ECL are assessed individually. These receivables consist of a large number of small patients with common risk characteristics that are representative of the patients' abilities to pay all amounts due in accordance with the contractual terms.

Impairment of Goodwill

During the year ended 31 December 2018, the Group recognised: (i) goodwill of RMB56.6 million arising from the acquisition of Anhui Hualin Group, which has been allocated to the CGU of rehabilitation and other healthcare services business (the Anhui Hualin CGU); and (ii) goodwill of RMB125.4 million arising from the acquisition of Kangxin Hospital, which has been allocated to the CGU of hospital services business (the Kangxin Hospital CGU). As at 31 December 2021, the Board conducted a review of the carrying values of the aforementioned CGUs.

The recoverable amounts of the Anhui Hualin CGU and Kangxin Hospital CGU have been determined based on a value in use calculation with reference to valuation reports prepared by an independent professional valuer. The calculations use the respective cash flow projections of Anhui Hualin Group and Kangxin Hospital based on their financial budgets approved by the management of the Group. The key assumptions are growth rates and pre-tax discount rates, which are estimated based on past practices and expectations of future changes in the market.

As at 31 December 2021, after taking into consideration of the historical performance and most recent actual performance of the Anhui Hualin CGU, the Board believes that any reasonably possible changes in any of the assumptions would not cause the carrying amount of cash generating unit to exceed its recoverable amount and considers that no further impairment is required in respect of the goodwill allocated to the Anhui Hualin CGU (2020: impairment loss of RMB27.5 million is recognised).

As at 31 December 2021, after taking into consideration of the historical performance and most recent market conditions and actual performance of the Kangxin Hospital CGU, the Board considers that the estimate medium-term growth in revenue and result of Kangxin Hospital will be lower than previously anticipated. Accordingly, the recoverable amount of Kangxin Hospital CGU is below its carrying amount. During the Reporting Period, the Group recognised an impairment loss of RMB15.5 million (2020: RMB49.9 million) is recognised related to goodwill allocated to the Kangxin Hospital CGU.

As at 31 December 2021, the carrying amount of goodwill relating to the Anhui Hualin CGU is approximately RMB29.1 million (2020: RMB29.1 million) and the Kangxin Hospital CGU is nil (2020: RMB15.5 million).

As disclosed in this announcement, the COVID-19 pandemic has been affecting almost all industries and sectors to various extent. The situation has caused some businesses to temporarily cease operations for a significant amount of time during the year of 2020. In 2021, the pandemic continues and isolated cases were identified at our medical facilities, causing temporary restrictions and disruption of our business. However, the pandemic did not have any significant impact on the Group's operation and financial performance for the year. At present, our hospitals and rehabilitation centres have resumed normal operation and are largely operating as usual with stringent and restrictive policies and controls being implemented. The Board is of the view that the operations and adverse financial conditions of the Group as a whole for the current year are largely temporary. The effects of the COVID-19 pandemic are less likely to be permanent, primarily because the majority of our revenue from healthcare services is not directly correlated to the economic cycles and the overall demand for the Group's healthcare services (particularly those that are essential to health and well-being) is likely to remain strong in the medium to long term.

Administrative Expenses

The administrative expenses of the Group primarily consisted of staff costs, repairs and maintenance expenses, office expenses, depreciation and amortisation, rental expenses, utilities expenses, entertainment and travelling expenses and other expenses. For the Reporting Period, administrative expenses amounted to RMB225.2 million (2020: RMB227.8 million), representing a year-on-year decrease of approximately 1.1%, primarily due to: (i) a decrease in administrative staff related costs to RMB74.4 million (2020: RMB79.6 million) as a result of the decline in number of administrative headcounts and deduction in bonus payments as well as staff related benefits following a more tightened cost control; (ii) an increase in depreciation and amortisation to RMB36.3 million (2020: RMB36.2 million); (iii) a decrease in administrative and office expenses to RMB17.3 million (2020: RMB18.9 million); and (iv) an increase in overall repair and maintenance expenditure to RMB27.7 million (2020: RMB18.4 million) as more upgrades and maintenance were carried out during the year when business operation capacity remained low and anticipated a higher and faster recovery in business operations in the future.

Finance Costs

Finance costs for the year amounted to RMB19.8 million (2020: RMB22.0 million), representing a year-on-year decrease of 10.0%. Finance costs for the Reporting Period comprised of: (i) interest on bank loans raised of RMB18.0 million (2020: RMB15.3 million), the increase in finance costs is primarily due to the increase in the Group's bank borrowings during the year; (ii) the interest element relating to lease liabilities charged to profit or loss during the current year of RMB11.5 million (2020: RMB12.5 million); and (iii) less amount of interest capitalised in the cost of qualifying assets of RMB9.7 million (2020: RMB5.8 million).

Income Tax Expenses

The income tax expenses of the Group primarily consisted of PRC enterprise income tax and Hong Kong Profits Tax. In 2021, income tax expenses amounted to RMB62.3 million (2020: RMB24.0 million), representing a year-on-year increase of approximately 159.6%. The subsidiaries of the Group in the PRC are generally subject to income tax rate of 25% on their respective taxable income. Our effective tax rate for the Reporting Period is 48.2% (2020: -91.9%). The increase in income tax expenses is primarily due the increase in profits generated at Kanghua Hospital and Renkang Hospital during the year, as well as, the tax effect of tax losses not recognised for losses incurred of Kangxin Hospital, as well as, the tax effect of impairment loss recognised in respect of goodwill.

Profit (Loss) for the Year

The Group recorded profit for the Reporting Period amounted to RMB66.9 million (2020: loss of RMB50.1 million), and profit attributable to shareholders of the Company amounted to RMB94.3 million (2020: loss attributable to shareholders of RMB25.4 million).

FINANCIAL POSITION

Property, Plant and Equipment, Rights-of-Use Assets and Deposits Paid for Acquisition of Property, Plant and Equipment

During the Reporting Period, the Group acquired property, plant and equipment and incurred expenditure on construction in progress of RMB69.5 million (2020: RMB82.9 million) and RMB99.8 million (2020: RMB86.9 million), respectively, mainly for the purpose of upgrading and expanding the service capacity of the Group's hospital and rehabilitation services operations and construction cost incurred of Phase II medical facility at our Kangxin Hospital.

At as 31 December 2021, the Group has right-of-use assets of RMB354.1 million (2020: RMB382.8 million) which includes leasehold lands of RMB226.6 million (2020: RMB231.5 million) and leasehold land and buildings relating to leases of RMB127.6 million (2020: RMB151.3 million) recognised in accordance with IFRS 16. During the year, the Group entered into new lease agreements for the use of properties in the PRC ranging from 2 to 5 years. The Group is required to make fixed monthly payments. On lease commencement, the Group recognised right-of-use assets and lease liabilities of RMB7.1 million (2020: RMB8.3 million) each relating to those new leases.

As at 31 December 2021, the Group has deposits paid for acquisition of property, plant and equipment amounting to RMB91.6 million (2020: RMB91.2 million). The deposits mainly represent deposits paid for construction cost of Phase II medical facility at our Kangxin Hospital and amount paid for acquisition of new medical equipment and other new facilities as the Group continues to upgrade its medical facilities and expand its operation capacity.

Accounts and Other Receivables

The accounts receivable of the Group primarily consisted of balances due from social insurance funds, certain corporate customers and individual patients. As at 31 December 2021, accounts receivable increased to RMB226.5 million (2020: RMB204.7 million), of which 86.0% (2020: 76.9%) were aged within 90 days. Average accounts receivables turnover days for the current year is 40.3 days (2020: 49.0 days). The increase in accounts receivable and decrease in accounts receivable turnover days is primarily due to increase in revenue of our hospitals operations and rehabilitation and other healthcare services operations during the year. As at 31 December 2021, the Group has carried out credit assessment on its accounts and other receivables and a net provision of impairment loss of RMB2.9 million (2020: net reversal of impairment loss of RMB1.8 million) has been charged to profit or loss during the year.

The other receivables of the Group primarily consisted of prepayments to suppliers, interest receivables and others. As at 31 December 2021, other receivables decreased to RMB41.7 million (2020: RMB44.0 million) and primarily due to: (i) a decrease in prepayments to suppliers to RMB13.3 million (2020: RMB16.4 million); and (ii) an increase in other receivables comprising other receivables, other prepayments, security deposits and other prepaid expenses mainly due to expansion of the Group's during the year.

Accounts and Other Payables and Provisions

The accounts and other payables and provisions of the Group primarily consisted of accounts payable, accrued expenses, receipt in advance, payables for acquisition of property, plant and equipment, provision for medical dispute claims, other tax payables and others. As at 31 December 2021, accounts and other payables and provisions increased to RMB633.4 million (2020: RMB516.9 million) primarily due to: (i) an increase in accounts payable to RMB321.6 million (2020: RMB256.8 million) due to expansion in the Group's operation which increased the purchases of supplies during the year; (ii) increase of accrued expenses to RMB98.2 million (2020: RMB94.0 million) mainly due to increase in operational and administrative charges and accrued staff costs; and (iii) an increase in receipt in advance to RMB147.2 million (2020: RMB100.7 million) mainly due to an increase in temporary funds received from social security insurance fund as a result of growth in business operation; (iv) a decrease in payable for acquisition of property, plant and equipment to RMB30.6 million (2020: RMB41.7 million) due to reduction in medical equipment purchases and improvement works made to our owned-hospitals during the year; and (v) a decrease in provision for medical dispute claims to RMB1.9 million (2020: RMB3.0 million), comprising provision for the year of RMB2.3 million (2020: RMB4.6 million), reversal of provision for the year of RMB1.1 million (2020: nil) and utilisation of provision for the year of RMB2.2 million (2020: RMB2.0 million).

Net Current Assets

As at 31 December 2021, the Group recorded net current assets of RMB347.4 million (2020: RMB294.4 million) and net assets position of RMB1,474.4 million (2020: RMB1,407.5 million).

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources

The Group continued to maintain a strong financial position with cash and cash equivalents of RMB237.3 million as at 31 December 2021 (2020: RMB179.7 million) and fixed bank deposits of RMB3.0 million as at 31 December 2021 (2020: RMB5.0 million). The Group continues to generate steady cash flow from operations. Coupled with sufficient cash and bank balances, in the opinion of the directors of the Company, the Group will have adequate and sufficient liquidity and financial resources to meet the working capital requirement of the Group for at least the next twelve months following the end of the Reporting Period.

As at 31 December 2021, as part of the Group's cash management activities, the Group had investments (classified as financial assets at FVTPL) in aggregate of RMB603.3 million (2020: RMB467.7 million), primarily consisting of: (i) portfolio investment fund of RMB63.3 million (2020: RMB67.7 million), representing an investment fund, the underlying portfolio of which included a mixture of cash and shares that are primarily listed in Hong Kong; (ii) a fund investment of RMB10.0 million (2020: nil). During the year ended 31 December 2021, the Group entered into a partnership agreement with two independent third parties for establishment of a fund, namely, Guangdong Bosong Kanghua Equity Investment Partnership, L.P.* (廣東鉑頌康華股權投資合夥企業（有限合夥)), a limited partnership established under the laws of the PRC pursuant to the partnership agreement. The purpose of the fund is to achieve investment returns and capital appreciation through carrying out investment, investment management and other activities in accordance with PRC laws, business scope under business registration, and the partnership agreement. To the extent permitted by the applicable laws, the fund will invest primarily in the fields of medical services, biotechnology, medical equipment, and medical informatics. The initial term of the fund shall be seven years; and (iii) structured short-term bank deposits of RMB530.0 million (2020: RMB400.0 million), representing low-risk structured investment products issued by commercial banks in the PRC for variable investment returns. Majority of these structured deposits are with maturities of less than six months and the principal is generally renewed when matured.

As part of the Group's cash management policy to manage excess cash, the Group purchases investment products from financial institutions to achieve higher interest income without interfering with business operations or capital expenditures. The Group carefully balances the risks and returns associated with the investment products when making the investment decisions. The senior management of the Group is closely involved in scrutinizing any decision of the Group to purchase investment products. The investment products should generally satisfy the following criteria, including: (i) its term should generally not exceed one year; (ii) it should not interfere with the Group's business operations or capital expenditures; (iii) it should be issued by a reputable bank which the Group has a long-term relationship, preferably exceeding five years; and (iv) the underlying investment portfolio should generally be low risk.

Cash Flow Analysis

The table below sets forth the information as extracted from the consolidated statement of cash flows of the Group for the years indicated:

	2021	2020
	RMB'000	*RMB'000*
Net cash generated from operating activities	**333,370**	275,292
Net cash used in investing activities	**(299,333)**	(182,152)
Net cash generated from (used in) financing activities	**23,269**	(138,215)
Net increase (decrease) in cash and cash equivalents	**57,306**	(45,075)

Net cash generated from operating activities

During the Reporting Period, the net cash generated from operating activities amounted to RMB333.4 million (2020: RMB275.3 million), representing a year-on-year increase of 21.1%, the increase is primarily attributable to our significantly improved adjusted EBITDA for the Reporting Period. Changes in working capital include: (i) increase in inventories amounting to RMB27.2 million (2020: decrease of RMB13.0 million); (ii) increase in accounts and other receivables amounting to RMB23.1 million (2020: decrease of RMB53.4 million); and (iii) increase in accounts and other payables amounting to RMB126.4 million (2020: RMB46.2 million). Total income tax paid during the Reporting Period amounting to RMB54.8 million (2020: RMB34.9 million).

Net cash used in investing activities

During the Reporting Period, the net cash used in investing activities amounting to RMB299.3 million (2020: RMB182.2 million), representing a year-on-year increase of 64.3%. The increase is primarily attributable to: (i) an increase in purchase of property, plant and equipment to RMB149.4 million (2020: RMB128.7 million); (ii) a decrease in deposits paid for acquisition of property, plant and equipment to RMB21.8 million (2020: RMB33.8 million); (iii) a net increase in purchase of financial assets at FVTPL; and (iv) partly offset by payments for acquisition of land use rights (rights-of-use assets) in the prior year of RMB85.1 million (2021: nil).

Net cash generated from (used in) financing activities

During the Reporting Period, the net cash from financing activities amounting to RMB23.3 million (2020: net cash used in financing activities of RMB138.2 million) and primarily consists of: (i) raised new bank loans amounting to RMB60.0 million (2020: RMB50.0 million); (ii) net advances from non-controlling shareholders of subsidiaries of RMB31.1 million (2020: net repayment of RMB120.0 million); (iii) repayments of lease liabilities of RMB31.4 million (2020: RMB26.5 million); and (iv) increase in interest paid amounting to RMB26.6 million (2020: RMB25.5 million).

Significant Investment, Acquisition and Disposal

Save as disclosed in this announcement, the Group had no significant investment, acquisition or disposal during the Reporting Period.

Cash Management Activities

As part of the Group's cash management, the Group has from time to time purchased investment products (structured bank deposits) issued by a reputable PRC commercial bank with terms ranging from 30 days to 187 days and portfolio investment funds to achieve higher interest income without interfering with business operations or capital expenditures. The investment products are not rated by any credit rating agency but is classified as low-risk by the issuing bank and may involve liquid listed securities. The Group carefully balances the risks and returns associated with the investment products when making the investment decisions. The senior management of the Group is closely involved in scrutinizing any decision of the Group to purchase investment products. Furthermore, the Group has also invested in portfolio fund and equity investment fund for the purpose of generating long-term investment returns. It has been the strategy of the Group to explore new potential investments projects and capital market investments in order to diversify business risk as well as broaden income source and spectrum of the Group and eventually maximizing shareholders' values. The Company considers that these investment funds involve scopes that covers quality capital market stocks and high value-added health industries which are in line with PRC's development trajectories in the healthcare and technology space which is highly relevant to the Group's core business. The Directors consider that, through appropriate market screening of investment projects by the funds, they will will in the long term be a reasonable investment of the Company and some of which may facilitate the Group's entry into the relevant healthcare space and establishing strategic cooperation with relevant players in the market.

Capital Expenditure

The Group regularly makes capital expenditures to expand its operations, maintain its medical facilities and improve its operating efficiency. Capital expenditure primarily consists of purchases of property, plant and equipment. The capital expenditure of the Group during the year was RMB169.3 million (2020: RMB169.8 million). The Group has financed its capital expenditure mainly through cash flows generated from operating activities and bank loans.

USE OF PROCEED FROM THE INITIAL PUBLIC OFFERING

The Company's H shares were listed on the Stock Exchange on 8 November 2016. The Company's net proceeds from the initial public offering of its H shares amounted to approximately RMB782.6 million (equivalently to approximately HK$874.9 million) after deducting underwriting commissions and all related expenses. The net proceeds from the initial public offering have been and will be utilised in accordance with the purposes set out in the prospectus of the Company dated 27 October 2016 (the "**Prospectus**").

Up to 31 December 2021, of the net proceeds from the initial public offering, (i) RMB77.0 million, representing approximately 9.8% of the net proceeds, have been utilised and used as general working capital; (ii) RMB134.7 million, representing approximately 17.2% of the net proceeds, have been utitlised and used on expansion of our current operations and upgrading our hospital's facilities; and (iii) RMB158.8 million, representing approximately 20.3% of the net proceeds, have been utitlised and used for acquisition and potential acquisition of businesses. As at 31 December 2021, out of the balance of the unutilised net proceeds of RMB412.0 million, part of such proceeds have been used to purchase certain financial products (classified as financial assets at FVTPL) to achieve higher interest income and capital return without interfering with our business operations or capital expenditures to earn better return on our excess cash balance, and the remaining balance have been kept at the bank accounts of the Group (included in bank balances and cash). As at the date of this announcement, the Company does not anticipate any material change to its plan on the use of proceeds as stated in the Prospectus.

INDEBTEDNESS

Bank Loans

In 2019, the Group obtained new bank loan facilities in the aggregate amount of RMB620.0 million for the purpose of funding the development of the Phase II medical facility and financing the operations of Kangxin Hospital. Up to 31 December 2021, RMB345.4 million has been drawn down. As at 31 December 2021, the Group had secured bank loans of carrying amount of RMB310.8 million (2020: RMB257.8 million). The principal agreements underlying such bank loan facilities include the following:

(i) a RMB420.0 million fixed asset facility agreement (固定資產借款合同) with Industrial and Commercial Bank of China Limited, Chongqing Jiangbei Branch, pursuant to which RMB169.4 million has been drawn down in year 2019, RMB50.0 million has been drawn down in year 2020 and RMB60.0 million has been draw down during the Reporting Period. The bank loan carried an interest rate at the benchmark lending rate offered by the People's Bank of China (adjusted annually from the drawn down date) and is secured by shares pledged over the entire equity in Kangxin Hospital held by the Company and its non-controlling shareholder. As at 31 December 2021, the effective interest rate of the secured bank loan is 5.72% (2020: 5.84%) per annum. As at 31 December 2021, the carrying amount of the borrowing in respect of such arrangement amounted to RMB265.2 million (2020: RMB204.6 million); and

(ii) a RMB200.0 million financial leasing agreement (融資租賃合同) with Industrial and Commercial Bank of China Leasing Co., Ltd., pursuant to which, up to 31 December 2021, RMB66.0 million has been drawn down. The loan carried an interest rate at the benchmark lending rate offered by the People's Bank of China plus 5%, which was fixed at the drawn down date. This agreement involves a sale and lease back arrangement over certain medical equipment assets of Kangxin Hospital, pursuant to which such assets have been transferred to the lender and leased back to Kangxin Hospital, with an option exercisable by Kangxin Hospital to purchase the assets at a nominal consideration upon the maturity of the lease. Despite that such arrangement assumes the legal form of a lease, the Group retains effective control over such assets. Thus, the Group accounted for such arrangement as a secured loan at amortised cost at an effective interest rate of 6.74% (2020: 6.74%) per annum and repayable in quarterly variable instalments until September 2027. In addition, such assets have been pledged to the lender as security throughout the loan period. As at 31 December 2021, the carrying amount of the borrowing in respect of such arrangement amounted to RMB45.6 million (2020: RMB53.2 million). As at 31 December 2021, the property, plant and equipment with net book value of RMB32.2 million (2020: RMB45.5 million) had been pledged to secure the banking facility granted.

In connection with the bank loan facilities above, some of our controlling shareholders, a non-controlling shareholder of a subsidiary and a related company controlled by certain of our controlling shareholders provided guarantees and undertakings in favour of the relevant lender. The financial assistance provided by some of our controlling shareholders is exempted from the connected transaction requirements under Chapter 14A of the Listing Rules by virtue of Rule 14A.90 of the Listing Rules.

Contingent Liabilities

The Group is subject to legal proceedings and claims in the ordinary of business primarily arising from medical disputes brought by patients. Provision for medical disputes is made based on the status of potential and active claims outstanding as at the end of the relevant period, and primarily taking into account any judicial appraisal or court determination against the Group. As at 31 December 2021, except for those disputes with provision made, the total stated claim amount of the Group's on-going medical disputes was approximately RMB7.5 million (2020: RMB6.8 million) and there were certain medical disputes without claim amount stated. Based on the Group's assessment, as at 31 December 2021, approximately RMB1.9 million (2020: RMB3.0 million) had been provided and included in accounts and other payables and provision of the Group.

As at 31 December 2021, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

Pledge of Assets

As at 31 December 2021, certain property, plant and equipment of the Group with net book value of RMB32.2 million (2020: RMB45.5 million) had been pledged to secure banking facilities granted to the Group.

Capital commitments

The capital commitments of the Group were primarily attributable to construction costs relating to the expansion and renovation of the Group's medical facilities. As at 31 December 2021, the capital commitments in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements were RMB149.6 million (2020: RMB255.5 million).

Financial Instruments

The Group's financial instruments primarily consisted of accounts and other receivables, financial assets at FVTPL, fixed bank deposits, bank balances and cash, restricted bank balances, accounts and other payables, amounts due to non-controlling shareholders of subsidiaries, bank loans and lease liabilities. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Exposure to fluctuation in Exchange rates

The proceeds of raised by the Company in its initial public offering of its H Shares is denominated in Hong Kong dollars. The Group deposits some of its financial assets in Hong Kong dollars, and is mainly exposed to fluctuation in exchange rates of Hong Kong dollars against RMB. The Group is therefore exposed to foreign exchange risk.

The Group has not used any derivatives financial instruments to hedge against its exposure to currency risk. The management manages the currency risk by closely monitoring the movement of the foreign currency rates and will consider hedging significant foreign currency exposure should such need arise.

Gearing Ratio

As at 31 December 2021, the Group's gearing ratio (total interest-bearing bank loans divided by total equity and multiplied by 100%) was 21.1% (2020: 18.3%).

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he or she has complied with the required standards as set out in the Model Code during the Reporting Period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company complied with all applicable code provisions in the Corporate Governance Code set out in Appendix 14 to the Listing Rules during the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

During the Reporting Period, Deloitte Touche Tohmatsu ("**Deloitte**") has resigned as the auditor of the Company with effect from 31 December 2021. Subsequent to the end of the Reporting Period, Ernst & Young was appointed as the auditor of the Company with effect from 3 January 2022 to fill the casual vacancy following the resignation of Deloitte and to hold office until the conclusion of the next annual general meeting of the Company.

Save as disclosed in the above, there was no significant event after the Reporting Period.

FINAL DIVIDEND

The Board does not recommend the distribution of final dividend for the year ended 31 December 2021.

ANNUAL GENERAL MEETING

The Company will hold the annual general meeting (the "**AGM**") at Meeting Room 1, 2nd Floor of Dongguan Kanghua Hospital Administration Center in 1000 Dongguan Avenue, Nancheng District, Dongguan, Guangdong Province, PRC at 3:00 p.m. on Wednesday, 22 June 2022 for the Shareholders to consider, and if thought fit, approve the resolutions relating to, among others: (i) the 2021 Work Report of the Board; (ii) the 2021 Work Report of the Supervisory Committee; (iii) the 2021 Financial Reports; (iv) the annual report for 2021; and (v) the re-appointment of domestic auditor and international auditor of the Company for 2022 and authorise the Board to determine their respective remuneration. A special resolution will be proposed at the AGM to approve the general mandate to issue Shares.

CLOSURE OF REGISTER OF MEMBERS OF H SHARES AND ASCERTAINING OF ELIGIBILITY FOR ATTENDING THE AGM

The register of members of H Shares of the Company will be closed from Monday, 23 May 2022 to Wednesday, 22 June 2022, both days inclusive, during which no transfer of H Shares will be registered. In order to qualify for attending the AGM and vote for all resolutions to be submitted thereat, all transfer instruments of the H Shares together with the relevant share certificates shall be lodged with the Company's H Shares registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, before 4:30 p.m., on Friday, 20 May 2022 for registration.

REVIEW OF UNAUDITED RESULTS ANNOUNCEMENT

The Company's audit committee has reviewed the Group's unaudited annual results for the financial year ended 31 December 2021 and has opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

The Company's audit committee consists of three independent non-executive directors of the Company, Mr. Chan Sing Nun (the chairman of the audit committee), Mr. Yeung Ming Lai and Dr. Chen Keji. Among them, Mr. Chan Sing Nun has the appropriate professional qualifications (a certified public accountant accredited by the Hong Kong Institute of Certified Public Accountants).

The audit process for the annual results for the financial year ended 31 December 2021 has not been completed due to delay in the audit procedures resulting from the COVID-19 pandemic. The recent government measures adopted to curb the spread of the COVID-19 pandemic in Dongguan, Guangdong province, the PRC have resulted in, among other things, travel restrictions, lockdowns and temporary interruptions of mailing services. In turn, the Company's audit procedures and field work have been subject to considerable delay. The unaudited results contained herein have not been agreed by the Company's auditor. An announcement relating to the audited results will be made when the audit process has been completed. After discussing with the Company's auditor, the Company currently expects that the audit procedures will be completed by or around 14 April 2022, and will publish a further announcement as and when appropriate.

FURTHER ANNOUNCEMENT(S)

Following the completion of the audit process, the Company will issue further announcement(s) as and when appropriate in relation to the audited results for the year ended 31 December 2021 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the audit process.

PUBLICATION OF ANNUAL RESULTS AND ANNAUL REPORT

This unaudited annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kanghuagp.com). The 2021 annual report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders and made available on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our appreciation to the management team and staff of the Group for their contribution and also to extend my sincere gratitude to all our shareholders and business partners for their continuous support.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the Company's auditor. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
Guangdong Kanghua Healthcare Co., Ltd.*
WANG Junyang
Chairman

Hong Kong
30 March 2022

As at the date of this announcement, the Board comprises:

Executive Directors:	*Independent non-executive Directors:*
Mr. Wang Junyang *(Chairman)*	Dr. Chen Keji
Mr. Chen Wangzhi *(Chief executive officer)*	Mr. Yeung Ming Lai
Mr. Wong Wai Hung Simon *(Vice chairman)*	Mr. Chan Sing Nun
Ms. Wang Aiqin	

Non-executive Director:
Mr. Lv Yubo

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective and/or beyond control of the Group. These forward-looking statements may prove to be incorrect and may not materialize in the future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Furthermore, this announcement also contains statements based on the Group's management accounts, which have not been audited or reviewed by the Company's auditor. Shareholders and potential investors should therefore not place undue reliance on such statements.

* English translated name for identification purpose only.