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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- Revenue for the year increased by 18.0% to RMB1,639.3 million (2017: RMB1,389.2 million).
- Profit for the year increased by 0.1% to RMB161.3 million (2017: RMB161.1 million).
- Profit for the year attributable to owners of the Company increased by 7.2% to RMB167.9 million (2017: RMB156.6 million).
- Basic earnings per share increased by 7.3% to RMB50.2 cents (2017: RMB46.8 cents).

FINAL DIVIDEND

- The Board recommended the distribution of a final dividend of RMB16 cents per share (inclusive of applicable tax) for the year.

FINAL RESULTS

The board of directors (the "**Board**") of Guangdong Kanghua Healthcare Co., Ltd. (the "**Company**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the financial year ended 31 December 2018 (the "**Reporting Period**") together with the comparative figures for the preceding financial year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**2018** ***RMB'000***	2017 *RMB'000*
Revenue	3	**1,639,287**	1,389,169
Cost of revenue		**(1,280,383)**	(1,058,293)
Gross profit		**358,904**	330,876
Other income	4	**46,765**	32,694
Other gains and losses	5	**2,199**	(18,500)
Administrative expenses		**(185,178)**	(126,994)
Finance costs	6	**(936)**	–
Profit before taxation	7	**221,754**	218,076
Income tax expenses	8	**(60,482)**	(56,937)
Profit and total comprehensive income for the year		**161,272**	161,139
Profit (loss) and total comprehensive income (expense) for the year attributable to:			
– owners of the Company		**167,943**	156,592
– non-controlling interests		**(6,671)**	4,547
		161,272	161,139
Earnings per share, basic (RMB cents)	10	**50.2**	46.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	**2018** **RMB'000**	2017 RMB'000
Non-current assets			
Property, plant and equipment		**814,390**	434,109
Prepaid lease payment		**150,398**	–
Goodwill		**182,013**	–
Deposits paid for acquisition of property, plant and equipment		**81,133**	76,456
Available-for-sale investment	11	**–**	16,275
Other receivables	12	**–**	5,000
Fixed bank deposit	13	**16,000**	–
		1,243,934	531,840
Current assets			
Inventories		**45,358**	44,524
Accounts and other receivables	12	**207,016**	214,508
Prepaid lease payment		**3,248**	–
Financial assets at fair value through profit or loss	11	**479,142**	–
Available-for-sale investments	11	**–**	543,025
Restricted bank balances	13	**21,098**	14,700
Bank balances and cash	13	**203,256**	383,796
		959,118	1,200,553
Current liabilities			
Accounts and other payables	14	**481,839**	412,586
Amount due to a shareholder		**682**	925
Amount due to a non-controlling shareholder of a subsidiary		**152,204**	–
Tax payables		**38,368**	29,483
		673,093	442,994
Net current assets		**286,025**	757,559
Total assets less current liabilities		**1,529,959**	1,289,399
Non-current liability			
Deferred tax liabilities		**20,485**	–
Net assets		**1,509,474**	1,289,399
Capital and reserves			
Share capital	15	**334,394**	334,394
Reserves		**1,044,543**	930,830
Equity attributable to owners of the Company		**1,378,937**	1,265,224
Non-controlling interests		**130,537**	24,175
Total equity		**1,509,474**	1,289,399

NOTES:

1. GENERAL

Guangdong Kanghua Healthcare Co., Ltd.* (廣東康華醫療股份有限公司) (the "**Company**") was established as a limited liability company in the People's Republic of China (the "**PRC**") and its overseas listed foreign invested ordinary shares ("**H Shares**") are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"). The Company's immediate and ultimate holding company is Dongguan Kanghua Group Co., Ltd.* (東莞市康華投資集團有限公司), 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 Road, 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, provision of hospital management services, sale of pharmaceutical products and provision of other services (elderly care services) in the PRC.

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board for the first time in the current year:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

In addition, the Group has early applied Amendments to IFRS 9 Prepayment Features with Negative Compensation which will be mandatorily effective for the Group for the financial year beginning on 1 January 2019.

Except for the application of IFRS 9 and IFRS 15, the application of other new and amendments to IFRSs and an interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or disclosures set out in the consolidated financial statements.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[2]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019.

[2] Effective for annual periods beginning on or after 1 January 2021.

[3] Effective for annual periods beginning on or after a date to be determined.

[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

[5] Effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of some of these new and amendments to IFRSs may have impact on the Group's financial performance and position and/or the disclosures set out in the consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

Revenue

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

	2018 ***RMB'000***	2017 *RMB'000*
Recognised over time		
Hospital services:		
– Inpatient healthcare services	**919,814**	816,937
– Outpatient healthcare services	**552,507**	491,056
– Physical examination services	**98,791**	70,816
Rehabilitation and other healthcare services:		
– Rehabilitation hospital services	**32,672**	N/A
– Rehabilitation centre services and other healthcare services	**16,998**	N/A
Hospital management services	**2,258**	3,135
Others	**204**	N/A
	1,623,244	1,381,944
Recognised at a point in time		
Sale of pharmaceutical products	**16,043**	7,225
	1,639,287	1,389,169

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.

During the year ended 31 December 2018, the Group acquired new businesses which are principally engaged in provision of rehabilitation and other healthcare services and the operation of specialty hospital in cardiovascular diseases (detailed in note 18). In light of these new businesses acquired during the year, the directors of the Company have reallocated the Group's segment information and combined inpatient healthcare services, outpatient healthcare services and physical examination services into one single segment as hospital services. Segment information for the year ended 31 December 2017 is represented to conform with current year's presentation. The directors of the Company are of the view that the revised presentation of the operating segment information better reflects the Group's business operations.

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

(i)	Hospital services:	Provision of hospital services includes (i) inpatient healthcare services generally refer to the treatment of patients who are hospitalised overnight or for an indeterminate period of time; (ii) outpatient healthcare services generally refer to the treatment of patients who are hospitalised for less than 24 hours; (iii) physical examinations services 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 refer to the provision of special care services to patients with permanent or long-term physical or mental disabilities. Other healthcare services include elderly care services and training services for the disabled.
(iii)	Hospital management services:	Provision of management services to a hospital owned by an independent third party.
(iv)	Sale of pharmaceutical products:	Sale of pharmaceutical products to patients of the Group's hospitals and outside customers.
(v)	Others:	Provision of elderly care services to 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 2018

	Hospital services *RMB'000*	**Rehabilitation and other healthcare services** *RMB'000* *(note a)*	**Hospital management services** *RMB'000*	**Sale of pharmaceutical products** *RMB'000* *(note b)*	**Others** *RMB'000*	**Total** *RMB'000*
SEGMENT REVENUE						
External revenue	**1,571,112**	**49,670**	**2,258**	**16,043**	**204**	**1,639,287**
Segment profit	**339,027**	**15,983**	**512**	**3,365**	**17**	**358,904**
Other income						**46,765**
Other gains and losses						**2,199**
Administrative expenses						**(185,178)**
Finance costs						**(936)**
Profit before taxation						**221,754**

For the year ended 31 December 2017

	Hospital services *RMB'000* (restated)	Hospital management services *RMB'000*	Sale of pharmaceutical products *RMB'000* *(note b)*	Total *RMB'000*
SEGMENT REVENUE				
External revenue	1,378,809	3,135	7,225	1,389,169
Segment profit	328,265	1,424	1,187	330,876
Other income				32,694
Other gains and losses				(18,500)
Administrative expenses				(126,994)
Profit before taxation				218,076

Notes:

(a) Operation in rehabilitation and other healthcare services was acquired in April 2018.

(b) Sale of pharmaceutical products commenced in July 2017.

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 represents the profit earned by each segment without allocation of other income, other gains and losses, administrative expenses and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

Segment assets and liabilities

The CODM makes decisions according to 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 purposes 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 all of the non-current assets of the Group (except for investment in unlisted fund classified as financial assets at fair value through profit or loss ("FVTPL")/available-for-sale ("AFS") investment) are also located in the PRC. The Group has a highly diversified patient portfolio. No single patient contributing over 10% of the Group's total revenue during both years.

4. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Bank and other interest income	**7,243**	11,584
Government subsidies *(note)*	**1,483**	2,432
Fair value gain on financial assets at FVTPL	**6,447**	–
Investment income from financial assets at FVTPL/AFS investments	**18,344**	11,675
Clinical trial and related income	**2,862**	141
Rental income	**4,728**	4,457
Others	**5,658**	2,405
	46,765	32,694

Note: The government subsidies mainly represents the subsidies on costs incurred for operation of rehabilitation centres and hospitals, research and development projects, medical related seminars and forums with no special and unfulfilled conditions attached. The amount for the year ended 31 December 2017 included an one-off government subsidy of RMB2,000,000 in connection with the successful listing of the Company in 2016.

5. OTHER GAINS AND LOSSES

	2018	2017
	RMB'000	*RMB'000*
Allowance for credit loss	**(3,503)**	(3,513)
Loss on disposal of property, plant and equipment	**(231)**	(247)
Net exchange gain (loss)	**5,933**	(14,740)
	2,199	(18,500)

6. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loan	**936**	–

7. PROFIT BEFORE TAXATION

	2018	2017
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' emoluments	**4,132**	3,092
Other staff costs:		
Supervisors' emoluments	**448**	195
Other salaries and allowances	**426,723**	313,406
Retirement benefit schemes contributions	**20,214**	14,359
Total staff costs	**451,517**	331,052
Depreciation of property, plant and equipment	**70,259**	49,600
Amortisation of prepaid lease payment	**1,354**	–
Research and development expenditure	**620**	1,094
Operating lease rentals in respect of hospitals and rehabilitation centres	**31,422**	26,356
Auditor's remuneration	**3,148**	2,195
Cost of inventories recognised as expenses (representing pharmaceutical products, consumables and others used, included in cost of revenue)	**753,776**	646,517

8. INCOME TAX EXPENSES

	2018	2017
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax ("**EIT**")	**62,936**	57,348
Overprovision of PRC EIT in prior years	**(745)**	(411)
	62,191	56,937
Deferred tax	**(1,709)**	–
	60,482	56,937

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.

9. DIVIDENDS

Final dividend for the year ended 31 December 2017 of RMB16 cents per share amounting to approximately RMB54,230,000 in aggregate was declared and paid by the Company during the year ended 31 December 2018.

Subsequent to the end of the reporting period, final dividend of RMB16 cents per share amounting to approximately RMB53,503,000 in aggregate has been proposed by the directors of the Company which is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

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

	2018	2017
	RMB'000	*RMB'000*
Earnings:		
Profit for the year attributable to the owners of the Company for the purpose of calculating earnings per share	**167,943**	156,592

	2018	2017
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**334,394,000**	334,394,000

No diluted earnings per share has been presented since there were no potential ordinary shares in issue for both years.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR- SALE INVESTMENTS

	2018	2017
	RMB'000	*RMB'000*
Unlisted fund *(note i)*	**23,162**	16,275
Portfolio investment fund *(note ii)*	**53,980**	51,185
Structured bank deposits *(note iii)*	**402,000**	491,840
	479,142	559,300
Analysed as:		
Current	**479,142**	543,025
Non-current	**–**	16,275
	479,142	559,300

Notes:

(i) The unlisted fund represents an investment in equity securities of an unlisted company in the PRC and is measured at fair value.

(ii) The Group invested into a portfolio investment fund with a fund manager in Hong Kong for investment returns. The portfolio includes a mixture of cash and shares which are primarily listed in Hong Kong and is measured at fair value.

(iii) The Group invested into structured deposits with a bank in the PRC for investment returns. Majority of these structured deposits are with maturities of less than six months and the principal is generally renewed when matured.

12. ACCOUNTS AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Accounts receivables	**186,063**	102,705
Less: allowance for credit loss	**(9,573)**	(7,668)
	176,490	95,037
Prepayments to suppliers	**11,715**	5,267
Deposit paid for an investment *(note i)*	**–**	5,000
Loan receivables *(note ii)*	**–**	100,000
Interest receivables	**1,048**	6,066
Others	**17,763**	8,138
Total accounts and other receivables	**207,016**	219,508
Analysed as:		
Current	**207,016**	214,508
Non-current *(note i)*	**–**	5,000
	207,016	219,508

Notes:

(i) The amount of RMB5,000,000 as at 31 December 2017 represented the deposit paid for the acquisition of Anhui Hualin Group (defined in note 18(a)). The acquisition was completed and deposit was utilised on 1 April 2018.

(ii) In June 2016, a wholly-owned subsidiary of the Company granted an unsecured loan of RMB50,000,000 to the Zhonglian Cardiovascular Hospital (defined in note 18(b)), a hospital managed by the Group before it was subsequently acquired by the Group in August 2018. In December 2016, the Group further provided an unsecured loan facility of RMB50,000,000 to the Zhonglian Cardiovascular Hospital, of which the Zhonglian Cardiovascular Hospital had made the first drawdown of RMB30,000,000 in the same month. In January 2017, Zhonglian Cardiovascular Hospital had made the second drawdown of RMB20,000,000. The loans provided to Zhonglian Cardiovascular Hospital were interest-bearing at a fixed rate of 0.42% per month and repayable within twelve months from the drawdown date. During the year ended 31 December 2018, the Group acquired Zhonglian Cardiovascular Hospital and the loan receivables became part of the intragroup assets and eliminated in full on consolidation.

The individual patients of the Group would usually settle payments by cash, credit cards or governments' social insurance schemes. For credit card payments, the banks will normally settle the amounts approximately 30 days after the transaction date. Payments by governments' social insurance schemes will normally be settled by the local social insurance bureau or similar government departments which are responsible for the reimbursement of medical expenses for patients who are covered by the government medical insurance schemes ranged from 30 to 90 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:

	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**115,761**	71,637
31 to 90 days	**21,351**	14,379
91 to 180 days	**25,954**	4,102
181 to 365 days	**12,847**	2,802
Over 365 days	**577**	2,117
	176,490	95,037

13. FIXED BANK DEPOSIT/RESTRICTED BANK BALANCES/BANK BALANCES AND CASH

At 31 December 2018, the fixed bank deposit carried fixed interest rate at 3.20% per annum with original maturity at 3 years and is classified as non-current assets since their remaining maturity is over 12 months from the end of the reporting period.

Restricted bank balances 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; and (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. The restricted bank balances carried fixed interest rate ranging from 0.30% to 0.35% (2017: 0.30% to 0.35%) per annum as at 31 December 2018.

Bank balances carried prevailing market rates which ranging from 0.00% to 0.35% (2017: 0.00% to 3.80%) per annum as at 31 December 2018.

14. ACCOUNTS AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Accounts payables	**263,927**	275,622
Accrued expenses	**77,541**	68,919
Receipts in advance	**73,182**	41,824
Payables for acquisition of property, plant and equipment	**54,460**	16,241
Other tax payables	**3,129**	3,979
Provision for medical dispute claims	**1,280**	503
Others	**8,320**	5,498
Other payables	**217,912**	136,964
Total accounts and other payables	**481,839**	412,586

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:

	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**66,394**	69,988
31 to 90 days	**94,213**	92,977
91 to 180 days	**64,499**	76,910
181 to 365 days	**20,769**	20,565
Over 365 days	**18,052**	15,182
	263,927	275,622

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:

	2018	2017
	RMB'000	*RMB'000*
At the beginning of the year	**503**	477
Provision for the year	**1,462**	808
Utilisation of the provision	**(685)**	(782)
At the end of the year	**1,280**	503

15. SHARE CAPITAL

The Company was established as a limited liability company in the PRC on 30 January 2002.

Details of the movements of share capital of the Company are as follows:

	Number of domestic shares *'000*	**Number of H shares** *'000*	**Share capital** *RMB'000*
At 1 January 2017, 31 December 2017 and 31 December 2018	250,000	84,394	334,394

16. CAPITAL COMMITMENTS

	2018 ***RMB'000***	2017 *RMB'000*
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**115,950**	82,848

17. 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 14, the management of the Group believes that the final result of other medical disputes with total claims of RMB9,807,000 (2017: RMB7,143,000) as at 31 December 2018 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 in this regard.

18. ACQUISITIONS OF SUBSIDIARIES

(a) Acquisition of Anhui Hualin Group

On 1 April 2018, the Group acquired 57% equity interest in Anhui Hualin Medical Investment Co., Ltd.* (安徽樺霖醫療投資有限公司) ("**Anhui Hualin**"), a PRC entity, and its subsidiaries (collectively referred as the "**Anhui Hualin Group**") by way of (i) an equity transfer of 49.71% equity interest in Anhui Hualin from the vendor, an independent third party, at a consideration of RMB58,660,000; and (ii) inject RMB20,000,000 capital into Anhui Hualin.

Anhui Hualin Group is engaged in the provision of rehabilitation and other healthcare services in the PRC. On the acquisition date, Anhui Hualin directly and indirectly (through its wholly-owned subsidiary) holds sponsor interests in certain private non-enterprise entities in the PRC, including one class II rehabilitation hospital, one class I general hospital, nine rehabilitation centres for the disabled and one vocational training school in Anhui Province, the PRC.

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB56,601,000.

Consideration comprised of:

	RMB'000
Cash paid during the year	53,660
Capital injected into Anhui Hualin during the year	20,000
Deposit paid during the year ended 31 December 2017	5,000
	78,660

Acquisition-related costs amounting to RMB707,000 have been excluded from the consideration transferred and have been recognised as administrative expenses in the consolidated statement of profit or loss and other comprehensive income during the year.

Fair value of assets and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	9,535
Inventories	1,237
Accounts and other receivables	19,205
Bank balances and cash	2,568
Accounts and other payables	(10,330)
Amount due to a non-controlling shareholder of a subsidiary	(3,515)
	18,700

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	78,660
Add: non-controlling interests (43% of Anhui Hualin) *(note)*	16,641
Less: net assets acquired	(18,700)
Less: increase in net asset pursuant to capital injection	(20,000)
	56,601

Note: The non-controlling interests (43%) in Anhui Hualin recognised at the acquisition date were measured by reference to their proportionate share of net assets acquired of RMB18,700,000 and the capital injection of RMB20,000,000 from the consideration.

Net cash outflows arising on acquisition for the year:

	RMB'000
Consideration paid in cash	78,660
Less: deposit paid during the year ended 31 December 2017 *(Note 12)*	(5,000)
Less: capital injection in Anhui Hualin in cash	(20,000)
Less: cash and cash equivalent balances acquired	(2,568)
	51,092

Included in the profit for the year of the Group is RMB2,510,000 attributable to Anhui Hualin Group. Revenue for the year includes RMB49,670,000 that is attributable to Anhui Hualin Group.

Had the acquisition of Anhui Hualin been effected at the beginning of the current year, the total amount of revenue of the Group for the year would have been RMB1,650,855,000, and the amount of profit for the year would have been RMB159,475,000.

(b) Acquisition of Zhonglian Cardiovascular Hospital

On 1 August 2018, the Group acquired 60% equity interest in Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd.*(重慶康華眾聯心血管病醫院有限公司) ("**Zhonglian Cardiovascular Hospital**"), a PRC entity, by way of an equity transfer of 60% equity interest in Zhonglian Cardiovascular Hospital from the vendor, an independent third party, at a consideration of RMB270,000,000. Zhonglian Cardiovascular Hospital is engaged in specialised cardiovascular hospital operation in the PRC.

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB125,412,000.

Consideration comprised of:

	RMB'000
Cash paid during the year	249,000
Consideration payable at 31 December 2018 (included in amount due to a non-controlling shareholder of a subsidiary)	21,000
	270,000

Acquisition-related costs amounting to RMB271,000 have been excluded from the consideration transferred and have been recognised as administrative expenses in the consolidated statement of profit or loss and other comprehensive income during the year.

Fair value of assets and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	312,917
Prepaid lease payment	155,000
Deposits paid for acquisition of property, plant and equipment	5,834
Inventories	3,669
Accounts and other receivables	68,721
Bank balances and cash	5,600
Accounts and other payables	(37,374)
Amount due to the Group	(104,489)
Amount due to a non-controlling shareholder of a subsidiary	(86,704)
Bank loan *(note i)*	(60,000)
Deferred tax liabilities	(22,194)
	240,980

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	270,000
Add: non-controlling interests (40% of Zhonglian Cardiovascular Hospital) *(note ii)*	96,392
Less: net assets acquired	(240,980)
	125,412

Notes:

(i) Subsequent to the acquisition, the bank loan of RMB60,000,000 was settled during the year ended 31 December 2018.

(ii) The non-controlling interests (40%) in Zhonglian Cardiovascular Hospital recognised at the acquisition date were measured by reference to their proportionate share of net assets acquired.

Net cash outflows arising on acquisition for the year:

	RMB'000
Consideration paid in cash	270,000
Less: consideration payable as at 31 December 2018	(21,000)
Less: cash and cash equivalent balances acquired	(5,600)
	243,400

Included in the profit for the year of the Group is loss of RMB29,441,000 attributable to Zhonglian Cardiovascular Hospital. Revenue for the year includes RMB16,185,000 is attributable to Zhonglian Cardiovascular Hospital.

Had the acquisition of Zhonglian Cardiovascular Hospital been effected at the beginning of the current year, the total amount of revenue of the Group for the year would have been RMB1,657,976,000, and the amount of profit for the year would have been RMB116,126,000.

In determining the 'pro-forma' revenue and profit of the Group had the Zhonglian Cardiovascular Hospital been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of plant, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements and accounted for related deferred tax effect.

19. EVENT AFTER THE REPORTING PERIOD

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

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The Board recommended the distribution of a final dividend of RMB16 cents per share (inclusive of applicable tax) for the year ended 31 December 2018 (the "**Proposed Final Dividend**"). Subject to the approval of the Proposed Final Dividend by the shareholders of the Company (the " **Shareholders**") at the annual general meeting of the Company (the "**AGM**") to be held on 12 June 2019, the Proposed Final Dividend is expected to be distributed on or about 23 July 2019 to the Shareholders whose names appear on the register of members of the Company on 21 June 2019 (the "**Record Date**").

The register of members of the Company's H Shares (the "**Register of members of H Shares**") will be closed from 13 May 2019 to 12 June 2019, both days inclusive, during which period no transfer of H Shares will be effected. In order to determine the identity of the holders of H Shares who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited ("**Computershare**") at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 10 May 2019.

The final dividend distribution shall be calculated based on the total number of shares of the Company (the "**Shares**") in issue as at the Record Date and the final cash dividend distribution shall be based on RMB16 cents per Share (inclusive of applicable tax). In order to qualify for the final dividend, the holders of H Shares must lodge all share certificates accompanied by the transfer documents with Computershare (address: Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) no later than 4:30 p.m. on 18 June 2019. For the purpose of ascertaining the holders of H Shares who qualify for the final dividend, the Register of Members of H Shares will be closed from 19 June 2019 to 21 June 2019, both days inclusive, during which period no transfer of H Shares will be effected.

The final dividend will be denominated and declared in RMB. The holders of domestic Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the final dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days prior to the date of declaration of the final dividend.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Overview for 2018

In 2018, the Group continued to deliver promising and solid operating results. The Group's consolidated revenue for the year ended 31 December 2018 has reached its record high to RMB1,639.3 million (2017: RMB1,389.2 million), representing a year-on-year increase of 18.0%, mainly attributable to the growth of its owned-hospital operations. However, at the same time, the Group had faced many challenges including increase in medical staff costs and adjustments in various government policies in the labour and healthcare sectors, and in particular, the loss incurred in relation to its newly acquired specialty hospital in Chongqing during the year had caused its profit for the year to achieve only a slight increase to RMB161.3 million (2017: RMB161.1 million), representing a year-on-year increase of 0.1%.

In April 2018, the Group successfully acquired 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 holds sponsor interests in certain private non-enterprise entities in the PRC, including one class II rehabilitation hospital, one class I general hospital, nine rehabilitation centres for the disabled and one vocational training school. The Board expects that the acquisition will generate significant synergistic value to the Group and further expand the Group's footprint in the healthcare industry in the PRC.

Furthermore, in August 2018, the Group acquired 60% equity interest in Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd.* (重慶康華眾聯心血管病醫院有限公司) ("**Zhonglian Cardiovascular Hospital**"). Zhonglian Cardiovascular Hospital is a specialty hospital in cardiovascular diseases located in Chongqing, the PRC. Zhonglian Cardiovascular Hospital was also the Group's first managed hospital and its first presence outside of Guangdong Province. The Board considers that, although Zhonglian Cardiovascular Hospital has yet to become profitable as it is still in a start-up phase, its initial operations signify promising prospects. The Board considers that full integration and consolidation of Zhonglian Cardiovascular Hospital into the Group's operations will enable the Group to benefit from the operating prospects of Zhonglian Cardiovascular Hospital to a greater extent in the long term compared to the management arrangement.

Hospital Services

The Group's owned hospitals, namely Dongguan Kanghua Hospital Co., Ltd. (東莞康華醫院有限公司) ("**Kanghua Hospital**") and Dongguan Renkang Hospital Co., Ltd. (東莞仁康醫院有限公司) ("**Renkang Hospital**"), as well as the newly acquired Zhonglian Cardiovascular Hospital, have delivered promising operating results, in particular (i) the total number of inpatient visits reached 66,388 (2017: 61,143), representing a year-on-year increase of 8.6%; (ii) the overall average spending per inpatient visit amounted to RMB13,855.1 (2017: RMB13,361.1), representing a year-on-year increase of 3.7%; (iii) the overall bed utilisation rate decreased to 85.1% (2017: 90.0%), primarily caused by the impact of the newly acquired Zhonglian Cardiovascular Hospital during the year; (iv) the average length of stay was slightly increased to 8.0 days (2017: 7.7 days); (v) the total number of outpatient visits reached 1,650,592 (2017: 1,542,482), representing a year-on-year increase of 7.0%; (vi) the overall average spending per outpatient visit amounted to RMB334.7 (2017: RMB318.4), representing a year-on-year increase of 5.1%; and (vii) the total number of surgical operations reached 41,045 (2017: 39,407), representing a year-on-year increase of 4.2%.

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

		For the year ended 31 December	
	Change	**2018**	2017
Inpatient healthcare services			
Number of registered bed	+720	**3,206**	2,486
Inpatient visits	+8.6%	**66,388**	61,143
Average length of stay (days)	+0.3	**8.0**	7.7
Average spending per visit (RMB)	+3.7%	**13,855.1**	13,361.1
Outpatient healthcare services			
Outpatient visits	+7.0%	**1,650,592**	1,542,482
Average spending per visit (RMB)	+5.1%	**334.7**	318.4
Physical examination services			
Physical examination visits	+31.3%	**219,191**	166,959
Average spending per visit (RMB)	+6.2%	**450.7**	424.2

Kanghua Hospital

Kanghua Hospital has successfully maintained its rating as a Grade A Class III general hospital after passing the review by the Health and Family Planning Commission of Guangdong Province. During the review, all the staff of Kanghua Hospital made joint efforts to enhance management and control of medical safety and quality, which led to significant improvement in the hospital's healthcare capability, scientific research and academic capability and comprehensive operational strength.

In respect of medical discipline development, through continuous efforts in improving the diagnosis and treatment capability of its departments in various disciplines, developing specialist medical centres and enhancing cross-disciplinary cooperation, Kanghua Hospital successfully developed a number of disciplines and medical centres in Dongguan, and made significant progress including: (i) the establishment of the National Stroke Centre (卒中中心), and entering into cooperation agreements with 15 hospitals in Dongguan; (ii) rapid development of its National Chest Pain Centre (國家級胸痛中心), which expanded its coverage area and made its services available to more patients in 2018, by authorizing 18 lower-tier hospitals in Dongguan as collaborative institutions of the National Chest Pain Centre of Kanghua Hospital; and (iii) the stem cell transplantation and cell treatment sector of its Hematology Centre having a leading position in Dongguan in terms of size, the number of treatment projects and research capability.

In addition, Kanghua Hospital enhanced its cross-disciplinary diagnosis and treatment significantly, including establishing a multi-disciplinary oncology team covering lung, liver, breast, stomach and colorectal cancer; as a result, the hospital's oncological diagnosis and treatment capability was enhanced. In August 2018, the oncology department of Kanghua Hospital was accepted into the Southern Radiotherapy Quality Management Specialist Alliance (南方放療質量管理專科聯盟). The emergency, intensive care, cardiology and general surgery departments of the hospital also established a joint diagnosis and treatment protocol to provide patients with comprehensive healthcare with greatly improved efficiency, safety and convenience.

In order to achieve better and sustainable development of specialist medical services, Kanghua Hospital committed more resources to the purchase of medical equipment and recruitment efforts in attracting and grooming medical talent, which provided a strong backbone for high quality clinical diagnosis and improvement of medical service capability. With the establishment of medical union (醫聯體) and the system of multiple-site practice of doctors (醫師多點執業), Kanghua Hospital also strengthened its connection with reputable experts in various major hospitals in Guangdong Province, and has established cooperation relationship with more than 60 expert doctors.

In 2018, Kanghua Hospital's market position was further enhanced, as exemplified by multiple awards bestowed upon it, including the "Top 50 Hospitals in the Guangdong-Hong Kong-Macau Bay Area of 2017", and its ranking as the third place nationwide among the "Top 100 Private Hospitals of 2017" at the China Hospital Competitiveness Conference 2018.

Renkang Hospital

In 2018, Renkang Hospital officially started the preparation work for applying for the Grade A Class II general hospital rating, and has submitted the application and is preparing for the preliminary review. In the same year, Renkang Hospital took the opportunity to conduct a comprehensive upgrade of the hospital's operations and management, improve the management system, duties of various positions and diagnosis and treatment protocols according to the standards applicable to Grade A Class II hospitals, and enhance the management in relation to medical technology, quality control and medical insurance system.

Renkang Hospital obtained the qualification of Dongguan's occupational disease examination in 2017 and began offering such service in 2018, which significantly increased the business of the hospital's physical examination centre. In addition, after establishing the direct billing cooperation with Ping An Life Insurance, the Ping An Life Insurance direct billing channel was officially launched at Renkang Hospital in May 2018, which led to significant growth in the number of patients covered under the insurance prgrammes of Ping An Insurance.

In 2018, Renkang Hospital established the first traditional Chinese medicine training base in Dongguan, which further promoted the development of its traditional Chinese medicine discipline, and enhanced the influence of Renkang Hospital in the industry generally and the local traditional Chinese medicine community in particular.

Zhonglian Cardiovascular Hospital

During the year, the Group has completed the acquisition of 60% equity interest in Zhonglian Cardiovascular Hospital at a consideration of RMB270.0 million, following which Zhonglian Cardiovascular Hospital has become a non-wholly owned subsidiary of the Group. The acquisition represented an opportunity for the Group to implement its strategy in relation to southwest China, and achieve in-depth development in the cardiovascular area.

Since its opening in March 2017, Zhonglian Cardiovascular Hospital has achieved continuous development and rapid growth. In 2018, Zhonglian Cardiovascular Hospital received 10,004 outpatient visits in total, representing a year-on-year increase of 191.27%, and 1,187 in-patients in total, representing a year-on-year increase of 338.0%; the hospital also conducted 110 cardiac surgical operations in total, representing a year-on-year increase of 129.17%, and 363 cardiological intervention operations in total, representing a year-on-year increase of 150.34%.

Positioned as a high-end cardiovascular specialty hospital, Zhonglian Cardiovascular Hospital has been committed to providing the highest standard of professional and quality healthcare for its patients, and has been focusing on improving medical technologies to promote the development of its cardiovascular discipline. In 2018, Zhonglian Cardiovascular Hospital was rated as a district-level chest pain centre construction project (區級胸痛中心建設項目) in Jiangbei District, and its cardiology department was also rated as a city-level key clinical discipline (市級臨床重點專科) in Chongqing.

In 2018, Zhonglian Cardiovascular Hospital also entered into a cooperation agreement with Heart Federation (心臟聯盟), the largest cardiovascular diseases treatment and prevention service organisation in China, with respect to the sharing of healthcare resource, including healthcare professionals and medical capability. The National Clinical Medical Research Center for Cardiovascular Diseases (國家心血管疾病臨床醫學研究中心) also set up a sub-center in Zhonglian Cardiovascular Hospital. The hospital is currently able to conduct 38 types or eight categories of cardiological intervention and cardiac surgical operations. It is the only private hospital in Chongqing that has capability of both cardiological operations and cardiac surgical operations, and has a leading position in the industry in Chongqing and even southwest China.

Zhonglian Cardiovascular Hospital will continue to enhance the introduction and innovation of medical technology, accelerate the improvement of its capability in critical and intensive care, focus on its strength and speciality in its existing disciplines, and improve the brand awareness and reputation of the hospital through external communication and marketing. The management of the Group has full confidence in the prospects of the hospital, and believes that it will contribute to the sustainable business development of the Group in the long term.

The table below sets forth the revenue contribution by healthcare disciplines for the years indicated:

		For the year ended 31 December			
Healthcare disciplines	**Change**	**2018**	**% of revenue of the Group's owned hospitals**	2017	% of revenue of the Group's owned hospitals
		RMB'000		*RMB'000*	
O&G related disciplines (婦產科有關科室)	+5.9%	**300,043**	**19.1**	283,234	20.5
Cardiovascular related disciplines (心血管有關科室)	+19.5%	**193,684**	**12.3**	162,024	11.8
Internal medicine related disciplines (內科有關科室)	+17.0%	**178,675**	**11.4**	152,679	11.1
General surgery related disciplines (普通外科有關科室)	+10.8%	**136,124**	**8.7**	122,836	8.9
Orthopaedics related disciplines (骨科有關科室)	+12.1%	**110,588**	**7.0**	98,678	7.2
Neurology related disciplines (神經醫學有關科室)	+12.1%	**101,970**	**6.5**	90,975	6.6
Emergency medicine related disciplines (急診有關科室)	+16.8%	**90,549**	**5.8**	77,547	5.6
Paediatrics related disciplines (兒童醫學有關科室)	+5.6%	**47,455**	**3.0**	44,941	3.3
Medical aesthetic related disciplines (醫學美容有關科室)	+1.9%	**33,657**	**2.1**	33,045	2.4
Nephrology related disciplines (腎臟科有關科室)	+10.7%	**34,116**	**2.2**	30,807	2.2
Oncology related disciplines (腫瘤有關科室)	+38.9%	**35,827**	**2.3**	25,785	1.9
Physical examination (體檢科)	+39.5%	**98,791**	**6.3**	70,816	5.1
Other disciplines (其他臨床科室)	+13.0%	**209,633**	**13.3**	185,442	13.4
Total[#]		**1,571,112**	**100.0**	1,378,809	100.0

The amount does not include revenue from rehabilitation and other healthcare services, hospital management services, sale of pharmaceutical products and others.

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 2018, Kanghua Hospital performed 12,523 surgeries with level 3 or level 4 complexities (2017: 10,369), representing a year-on-year increase of 20.8%. Obstetrics and gynaecology ("**O&G**") disciplines, internal medicine disciplines, cardiovascular disciplines, general surgery disciplines and orthopaedics disciplines remained to be the top revenue generating disciplines of the Group for the year of 2018, accounting for approximately 58.5% of the Group's total revenue in hospital services in the same period (2017: 59.0%).

During the year ended 31 December 2018, the Group's medical capability has expanded considerably and delivered strong revenue growth across all disciplines. In particular, (a) O&G related disciplines continued to be the top and stable revenue driver and have recorded a year-on-year revenue increase of 5.9%, primarily attributable to (i) the expansion of O&G related workforce and medical facilities; (ii) growth in local demand and increased penetration of reputation in the discipline; and (iii) continuous strong demand for reproductive medicine services with a year-on-year revenue increase of 10.4%; (b) revenue from cardiovascular related disciplines recorded a strong year-on-year increase of 19.5%, primarily attributable to the Group's continuous growth in industry reputation within Guangdong Province and the consolidation of revenue from Zhonglian Cardiovascular Hospital since its acquisition in August 2018; (c) revenue from oncology related disciplines recorded a significant year-on-year increase of 38.9%, a turnaround from last year's decrease, primarily attributable to the recruitment of new oncology professionals in 2017, which had the effect of attracting patients to Kanghua Hospital; and (d) physical examination services recorded a year-on-year considerable increase of 39.5%, primarily as a result of the full impact of the additional revenue derived from Kanghua Hospital – Huawei Clinic (康華醫院－華為門診部), an outpatient division of the Group that commenced operations in August 2017.

The Group's special services are high-end healthcare services that extend beyond basic medical services and are specifically catered for the more affluent patients who are willing to pay a premium for higher quality and customised healthcare services 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 2018, the total revenue derived from special services amounted to RMB161.7 million (2017: RMB134.0 million), representing a year-on-year increase of 20.7%. In 2018, revenue from VIP healthcare services including VIP inpatient and VIP outpatient services recorded a year-on-year increase of 34.5%, primarily attributable to more premium service offerings from Huaxin Building (華心樓) (a complex in Kanghua Hospital dedicated to VIP healthcare services), and wider recognition of the Group's comprehensive O&G services dedicated to VIP patients. The demand for reproductive medicine remains strong with a year-on-year increase of 10.4% in revenue. The Group will continue to accelerate the expansion of the Reproductive Medicine Center to enhance capacity to better meet the rapidly rising market demand.

The table below sets forth some key operating data for the Group's special services for the years indicated:

Special Services	Change	For the year ended 31 December 2018	2017
VIP healthcare services			
Inpatient visits	+23.5%	**2,715**	2,198
Outpatient visits	-1.8%	**57,278**	58,339
Revenue (RMB'000)	+34.5%	**83,652**	62,207
Reproductive medicine			
Number of outpatient visits	+5.1%	**60,808**	57,878
Revenue (RMB'000)	+10.4%	**63,863**	57,862
Plastic and aesthetic surgery			
Revenue (RMB'000)	-13.5%	**4,664**	5,393
Laser treatment			
Revenue (RMB'000)	+11.9%	**9,553**	8,539
Total revenue from special services (RMB'000)	+20.7%	**161,732**	134,001

Rehabilitation and other Healthcare Services

In 2018, the Group completed the acquisition of 57% equity interest in Anhui Hualin by way of (i) an equity transfer of 49.71% equity interest in Anhui Hualin from the vendor, an independent third party, at a consideration of RMB58.66 million; and (ii) capital injection into Anhui Hualin on a non-pro rata basis of RMB20.0 million. Anhui Hualin directly and indirectly holds sponsor interests in certain private non-enterprise entities in the PRC, including two rehabilitation hospitals, one Class I general hospital (along with one clinic branch), nine rehabilitation centres for the disabled and one vocational training school (collectively referred to as "**Anhui Hualin Group**"). The Board expects that the acquisition will considerably enhance the Group's business of disability rehabilitation services, generate significant synergistic value to the Group and further expand the Group's footprint in the healthcare industry in the PRC.

The Anhui Hualin Group 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 home-based care services for the elderly and training services for the disabled. The Anhui Hualin Group is also a major organisation offering children rehabilitation services in Auhui Province, the PRC.

In 2018, leveraging the strength of the strategic cooperation and capital integration with the Group, Anhui Hualin Group's network of rehabilitation medical institutions was further expanded, including the establishment of Hefei Kanghua Rehabilitation Hospital. Hefei Kanghua Rehabilitation Hospital is a rehabilitation specialty hospital aiming to be rated as a class III rehabilitation hospital in the long term. The hospital is equipped with advanced rehabilitation medical equipment and professional medical teams to provide patients with a wide range of high-end and convenient rehabilitation treatment programs. Hefei Kanghua Rehabilitation Hospital demonstrates the Group's commitment to further its rehabilitation medical offerings and capability. The Board envisages that the Anhui Hualin Group will operate as an integrated rehabilitation service platform combining medical rehabilitation, vocational rehabilitation, education rehabilitation and social rehabilitation centred around a class III rehabilitation specialty hospital.

Hospital Management Services

In June 2016, the Group entered into a management agreement with Zhonglian Cardiovascular Hospital. It was the Group's first managed hospital and represented its first step of extending the Group's footprint to outside of Guangdong Province. Zhonglian Cardiovascular Hospital commenced operations in March 2017 and has developed at a promising pace.

In August 2018, the Group completed the acquisition of 60% equity interest of Zhonglian Cardiovascular Hospital, which has since become a non-wholly-owned subsidiary of the Company. The Board considers that full integration and consolidation of Zhonglian Cardiovascular Hospital into the Group's operations will enable the Group to benefit from the operating prospects of Zhonglian Cardiovascular Hospital to a greater extent in the long term. Since the acquisition of Zhonglian Cardiovascular Hospital and up to date of this announcement, the Group has no other management arrangement with third party hospitals. The Company will continue to search for appropriate opportunities to undertake hospital management operations.

Sale of Pharmaceutical Products

In July 2017, the Group established a pharmaceuticals and medical consumables trading company for the purpose of streamlining pharmaceuticals and medical consumables sales directly to the patients at the Group's hospitals and walk-in customers who may not be patients of the Group's hospitals. The Board believes the diversity of this operation can lower the overall cost of revenue through centralizing of purchase function and thereby increasing the overall margin of the Group. Revenue from sales of pharmaceutical products for the year ended 31 December 2018 amounted to RMB16.0 million (2017: RMB7.2 million), representing a year-on-year increase of 122.2%.

Industry Outlook and Strategy

Year 2018 represented the first year of PRC's intensified healthcare policy reform. In January, the National Health Commission issued a notice on "Action Plan for Further Improving Medical Services (2018–2020)" indicating that from 2018 onwards, the nation's medical institutions shall establish an appointment diagnostic and treatment system, a telemedicine system, a clinical pathway management system, a system for the mutual recognition of inspection results, and a medical social worker and volunteer system. At the same time, local medical service institutions should actively carry out innovative medical services, focus on multi-disciplinary diagnosis and treatment protocols, open multi-disciplinary clinics and innovative emergency first-aid centres, so as to provide patients with a "one stop shop" for diagnostic and treatment services. In 2018, there was in-depth development of PRC's healthcare industry in the following areas:

(i) *The orderly advancement of a graded diagnostic and treatment system*: standardization of the construction and development of medical complexes, support to the cooperation between public hospitals and private hospitals, encouragement of the participation by private medical institutions, rehabilitation and nursing institutions in the construction of medical complexes, the further improvement of the construction of medical complexes and the examination of graded diagnosis and treatment and the strengthening of industry supervision.

(ii) *The improvement of the hospital management system*: improvement in supporting measures such as medical insurance payment, personnel management, service price, and financial input to promote the construction of medical complexes and telemedicine services. In addition, based on the actual situation of various medical and healthcare institutions, salary and compensation policies have been improved in a targeted manner to raise medical staff compensation to a reasonable level.

(iii) *Deepening of reform in healthcare service prices*: by standardizing medical treatment protocols, the costs of pharmaceutics and medical consumables have been reduced while the price of medical services has been increased, highlighting the value of medical personnel's technical services; and reducing the prices of inspection, treatment and examination based on the use of large medical equipment.

(iv) *Improvement of the universal health insurance system*: improving the reform plan for the healthcare security system with Chinese characteristics, increasing the level of basic medical insurance and major illness insurance, raising individual contribution standards, fully implementing the policy of medical treatment settlement for different locations, and strengthening the Medical Insurance Bureau's supervision of medical insurance practices.

(v) *The establishment of a high quality, efficient medical and health service system*: carrying out discipline development centering around key regional diseases, establishing a number of high-caliber regional medical centers and specialist alliances throughout the country, and promoting a balanced distribution of quality medical resources. In addition, efforts have been made to promote the implementation of the inheritance and innovation of Chinese medicine projects, generally improving the diagnosis and treatment of difficult diseases of Chinese medicine, and further improving the capabilities of Chinese medicine in basic healthcare organisations.

(vi) *Promoting the development of "Internet + medical health"*: promoting the construction of smart hospitals and universal health information platforms and accelerating the sharing of medical information among medical institutions. Telemedicine service management regulations are being formulated to improve Internet medical treatment pricing policies and to gradually include eligible Internet medical treatment services in the healthcare insurance coverage.

In 2018, the Group, in an effort to actively responding to policy changes, continually improved hospital management, actively participated in the development of medical complexes, promoted the development of key specialist medical centers and multi-disciplinary medical diagnostic and treatment teams, which collectively resulted in improved medical service capabilities and efficiency. Going forward, the Group will further seize the opportunities presented by industry development and accelerate the pace of resources deployment with a view to building an industry-leading comprehensive medical service platform.

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 Zhonglian Cardiovascular Hospital (since August 2018), 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) providing hospital management services to a hospital owned by an independent third party; (iv) 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 (v) others.

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 2018

	Hospital services *RMB'000*	**Rehabilitation and other healthcare services** *RMB'000* *(Note a)*	**Hospital management services** *RMB'000*	**Sale of pharmaceutical products** *RMB'000* *(Note b)*	**Others** *RMB'000*	**Total** *RMB'000*
Revenue	**1,571,112**	**49,670**	**2,258**	**16,043**	**204**	**1,639,287**
Cost of revenue	**(1,232,085)**	**(33,687)**	**(1,746)**	**(12,678)**	**(187)**	**(1,280,383)**
Gross profit	**339,027**	**15,983**	**512**	**3,365**	**17**	**358,904**
Gross profit margin	**21.6%**	**32.2%**	**22.7%**	**21.0%**	**8.3%**	**21.9%**

For the year ended 31 December 2017

	Hospital services *RMB'000*	Rehabilitation and other healthcare services *RMB'000* *(Note a)*	Hospital management services *RMB'000*	Sale of pharmaceutical products *RMB'000* *(Note b)*	Total *RMB'000*
Revenue	1,378,809	N/A	3,135	7,225	1,389,169
Cost of revenue	(1,050,544)	N/A	(1,711)	(6,038)	(1,058,293)
Gross profit	328,265	N/A	1,424	1,187	330,876
Gross profit margin	23.8%	N/A	45.4%	16.4%	23.8%

Notes:

(a) Rehabilitation and other healthcare services was acquired in April 2018.

(b) Sale of pharmaceutical products commenced in July 2017.

Revenue from the Group's hospital services amounted to RMB1,571.1 million (2017: RMB1,378.8 million), representing a year-on-year increase of 13.9% and accounting for 95.8% (2017: 99.3%) of the total revenue of the Group.

Revenue from hospital services comprised (i) revenue from inpatient healthcare services amounted to RMB919.8 million (2017: RMB816.9 million) representing a year-on-year increase of 12.6%, accounting for 56.1% (2017: 58.8%) of the total revenue of the Group; (ii) revenue from outpatient healthcare services amounted to RMB552.5 million (2017: RMB491.1 million), representing a year-on-year increase of 12.5%, accounting for 33.7% (2017: 35.3%) of the total revenue of the Group; and (iii) revenue from physical examination services amounted to RMB98.8 million (2017: RMB70.8 million), representing a year-on-year increase of 39.5%, accounting for 6.0% (2017: 5.1%) of the total revenue of the Group. The increase in revenue from hospital services was mainly due to (i) increase in the number of inpatient, outpatient and physical examination visits as well as overall average spending during the year, (ii) consolidation of revenue from Zhonglian Cardiovascular Hospital since August 2018; and (iii) the growth in revenue across all major disciplines and VIP special services during the year.

Revenue from rehabilitation and other healthcare services amounted to RMB49.7 million (2017: nil), accounting for 3.0% (2017: nil) of the total revenue of the Group. In April 2018, the Group acquired Anhui Hualin that is principally engaged in provision of rehabilitation services to patients with physical or mental disabilities and other healthcare related services including care services for elderly and training service for the disabled.

Revenue from hospital management services amounted to RMB2.3 million (2017: RMB3.1 million), accounting for 0.1% (2017: 0.2%) of the total revenue of the Group. Under management agreement with Zhonglian Cardiovascular Hospital, the Group had exclusive management rights over the hospital and was entitled to a monthly management fee of RMB200,000 (before applicable tax) plus 5% of hospital's monthly revenue. Zhonglian Cardiovascular Hospital only commenced operations on 1 March 2017 and is still in the phase of ramping up its operations. During the year ended 31 December 2018, the Group generated revenue amounting to RMB2.3 million from management agreement with Zhonglian Cardiovascular Hospital. Such arrangement ceased when the Group acquired the controlling interest in Zhonglian Cardiovascular Hospital in August 2018.

Revenue from the sale of pharmaceutical products and medical consumables amounted to RMB16.0 million (2017: RMB7.2 million), accounting for 1.0% (2017: 0.5%) of the total revenue of the Group. In July 2017, the Group established a pharmaceuticals and medical consumables trading company (which commenced operations in July 2017) for the purpose of streamlining pharmaceuticals and medical consumables sales directly to the patients at the Group's hospitals and walk-in customers who may not be patients of the Group's hospitals. The increase in revenue from the sale of pharmaceutical products and medical consumables was primarily due to the gradually maturing operation and more diversified medical consumables offerings to customers.

Cost of Revenue

Cost of revenue of the Group's hospital services (consisting of inpatient healthcare services, outpatient healthcare services and physical examination services) primarily consisted of pharmaceuticals, medical consumables, staff cost, depreciation, service expenses, utilities expenses, rental expenses and other costs. Cost of revenue of the Group's hospital services increased to RMB1,232.1 million (2017: RMB1,050.5 million), representing a year-on-year increase of 17.3%, which was in line with the increase of revenue. The greater extent of increase in cost of revenue for hospital services was primarily due to (i) pressure from the rise of medical staff costs and benefits due to shortage in medical professional in Guangdong Province; and (ii) consolidation of Zhonglian Cardiovascular Hospital which recorded a negative gross profit margin as its still at it was infancy stage of ramping up its operation.

Cost of revenue of the Group's rehabilitation and other healthcare services amounted to RMB33.7 million (2017: nil), primarily consisting of staff costs, medical consumables, depreciation, utilities and rental expenses.

Cost of revenue of the Group's hospital management services amounted to RMB1.75 million (2017: RMB1.71 million) representing a year-on-year increase of 2.3%, which mainly represented staff costs in relation to management personnel assigned to Zhonglian Cardiovascular Hospital and other direct costs. As the management agreement with Zhonglian Cardiovascular Hospital ceased in August 2018, the Group has temporarily relocated certain management staff back to Kanghua Hospital and deploy a number of staff to Zhonglian Cardiovascular Hospital on a permanent basis.

Cost of revenue of the Group's sale of pharmaceutical products amounted to RMB12.7 million (2017: RMB6.0 million) representing a year-on-year increase of 111.7%, mainly representing cost of purchase of pharmaceutical products, which was in line with the increase of revenue.

For the year ended 31 December 2018, pharmaceuticals, medical consumables and staff cost accounted for approximately 31.1% (2017: 34.0%), 27.8% (2017: 27.1%) and 29.8% (2017: 26.8%), respectively, of the total cost of revenue of the Group. Our total staff related costs including salary, bonus and other benefits had increased by 34.5% as compared with the prior year, mainly attributable to (i) an increase in general salary level and bonus as well as other staff benefits with a view to retaining and attracting quality healthcare professionals in the healthcare industry that remains highly competitive; and (ii) the impact from the acquisition of the Anhui Hualin Group and Zhonglian Cardiovascular Hospital.

Gross Profit and Gross Profit Margin

Total gross profit of the Group amounted to RMB358.9 million (2017: RMB330.9 million), representing a year-on-year increase of 8.5%. The overall gross profit margin decreased to 21.9% (2017: 23.8%), primarily due to:

(i) in 2018, the Group had considerable growth in revenue from VIP inpatient and VIP outpatient healthcare services (a year-on-year growth of 34.5%). The growth in special services that are targeted towards high-end patients and typically command higher margin than basic healthcare services;

(ii) the overall increase in the average spending of patients and the ability to increase healthcare consultation prices. In 2018, the Group has year-on-year growth of 3.7%, 5.1% and 6.3% in the average spending from inpatient, outpatient and physical examination healthcare services, respectively, from the owned-hospital operations; and

(iii) however, the above impact has been considerably offset by (i) the consolidation of results of Zhonglian Cardiovascular Hospital which recorded a negative gross profit margin due to its infancy stage of ramping up its operations while incurring significant amount of fixed medical staff costs and other fixed costs; and (ii) an increase in overall staff related costs of 34.5% and depreciation of 32.8%. The increase in staff related costs includes general increase in overall salary level, more competitive compensation packages offered to healthcare professionals and the impact from the acquisition of Anhui Hualin Group and Zhonglian Cardiovascular Hospital.

Key Operational Information of our Owned Hospitals

The follow table sets forth certain key operational information of each of the hospitals owned by the Group for the years indicated:

Kanghua Hospital

		For the year ended 31 December	
	Change	**2018**	2017
Inpatient healthcare services			
Inpatient visits	+7.9%	**51,159**	47,425
Average length of stay (days)	-0.3	**7.6**	7.9
Average spending per visit (RMB)	+4.6%	**15,308.8**	14,634.2
Outpatient healthcare services			
Outpatient visits	+5.5%	**1,231,290**	1,167,545
Average spending per visit (RMB)	+6.8%	**370.6**	346.9
Total revenue (RMB'000)	+14.3%	**1,330,405**	1,164,208

Renkang Hospital

		For the year ended 31 December	
	Change	**2018**	2017
Inpatient healthcare services			
Inpatient visits	-2.5%	**13,375**	13,718
Average length of stay (days)	-0.2	**7.1**	7.3
Average spending per visit (RMB)	+2.4%	**9,178.1**	8,959.8
Outpatient healthcare services			
Outpatient visits	+0.8%	**378,094**	374,937
Average spending per visit (RMB)	+8.2%	**248.1**	229.3
Total revenue (RMB'000)	+4.6%	**224,522**	214,601

Zhonglian Cardiovascular Hospital[(Note)]

	Change	For the year ended 31 December 2018 *(Note)*	2017
Inpatient healthcare services			
Inpatient visits	N/A	**4,757**	N/A
Average length of stay (days)	N/A	**7.0**	N/A
Average spending per visit (RMB)	N/A	**24,819.3**	N/A
Outpatient healthcare services			
Outpatient visits	N/A	**559**	N/A
Average spending per visit (RMB)	N/A	**485.8**	N/A
Total revenue (RMB'000)	N/A	**16,185**	N/A

Note: The data and amounts accounts for the period from 1 August 2018 (date of acquisition of Zhonglian Cardiovascular Hospital by the Group) to 31 December 2018.

Other Income

The other income of the Group primarily consisted of bank and other interest income, investment income from financial assets at FVTPL/available-for-sale ("**AFS**") investments, fair value gain on financial assets at FVTPL, government subsidies, clinical trial and related income, rental income and others. In 2018, other income amounted to RMB46.8 million (2017: RMB32.7 million), representing a year-on-year increase of approximately 43.1%, primarily due to (i) the increase in income generated from financial assets at FVTPL/AFS investments to RMB18.3 million (2017: RMB11.7 million) and fair value gain on financial assets at FVTPL of RMB6.4 million (2017: nil); (ii) an increase in clinical trial and related income to RMB2.9 million (2017: RMB0.1 million); and (iii) partly offset by a decrease in bank and other interest income to RMB7.2 million (2017: RMB11.6 million) mainly as a result of decrease in average bank balances and cease of interest income arising from loan to Zhonglian Cardiovascular Hospital after the acquisition. As part of the Group's cash management to maximise return on idle cash, the Group invested in certain principal-protected structured deposit products issued by a PRC commercial bank, unlisted trust fund and portfolio investment fund (all classified as financial assets at FVTPL/available-for-sale investments) to achieve higher interest income and return without interfering with business operations or capital expenditures to earn better return on the excess cash balance.

Other Gains and Losses

The other gain and losses of the Group primarily consisted of net exchange gain/loss, loss on disposal of property, plant and equipment and allowance on credit loss on accounts receivables. In 2018, other gains and losses amounted to a net gain of RMB2.2 million (2017: net loss of RMB18.5 million), primarily due to (i) a recorded net exchange gain of RMB5.9 million (2017: net exchange loss of RMB14.7 million) mainly arising from the Hong Kong dollar denominated financial assets; and (ii) a slight decrease in allowance on credit loss on accounts receivables.

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. In 2018, administrative expenses amounted to RMB185.2 million (2017: RMB127.0 million), representing a year-on-year increase of approximately 45.8%, primarily due to (i) an increase in administrative staff related costs to RMB72.6 million (2017: RMB49.2 million) as a result of general salary increase and increase in number of administrative staff headcounts together with the effects of acquisition of Anhui Hualin Group and Zhonglian Cardiovascular Hospital; (ii) an increase in building rentals and management fee to RMB22.0 million (2017: RMB16.1 million) as a result of more sub-contracted service fees paid to cope with business growth; and (iii) an increase in office and administration costs as well as other utilities expenses due to expansion of operations and acquisition of Anhui Hualin Group and Zhonglian Cardiovascular Hospital during the year.

Finance Costs

Finance costs for the year amounted to RMB0.9 million (2017: nil). Finance costs for the current year represented interest on bank loan of Zhonglian Cardiovascular Hospital when it was acquired by the Group in August 2018, which was subsequent repaid during the year.

Income Tax Expenses

The income tax expenses of the Group primarily consisted of PRC enterprise income tax. In 2018, income tax expenses amounted to RMB60.5 million (2017: RMB56.9 million), representing a year-on-year increase of approximately 6.2%. The subsidiaries of the Group are generally subject to income tax rate of 25% on their respective taxable income. Our effective tax rate in 2018 is 27.2% (2017: 26.1%), the increase is primarily due to tax effect of tax losses not recognised for losses incurred of Zhonglian Cardiovascular Hospital.

Profit for the Year

In 2018, profit for the year amounted to RMB161.3 million (2017: RMB161.1 million), representing a year-on-year increase of approximately 0.1% and profit attributable to the shareholders amounted to RMB167.9 million (2017: RMB156.6 million), representing a year-on-year increase of approximately 7.2%.

FINANCIAL POSITION

Property, Plant and Equipment, Prepaid Lease Payment and Deposits Paid for Acquisition of Property, Plant and Equipment

During the year 2018, the Group acquired property, plant and equipment and incurred expenditure on construction in progress of RMB96.8 million (2017: RMB79.3 million) and RMB32.9 million (2017: RMB43.7 million), respectively, for the purpose of upgrading and expanding the service capacity of its hospital operations. The Group also acquired property, plant and equipment (including building) and prepaid lease payment (land use right) through acquisition of Anhui Hualin Group and Zhonglian Cardiovascular Hospital amounting to RMB322.4 million and RMB155.0 million, respectively, during the year. Total depreciation charge for the year amounted to RMB70.3 million (2017: RMB49.6 million), representing a year-on-year increase of approximately 41.7% and amortisation of prepaid lease payment for the year amounted to RMB1.4 million (2017: Nil). In addition, as at 31 December 2018, the Group had deposits paid for acquisition of property, plant and equipment amounting to RMB81.1 million (2017: RMB76.5 million). The deposits mainly represented amount paid for acquisition of new medical equipment and other new facilities as the Group continued to upgrade its medical facilities and expand its operation capacity.

Accounts and Other Receivables

The account receivables of the Group primarily consisted of balances due from social insurance funds, certain corporate customers and individual patients. As at 31 December 2018, accounts receivables increased to RMB176.5 million (2017: RMB95.0 million), of which 77.7% (2017: 90.5%) were aged within 90 days. Average accounts receivables turnover days for the current period was 30.2 days (2017: 23.9 days). The increase in accounts receivables and accounts receivable turnover days was primarily due to (i) expansion of the hospitals' operations; and (ii) the newly acquired rehabilitation and other healthcare business operations under the Anhui Hualin Group and Zhonglian Cardiovascular Hospital during the year.

The other receivables of the Group primarily consisted of prepayments to suppliers, loan receivables, deposit paid for an investment and interest receivables and others. As at 31 December 2018, other receivables decreased to RMB30.5 million (2017: RMB124.5 million) primarily due to (i) at 31 December 2017, the Group had unsecured loans of RMB100.0 million to Zhonglian Cardiovascular Hospital which were interest-bearing at fixed rate of 0.42% per month and repayable within twelve months from the end of the reporting period, during the current year, the Group acquired Zhonglian Cardiovascular Hospital and the loan receivables became part of the intra-group assets and eliminated in full on consolidation; (ii) a decrease of interest receivables to RMB1.0 million (2017: RMB6.1 million) representing investment income from financial assets at FVTPL/AFS investments; and (iii) increase of prepayments to suppliers to RMB11.7 million (2017: RMB5.3 million) for the purchase of pharmaceutical and other medical products and consumables as a result of expansion of operations and the newly acquired rehabilitation and other healthcare business operations under the Anhui Hualin Group and Zhonglian Cardiovascular Hospital during the year.

Accounts and Other Payables

The accounts and other payables of the Group primarily consisted of accounts payables, accrued expenses, payables for acquisition of property, plant and equipment, receipt in advance and others. As at 31 December 2018, accounts and other payables increased to RMB481.8 million (2017: RMB412.6 million) primarily due to (i) decrease in accounts payable to RMB263.9 million (2017: RMB275.6 million) as a result of accelerated payments to suppliers; (ii) increase of accrued expenses to RMB77.5 million (2017: RMB68.9 million) mainly due to increase in accrued staff salary and other operational and administrative charges in the current year; and (iii) increase in receipt in advance to RMB73.2 million (2017: RMB41.8 million) due to expansion of operations and acquisition of the Anhui Hualin Group and Zhonglian Cardiovascular Hospital during the year.

Net Current Assets

As at 31 December 2018, the Group recorded net current assets of RMB286.0 million (2017: RMB757.6 million) and net assets of RMB1,530.0 million (2017: RMB1,289.4 million).

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources

The Group continued to maintain a strong financial position with cash and cash equivalents of RMB203.3 million as at 31 December 2018 (2017: RMB383.8 million). The decrease was mainly due to utilisation of cash (including proceeds from the initial public offering) in the acquisition of the Anhui Hualin Group and Zhonglian Cardiovascular Hospital during the year. With the steady cash inflow generated from operations and in view of 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 from the end of the Reporting Period.

As at 31 December 2018, the Group had investments (classified as financial assets at FVTPL/AFS investments) in aggregate of RMB479.1 million (2017: RMB559.3 million) primarily consisting of (i) an unlisted fund of US$3.4 million (equivalent to approximately RMB23.2 million) (2017: US$2.5 million (equivalent to approximately RMB16.3 million)) representing an investment in equity securities of a private company in the PRC for a minimum term of three years for the purpose of capital gain; (ii) portfolio investment fund of RMB54.0 million (2017: RMB51.2 million), representing an investment fund deposited with a discretionary fund manager in Hong Kong mandated to achieve appropriate return consistent with the Group's cash management policy. The portfolio included a mixture of cash and shares that are primarily listed in Hong Kong; and (iii) structured bank deposits of RMB402.0 million (2017: RMB491.8 million), representing principal-protected products issued by a PRC commercial bank.

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 securitizing any decision of the Group to purchase investment products. The investment products should generally satisfy the following criteria; (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 flow of the Group for the years indicated:

	Change	**2018**	2017
		RMB'000	*RMB'000*
Net cash generated from operating activities	-17.3%	**176,963**	213,919
Net cash used in investing activities	-59.9%	**(285,388)**	(711,188)
Net cash used in financing activities	+51.8%	**(74,424)**	(49,037)
Net decrease in cash and cash equivalents	-66.5%	**(182,849)**	(546,306)

Net cash generated from operating activities

In 2018, the net cash generated from operating activities amounted to RMB177.0 million (2017: RMB213.9 million), representing a year-on-year decrease of 17.3%, which was primarily due to (a) an increase in profit before taxation for the current year to RMB221.8 million (2017: RMB218.1 million), as mainly adjusted by (i) depreciation of property, plant and equipment of RMB70.3 million (2017: RMB49.6 million); (ii) amortisation of prepaid lease payment of RMB1.4 million (2017: nil); (iii) bank and other interest income of RMB7.2 million (2017: RMB11.6 million); and (iv) investment income from financial assets at FVTPL/AFS investments of RMB18.3 million (2017: RMB11.7 million) and fair value gain on financial assets at FVTPL of RMB6.4 million (2017: nil) and (b) changes in working capital including (i) decrease in inventories of RMB4.1 million (2017: increase of RMB 1.3 million) due to better inventory control management; (ii) increase in accounts and other receivables of RMB17.6 million (2017: increase of RMB7.5 million); and (iii) decrease in accounts and other payables of RMB16.7 million (2017: increase of RMB26.2 million) as a result of accelerated payments to suppliers to cope with business growth and maintain suppliers relationship; and as well as increase in operating cash outflow to support the newly acquired Zhonglian Cardiovascular Hospital during the year. The Group also had further cash outflow of RMB53.3 million (2017: RMB58.9 million) attributable to PRC income tax paid.

Net cash used in investing activities

In 2018, net cash used in investing activities amounted to RMB285.4 million (2017: RMB711.2 million), representing a year-on-year decrease of 59.9%, which was primarily due to (i) a net cash outflow arising from acquisition of the Anhui Hualin Group and Zhonglian Cardiovascular Hospital in aggregate of RMB294.5 million (2017: nil); (ii) increase in investment income received from financial assets at FVTPL/AFS investments to RMB18.3 million (2017: RMB11.7 million); and (iii) a decrease in net cash outflow in relation to purchase and disposal of financial assets at FVTPL/AFS investments as compared with prior year.

Net cash used in financing activities

In 2018, net cash used in financing activities amounted to RMB74.4 million (2017: RMB49.0 million), representing a year-on-year increase of 51.8%, which was mainly due to (i) dividend paid during the year of RMB54.2 million (2017: RMB46.8 million); (ii) the repayment of bank loan of RMB60.0 million; (iii) interest paid on bank loans of RMB0.9 million; and (iv) net advances from non-controlling shareholders of subsidiaries of RMB41.0 million, all in relation to Zhonglian Cardiovascular Hospital after it was acquired.

Significant Investment, Acquisition and Disposal

The Anhui Hualin Group – Rehabilitation and other Healthcare Services

In April 2018, the Group successfully acquired 57% equity interest in Anhui Hualin by way of (i) an equity transfer of 49.71% equity interest in Anhui Hualin from the vendor, an independent third party, at a consideration of RMB58.66 million; and (ii) capital injection into Anhui Hualin by the Group on a non-rata basis of RMB20.0 million. Anhui Hualin directly and indirectly (through its wholly-owned subsidiary) holds sponsor interests in the managed and controlled entities, all of which are private non-enterprise entities in the PRC, including one class II rehabilitation hospital, one class I general hospital, nine rehabilitation centres for the disabled and one vocational training school.

Zhonglian Cardiovascular Hospital

In August 2018, the Group acquired 60% equity interest in Zhonglian Cardiovascular Hospital. Zhonglian Cardiovascular Hospital is a specialty hospital in cardiovascular diseases located in Chongqing, the PRC. Zhonglian Cardiovascular Hospital was also the Group's first managed hospital and its first presence outside of Guangdong Province. The Board considers that, although Zhonglian Cardiovascular Hospital had yet to become profitable as it was still in a start-up phase at the time of acquisition, its initial operations signify promising prospects. The Board considers that full integration and consolidation of Zhonglian Cardiovascular Hospital into the Group's operations will enable the Group to benefit from the operating prospects of Zhonglian Cardiovascular Hospital to a greater extent in the long term compared to the management arrangement.

Save as disclosed in this announcement, the Group had no significant investment, acquisition or disposal during the reporting period and there has not been any significant events since the end of the Reporting Period and up to the date of this announcement.

Cash Management Activities

As part of the Group's cash management, the Group has from time to time invested into investment products issued by a reputable PRC commercial bank with terms ranging from 28–103 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 agency but are classified as low-risk by the issuing bank and/or backed by listed securities with low risk profile. 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 securitizing any decision of the Group to purchase investment products.

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 in 2018 was RMB129.7 million (2017: RMB123.0 million). The Group has financed its capital expenditure through cash flows generated from operating activities.

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 amounts 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 2018, of the net proceeds from the initial public offering, (i) RMB46.4 million, representing approximately 5.9% of the net proceeds, has been utilised as general working capital; (ii) RMB105.0 million, representing approximately 13.4% of the net proceeds, has been utitlised on expansion of the Group's current operations and upgrading of hospital's facilities; and (iii) RMB157.2 million, representing approximately 20.1% of the net proceeds, has been utitlised for acquisition and potential acquisition of businesses. As at 31 December 2018, out of the balance of the unutilised net proceeds of RMB474.0 million, RMB468.2 million (at cost) has been used to purchase certain financial products (classified as financial assets at FVTPL/available-for-sale investments) to achieve higher interest income and capital return without interfering with business operations or capital expenditures to earn better return on our excess cash balance, and the remaining balance has 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

As at 31 December 2018, the Group had no bank loans (2017: nil). As at 31 December 2018, the Group had no banking facilities (2017: nil).

Contingent Liabilities

The Group is subject to legal proceedings and claims in the ordinary of business primarily arising from medical disputes brought on 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 2018, the total stated claim amount of the Group's on-going medical disputes was approximately RMB9.8 million (2017: RMB7.1 million) and there were certain medical disputes without claim amount stated. Based on the Group's assessment, during the year ended 31 December 2018, approximately RMB1.3 million (2017: RMB0.5 million) had been provided and included in accounts and other payables of the Group.

As at 31 December 2018, 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 2018, none of the Group's assets had been pledged (2017: none).

Contractual Obligations

The contractual obligations of the Group primarily consisted of operating lease commitments and capital commitments.

The operating lease commitments of the Group were primarily attributable to the lease of the land and buildings underlying the Group's hospitals and rehabilitation centres operations. As at 31 December 2018, the future aggregate minimum lease payments under non-cancellable lease agreements were RMB259.6 million (2017: RMB270.7 million).

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 2018, the capital commitments in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements were RMB116.0 million (2017: RMB82.8 million).

Financial Instruments

The Group's financial instruments primarily consisted of accounts and other receivables, financial assets at FVTPL/AFS investments, fixed bank deposits, bank balances and cash, restricted bank balances, accounts and other payables, amounts due to a shareholder and amounts due to a non-controlling shareholder of a subsidiary. 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 certain 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 2018, the Group's gearing ratio (total interest-bearing bank loans divided by total equity and multiplied by 100%) was zero (2017: zero).

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31 December 2018, 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 of Securities on the Hong Kong Stock Exchange (the "**Hong Kong 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/she has complied with the required standards as set out in the Model Code during the year ended 31 December 2018.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company complied with all applicable code provisions in the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules during the year ended 31 December 2018.

EVENTS AFTER THE REPORTING PERIOD

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

REVIEW OF RESULTS ANNOUNCEMENT

The Company's audit committee has reviewed the Group's annual results for the financial year ended 31 December 2018 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, namely, 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).

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this annual results announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the annual results announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.kanghuagp.com). The 2018 annual report of the Company containing all the information required by the Hong Kong Listing Rules will be dispatched to the shareholders of the Company 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.

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

Hong Kong
28 March 2019

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

Executive Directors:
Mr. Wang Junyang *(Chairman)*
Mr. Chen Wangzhi *(Chief executive officer)*
Mr. Wong Wai Hung Simon *(Vice chairman)*
Ms. Wang Aiqin

Non-executive Director:
Mr. Lv Yubo

Independent non-executive Directors:
Dr. Chen Keji
Mr. Yeung Ming Lai
Mr. Chan Sing Nun

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 or beyond control of the Group. These forward-looking statements may prove to be incorrect and may not be realized 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 Group's auditor. Shareholders and potential investors should therefore not place undue reliance on such statements.

* *English translated name for identification purpose only.*