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廣 東 康 華 醫 療 股 份 有 限 公 司

GUANGDONG KANGHUA HEALTHCARE CO., LTD.*

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

(Stock Code: 3689)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue for the year increased by 19.3% to RMB1,955.5 million (2018: RMB1,639.3 million).
- Profit for the year decreased by 69.8% to RMB48.7 million (2018: RMB161.3 million).
- Profit for the year attributable to owners of the Company decreased by 55.7% to RMB74.3 million (2018: RMB167.9 million).
- Basic earnings per share decreased by 55.8% to RMB22.2 cents (2018: RMB50.2 cents).
- The Group recognised an impairment loss on goodwill amounting to RMB60.0 million for the year ended 31 December 2019 (2018: nil).
- Adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation# ("**Adjusted EBITDA**") for the year increased by 12.8% to RMB289.2 million (2018: RMB256.3 million).
- The Board does not recommend the distribution of a final dividend for the year.

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

UNAUDITED FINAL RESULTS

The board of directors (the "**Board**") of Guangdong Kanghua Healthcare Co., Ltd. (the "**Company**", "**our company**", "**we**" or "**us**") is pleased to announce the unaudited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the financial year ended 31 December 2019 (the "**Reporting Period**") together with the comparative audited figures for the preceding financial year ended 31 December 2018.

The consolidated annual results for the Reporting Period have neither been audited nor reviewed by the Company's auditor. In addition, the consolidated annual results for the Reporting Period have not been agreed by the Company's auditor as required under Rule 13.49(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") (the "**Hong Kong Listing Rules**") due to delay in the audit procedures resulting from the novel COVID-19 outbreak in the People's Republic of China (the "**PRC**"), in particular postponement of the auditor's field works due to numerous travel restrictions and quarantine measures. The Company currently expects the audit process will be completed by 20 April 2020, and a further announcement will be published as and when appropriate.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	NOTES	**2019** ***RMB'000*** **(unaudited)**	2018 *RMB'000* (audited)
Revenue	3	**1,955,525**	1,639,287
Cost of revenue		**(1,566,106)**	(1,280,383)
Gross profit		**389,419**	358,904
Other income	4	**38,292**	46,765
Other expenses, gains and losses	5	**(703)**	2,199
Impairment loss on goodwill		**(60,000)**	–
Administrative expenses		**(232,282)**	(185,178)
Finance costs	6	**(17,241)**	(936)
Profit before taxation	7	**117,485**	221,754
Income tax expenses	8	**(68,797)**	(60,482)
Profit and total comprehensive income for the year		**48,688**	161,272
Profit (loss) and total comprehensive income (expense) for the year attributable to:			
– owners of the Company		**74,264**	167,943
– non-controlling interests		**(25,576)**	(6,671)
		48,688	161,272
Earnings per share, basic *(RMB cents)*	10	**22.2**	50.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	NOTES	**2019** **RMB'000** **(unaudited)**	2018 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment		**917,670**	814,390
Right-of-use assets		**323,102**	–
Prepaid lease payment		**–**	150,398
Goodwill		**122,013**	182,013
Deposits paid for acquisition of property, plant and equipment		**109,645**	81,133
Fixed bank deposits	11	**37,000**	16,000
		1,509,430	1,243,934
Current assets			
Inventories		**69,768**	45,358
Accounts and other receivables	12	**300,588**	207,016
Prepaid lease payment		**–**	3,248
Financial assets at fair value through profit or loss	13	**477,150**	479,142
Restricted bank balances	11	**2,345**	21,098
Bank balances and cash	11	**223,880**	203,256
		1,073,731	959,118
Current liabilities			
Accounts and other payables	14	**488,534**	481,839
Amount due to a shareholder		**–**	682
Amount due to a non-controlling shareholder of a subsidiary		**138,854**	152,204
Tax payables		**34,401**	38,368
Bank loans – due within one year	15	**7,468**	–
Lease liabilities		**26,294**	–
		695,551	673,093
Net current assets		**378,180**	286,025
Total assets less current liabilities		**1,887,610**	1,529,959

	NOTES	2019 RMB'000 (unaudited)	2018 RMB'000 (audited)
Non-current liabilities			
Bank loans – due after one year	15	**208,785**	–
Deferred tax liabilities		**21,383**	20,485
Lease liabilities		**199,884**	–
		430,052	20,485
Net assets		**1,457,558**	1,509,474
Capital and reserves			
Share capital	16	**334,394**	334,394
Reserves		**1,022,031**	1,044,543
Equity attributable to owners of the Company		**1,356,425**	1,378,937
Non-controlling interests		**101,133**	130,537
Total equity		**1,457,558**	1,509,474

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 (represents elderly healthcare services) in the PRC.

The unaudited consolidated financial information 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 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years.

IFRS 16 Leases ("IFRS 16")

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 Leases ("**IAS 17**") and the related interpretations.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amount as if IFRS 16 had been applied since commencement dates, but discounted using incremental borrowing rates of the relevant group entities at the date of initial application by applying IFRS 16.C88(b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and non-controlling interests, and comparative information has not been restated.

Amounts of RMB43,413,000 and RMB3,878,000 of transition upon adoption of IFRS 16 is recognised as decrease to retained earnings and non-controlling interests on 1 January 2019 respectively.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied by the relevant group entities range from 5.1% to 5.9%.

	At 1 January 2019 *RMB'000* (unaudited)
Operating lease commitments disclosed as at 31 December 2018	259,570
Add: Lease liabilities resulting from lease modifications of existing leases *(note)*	39,686
Less: Recognition exemption – short-term leases	(103)
	299,153
Lease liabilities discounted at relevant incremental borrowing rates relating to operating leases recognised upon application of IFRS 16 as at 1 January 2019	239,724
Analysed as:	
Current	21,512
Non-current	218,212
	239,724

Note: The Group renewed the leases of certain leasehold land and buildings by entering into new lease contracts which commence after date of initial application, these new contracts are accounted as lease modifications of the existing contracts upon application of IFRS 16.

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	RMB'000 (unaudited)
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	192,433
Reclassified from prepaid lease payment *(note (i))*	153,646
	346,079
By class:	
Leasehold lands	153,646
Leasehold land and buildings	192,433
	346,079

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	**Carrying amounts previously reported at 31 December 2018**	**Adjustments**	**Carrying amounts under IFRS 16 at 1 January 2019**
		RMB'000	*RMB'000*	*RMB'000*
			(unaudited)	(unaudited)
Non-current assets				
Prepaid lease payment	(i)	150,398	(150,398)	–
Right-of-use assets	(i), (ii)	–	346,079	346,079
Current asset				
Prepaid lease payment	(i)	3,248	(3,248)	–
Current liability				
Lease liabilities	(ii)	–	(21,512)	(21,512)
Non-current liability				
Lease liabilities	(ii)	–	(218,212)	(218,212)
Capital and reserves				
Reserves		(1,044,543)	43,413	(1,001,130)
Non-controlling interests		(130,537)	3,878	(126,659)

Notes:

(i) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payment as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payment amounting to approximately RMB3,248,000 and RMB150,398,000 respectively were reclassified to right-of-use assets.

(ii) In relation to the leases of properties that the Group acts as lessee, upon application of IFRS 16, the right-of-use assets in relation to the rented premises of approximately RMB192,433,000, and the corresponding current and non-current portion of lease liabilities amounting to approximately RMB21,512,000 and RMB218,212,000 respectively, are recognised.

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 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associates or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

[1] Effective for annual periods beginning on or after 1 January 2021.
[2] 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.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2020.
[5] Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be 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 material impact on the unaudited consolidated financial information in the foreseeable future.

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) provision of other services.

Revenue

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

	2019 ***RMB'000*** **(unaudited)**	2018 *RMB'000* (audited)
Recognised over time:		
Hospital services:		
– Inpatient healthcare services	**1,135,867**	919,814
– Outpatient healthcare services	**609,740**	552,507
– Physical examination services	**102,561**	98,791
Rehabilitation and other healthcare services:		
– Rehabilitation hospital services	**53,345**	32,672
– Rehabilitation centre services and other healthcare services	**33,770**	16,998
Hospital management services	**–**	2,258
Others	**1,665**	204
	1,936,948	1,623,244
Recognised at a point in time:		
Sale of pharmaceutical products	**18,577**	16,043
	1,955,525	1,639,287

Segment information

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

The Group's operating segments are classified as (i) hospital services; (ii) rehabilitation and other healthcare services; (iii) 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 healthcare services: provision of special care services to patients with permanent or long-term physical or mental disabilities. Other healthcare services include elderly health care and training service for the disabled.
(iii)	Hospital management services:	Provision of management services to Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd (重慶康華眾聯心血管病醫院有限公司) ("**Kangxin Hospital**") prior to acquisition.
(iv)	Sale of pharmaceutical products:	Sale of pharmaceutical products to patients of the Group's hospitals and outside customers.
(v)	Others:	Provision of elderly healthcare services.

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 2019 (unaudited)

	Hospital services *RMB'000* *(note a)*	**Rehabilitation and other healthcare services** *RMB'000* *(note b)*	**Sale of pharmaceutical products** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
SEGMENT REVENUE					
External revenue	**1,848,168**	**87,115**	**18,577**	**1,665**	**1,955,525**
Segment profit	**304,687**	**19,549**	**4,164**	**1,019**	**329,419**
Other income					**38,292**
Other expenses, gains and losses					**(703)**
Administrative expenses					**(232,282)**
Finance costs					**(17,241)**
Profit before taxation					**117,485**

For the year ended 31 December 2018 (audited)

	Hospital services *RMB'000*	Rehabilitation and other healthcare services *RMB'000* *(note b)*	Hospital management services *RMB'000* *(note c)*	Sale of pharmaceutical products *RMB'000*	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

Notes:

(a) During the year ended 31 December 2019, impairment loss on goodwill of RMB60,000,000 is allocated to the hospital services segment.

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

(c) The Group acquired 60% equity interest in Kangxin Hospital in August 2018. Segment revenue and profit for the year ended 31 December 2018 represented segment results prior to acquisition.

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 expenses, gains and losses, administrative expenses and finance costs. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

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

Segment assets and liabilities

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

Geographical information and information about major customers

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

4. OTHER INCOME

	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Investment income from financial assets at fair value through profit or loss ("**FVTPL**") *(note)*	**14,508**	18,344
Fair value gain on financial assets at FVTPL	**8,701**	6,447
Fixed operating lease income	**6,235**	4,728
Bank and other interest income	**2,789**	7,243
Clinical trial and related income	**848**	2,862
Government subsidies	**739**	1,483
Others	**4,472**	5,658
	38,292	46,765

Note: The amount represents investment income mainly in the form of dividend income or interest income from financial assets at FVTPL.

5. OTHER EXPENSES, GAINS AND LOSSES

	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Allowance for credit loss	**(596)**	(3,503)
Loss on disposals of property, plant and equipment	**(246)**	(231)
Net exchange gain	**2,152**	5,933
Donations	**(2,013)**	–
	(703)	2,199

6. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Interest on bank loans	**5,387**	936
Interest on lease liabilities	**13,343**	–
	18,730	936
Less: Amount capitalised in property, plant and equipment	**(1,489)**	–
	17,241	936

7. PROFIT BEFORE TAXATION

	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**3,910**	4,132
Other staff costs:		
Supervisors' emoluments	**861**	448
Other salaries and allowances	**527,599**	426,723
Retirement benefit schemes contributions	**26,511**	20,214
Total staff costs	**558,881**	451,517
Depreciation of property, plant and equipment	**91,200**	70,259
Depreciation of right-of-use assets	**31,404**	–
Amortisation of prepaid lease payment	**–**	1,354
Research and development expenditure	**1,030**	620
Short-term lease rentals in respect of rehabilitation centres and staff quarters	**813**	–
Variable lease rentals in respect of hospitals	**6,078**	–
Operating lease rentals in respect of hospitals and rehabilitation centres	**–**	31,422
Auditor's remuneration	**2,694**	3,148
Cost of inventories recognised as expenses (representing pharmaceutical products, consumables and others used, included in cost of revenue)	**919,463**	753,776

8. INCOME TAX EXPENSES

	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
PRC Enterprise Income Tax ("**EIT**"):		
Current tax	**67,795**	62,936
Under(over)provision of EIT in prior years	**32**	(745)
	67,827	62,191
Hong Kong Profits Tax	**72**	–
	67,899	62,191
Deferred tax charge (credit)	**898**	(1,709)
	68,797	60,482

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

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 2018 of RMB16 cents per share amounting to approximately RMB53,363,000 in aggregate was declared and paid by the Company during the year ended 31 December 2019.

There is no dividend proposed by the directors of the Company since the end of the reporting period.

10. EARNINGS PER SHARE

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

	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Earnings:		
Profit for the year attributable to the owners of the Company for the purpose of calculating earnings per share	**74,264**	167,943

	2019	2018
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. FIXED BANK DEPOSITS/RESTRICTED BANK BALANCES/BANK BALANCES AND CASH

At 31 December 2019, the fixed bank deposits carried fixed interest rates ranging from 4.13% to 4.26% (2018: 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% (2018: 0.30% to 0.35%) per annum as at 31 December 2019.

Bank balances carried interest at prevailing market rate which ranges from 0.00% to 1.05% (2018: 0.00% to 0.35%) per annum as at 31 December 2019.

12. ACCOUNTS AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Accounts receivables	**273,928**	186,063
Less: allowance for credit loss	**(9,769)**	(9,573)
	264,159	176,490
Prepayments to suppliers	**9,935**	11,715
Interest receivables	**995**	1,048
Others	**25,499**	17,763
Total accounts and other receivables	**300,588**	207,016

As at 1 January 2018, the carrying amount of accounts receivables from contracts with customer was RMB102,705,000, net of impairment allowance of RMB7,668,000.

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 180 days from the transaction date. Corporate customers will normally settle the amounts within 90 days after the transaction date by bank transfers.

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

	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 30 days	**128,564**	115,761
31 to 90 days	**67,041**	21,351
91 to 180 days	**41,195**	25,954
181 to 365 days	**25,821**	12,847
Over 365 days	**1,538**	577
	264,159	176,490

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Unlisted fund *(note (i))*	**–**	23,162
Portfolio investment fund *(note (ii))*	**77,150**	53,980
Structured bank deposits *(note (iii))*	**400,000**	402,000
	477,150	479,142

Notes:

(i) The unlisted trust fund represents an investment in equity security of an unlisted company in the PRC and is measured at fair value. In January 2019, all of the unlisted fund was disposed at a consideration of RMB23,162,000.

(ii) The Group engaged a fund manager to invest into a portfolio investment fund in Hong Kong for investment returns. The portfolio maintained by the fund manager on behalf of the Group 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.

14. ACCOUNTS AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Accounts payables	**262,040**	263,927
Accrued expenses	**83,062**	77,541
Receipts in advance *(note)*	**61,017**	73,182
Payables for acquisition of property, plant and equipment	**57,397**	54,460
Other tax payables	**3,796**	3,129
Provision for medical dispute claims	**375**	1,280
Others	**20,847**	8,320
Other payables	**226,494**	217,912
Total accounts and other payables	**488,534**	481,839

Note: Included in the balance are advances from the PRC social insurance which represent operating cash of RMB20,667,000 (2018: RMB42,831,000) advanced from the PRC government for the daily operations of the hospitals operated by the Group.

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

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

	2019 *RMB'000* (unaudited)	2018 *RMB'000* (audited)
Within 30 days	**99,938**	66,394
31 to 90 days	**100,364**	94,213
91 to 180 days	**31,467**	64,499
181 to 365 days	**10,793**	20,769
Over 365 days	**19,478**	18,052
	262,040	263,927

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:

	2019 *RMB'000* (unaudited)	2018 *RMB'000* (audited)
At the beginning of the year	**1,280**	503
Provision for the year	**597**	1,462
Utilisation of the provision	**(1,502)**	(685)
At the end of the year	**375**	1,280

15. BANK LOANS

	2019 *RMB'000* (unaudited)	2018 *RMB'000* (audited)
Variable rate secured bank loan	**155,601**	–
Fixed rate secured loan	**60,652**	–
	216,253	–

	2019 *RMB'000* (unaudited)	2018 *RMB'000* (audited)
The carrying amounts of the loans are repayable*:		
Within one year	**7,468**	–
Within a period of more than one year but not exceeding two years	**7,574**	–
Within a period of more than two years but not exceeding five years	**57,818**	–
Within a period of more than five years	**143,393**	–
	216,253	–
Less: amounts due within one year shown under current liabilities	**(7,468)**	–
Amount shown under non-current liabilities	**208,785**	–

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

16. SHARE CAPITAL

	Number of domestic shares *'000*	Number of H shares *'000*	Share capital *RMB'000*
At 1 January 2018, 31 December 2018 and 31 December 2019	250,000	84,394	334,394

17. CAPITAL COMMITMENTS

	2019 ***RMB'000*** **(unaudited)**	2018 *RMB'000* (audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**311,631**	115,950

18. CONTINGENT LIABILITIES

The Group is involved as defendants in certain medical disputes arising from its normal business operations. Except for those disputes with provision made as disclosed in Note 14, the management of the Group believes that the final result of other medical disputes with total claims of RMB5,789,000 (2018: RMB9,807,000) as at 31 December 2019 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.

19. EVENT AFTER THE REPORTING PERIOD

The outbreak of coronavirus disease ("**COVID-19**") in the PRC and the subsequent quarantine measures imposed by the PRC government as well as the travel restrictions imposed by other countries in early 2020 has affected almost all industries and sectors, which may lead to a slowdown in the local and global economies. The situation has resulted in some businesses to temporarily cease operations for a significant period of time during the first quarter of year 2020.

Although most of the Group's operations are located in Guangdong, Chongqing and Anhui in the PRC, the Group's business is largely operating as usual, subject to a certain degree of business disruptions, including temporary closures of our rehabilitation centres and rescheduling of some of our non-emergency services and surgeries. The directors of the Company are of the view the operations and financial condition of the Group as a whole are relatively less affected by the COVID-19 situation, primarily because the Group's revenue from healthcare services are not directly correlated to the economic cycles and the overall demand of the Group's healthcare services (particularly those that are essential to health and well-being) is likely to remain strong despite the COVID-19 situation in the medium to long term.

The Group considers that the impact to the Group will be largely temporary and expects patient flows and major surgeries (which have been rescheduled) will resume gradually from May 2020 or afterwards in 2020. However, given the dynamic nature of these circumstances, the directors of the Company consider that the financial unaudited effects on the Group's consolidated financial statements cannot be reasonably estimated as at the date the unaudited consolidated annual results are authorised for issue, but such circumstances are expected to affect the consolidated results for the first half and full year of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Overview for 2019

In 2019, the Group's consolidated revenue for the year ended 31 December 2019 has reached its record high to RMB1,955.5 million (2018: RMB1,639.3 million), representing a year-on-year increase of 19.3%, mainly attributable to the growth in the operations of Dongguan Kanghua Hospital Co., Ltd.* (東莞康華醫院有限公司) ("**Kanghua Hospital**") (康華醫院) and Dongguan Renkang Hospital Co., Ltd.* (東莞仁康醫院有限公司) ("**Renkang Hospital**") (仁康醫院), which are our owned-hospitals delivering solid growth in revenue of 16.9% and 6.2%, respectively. The business sentiment and overall economic environment in the Dongguan region remained stable with steady growth in 2019. We continued to step up our efforts in recruitment of experienced medical experts and improvement of our medical capabilities and attracted a record high number of inpatients and outpatients visits in 2019.

However, the Group's consolidated profit for the year ended 31 December 2019 has decreased substantially by 69.8% to RMB48.7 million (2018: RMB161.3 million). The decrease in profit is mainly attributable to: (i) the loss incurred in relation to our specialty hospital in Chongqing, the PRC, namely, Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd.* (重慶康華眾聯心血管病醫院有限公司) ("**Kangxin Hospital**") (康心醫院) which was acquired by the Group in August 2018. Kangxin Hospital commenced operation in March 2017 and 2019 was its third year of operation. Despite its growth in revenue of 57.0% to RMB54.8 million for the year ended 31 December 2019 (revenue of Kangxin Hospital for the year ended 31 December 2018 was RMB34.9 million), however, the hospital faced many challenges including huge burden on healthcare professional headcounts, overhead expenditure and fixed costs. The hospital is still at the stage of developing and promoting its brand and reputation in Chongqing and has continued to incur significant losses during its initial stage of ramping up its operation; and (ii) the Group has recognised an impairment loss on goodwill in respect of the cash generating unit of Kangxin Hospital ("**Kangxin Hospital CGU**") arising from its acquisition in 2018. The Board considers that the estimated medium-term future growth of Kangxin Hospital was lower than previously anticipated, accordingly, the aggregate recoverable amount of the Kangxin Hospital CGU is below its aggregate carrying amount, which results in the recognition of an impairment loss of RMB60.0 million during the year ended 31 December 2019.

The Group's Adjusted EBITDA (Adjusted EBITDA is earnings before accounting for bank and other interest income, finance costs, taxes, depreciation and amortisation, fair value gain and investment income from financial assets at FVTPL, exchange gain/loss and impairment loss on goodwill) has recorded a year-on-year increase of 12.8% to RMB289.2 million (2018: RMB256.3 million), which the Board believes that the Group's core operations have remained strong after eliminating the effects of financing, investment-related income, effects of exchange rates, capital expenditures and extraordinary non-cash related losses.

Hospital Services

The Group's owned hospitals, namely, Kanghua Hospital, Renkang Hospital and Kangxin Hospital, have delivered promising operating results, in particular (i) the total number of inpatient visits reached 75,568 (2018: 66,388), representing a year-on-year increase of 13.8% ; (ii) the overall average spending per inpatient visit amounted to RMB15,031.1 (2018: RMB13,855.1), representing a year-on-year increase of 8.5%; (iii) the overall bed utilisation rate increased slightly to 85.6% (2018: 85.1%), primarily caused by the improved utilisation at Kangxin Hospital during the year; (iv) the average length of stay was slightly decreased to 7.3 days (2018: 8.0 days); (v) the total number of outpatient visits reached 1,753,320 (2018: 1,650,592), representing a year-on-year increase of 6.2%; (vi) the overall average spending per outpatient visit amounted to RMB347.8 (2018: RMB334.7), representing a year-on-year increase of 3.9%; and (vii) the total number of surgical operations reached 46,056 (2018: 41,045), representing a year-on-year increase of 12.2%.

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

		For the year ended 31 December	
	Change	**2019**	2018
Inpatient healthcare services			
Inpatient visits	+13.8%	**75,568**	66,388
Average length of stay *(days)*	–0.7	**7.3**	8.0
Average spending per visit *(RMB)*	+8.5%	**15,031.1**	13,855.1
Outpatient healthcare services			
Outpatient visits	+6.2%	**1,753,320**	1,650,592
Average spending per visit *(RMB)*	+3.9%	**347.8**	334.7
Physical examination services			
Physical examination visits	–15.3%	**185,634**	219,191
Average spending per visit *(RMB)*	+22.6%	**552.5**	450.7

Kanghua Hospital

In 2019, Kanghua Hospital, on one hand, continues to provide high standard of healthcare services with a core focus on medical quality and safety, on the other hand, builds up and improves the diagnosis and treatment capability on serious and severe illness of its departments in various disciplines, enhances the hospital's specialist development and further deepens cross-disciplinary cooperation, in order to enhance the competitiveness and promote the development of Kanghua Hospital:

(1) In respect of hospital management, through improvement of the system, talent acquisition and training, and optimisation of the medical insurance management, the medical quality and service management system of Kanghua Hospital can be further enhanced, leading to

an increase in competitiveness. (i) With the "Action Plan for Further Improving Medical Services" issued by the National Health Commission (國家衛健委) as the foundation, Kanghua Hospital completed 18 core amendments to the medical system. (ii) Kanghua Hospital introduced experts in hospital management to further enhance the medical quality and safety standard, for example, with the introduction of the PDCA (Plan-Do-Check-Act) management method used on medical records and statistics, among all healthcare companies in Guangdong Province and Dongguan, Kanghua Hospital ranked first for consecutive months in 2019 in terms of admission quality. (iii) To cope with the severe situation of medical insurance work in 2019, Kanghua Hospital designed the "365" medical insurance upgrade plan, by adjusting and perfecting the 3-level organisational structure, announcing six medical insurance management systems and formulating five continuous improvement policies. With the abovementioned actions, the medical insurance for outpatient visit and inpatient visit in 2019 has improved in terms of expenses control, leading to a decreasing trend in the overall average spending per outpatient visit and inpatient visit.

(2) In relation to hospital services, (i) at the request of the government, Kanghua Hospital planned the "Household Kanghua Angel" (康華天使到家) project under the "Internet + Medical Health" (互聯網+護理服務) initiative, and implemented it in September 2019. Kanghua Hospital is the first hospital in Dongguan to develop and operate nurse appointment online platform. (ii) Kanghua hospital introduced online functions such as the "Yingyitong" (銀醫通) machine and payment by scanning QR code and enhanced the consultation experience.

(3) In 2019, with a focus on the diagnosis and treatment of serious and severe illness, the number of CD-type cases (complicated conditions requiring urgent treatment) and surgeries with level 3 or level 4 complexities increased.

(4) In respect of development of various disciplines, the Endoscopy Centre for Ear, Nose, Throat, Head and Neck is established, with the CCU ward (CCU病房) and Chinese Medicine ward upgraded and the construction of ICU Zone 2 activated. Hematology and plastic & reconstructive surgery of Kanghua Hospital are the 2019 "Key Clinical Specialty of Dongguan" (東莞市重點臨床專科) and "High-Standard Clinical Specialty of Guangdong Province" (廣東省高水平臨床專科) respectively. Also, Kanghua Hospital passed the certification of "Respiratory and Critical Medicine" (呼吸與危重症醫學科) under the Chinese Medical Doctor Association (中國醫師協會), and passed the re-certification and maintained the qualifications of a National Chest Pain Centre (國家級胸痛中心). Its clinical laboratory passed the ISO15189 certification for the third time and its Reproductive Medicine Centre (醫學生殖中心) also passed the certification. Furthermore, Kanghua Hospital passed the certification and became qualified as a Comprehensive Stroke Center (綜合卒中中心) under Chinese Stroke Association (中國卒中學會). Its Atrial Fibrillation Centre (房顫中心) is also upgraded from a constructed unit (建設單位) to a recognised unit (認證單位).

In 2019, Kanghua Hospital's brand and reputation were further enhanced, as exemplified by multiple awards bestowed upon it, including its ranking as the third place nationwide among the "Top 100 Private Hospitals of 2019" (中國非公醫院100強) for two years consecutively, the "Top 30 Listed Healthcare Services Companies in the PRC" (中國上市醫服企業30強), the "Top 80 Hospitals in the Guangdong-Hong Kong-Macau Bay Area" (粵港澳大灣區最佳醫院80強), the "Top 100 Most Competitive Non-Governmental Hospital Group" (社會辦醫醫院集團競爭力排行榜100強), the "Top 100 Most Competitive Non-Governmental Hospital" (社會辦醫單體醫院競爭力排行榜100強) and the "2018 Best Employer of Healthcare Companies in the PRC" (2018年度中國醫療機構最佳僱主等榮譽).

Renkang Hospital

In 2019, Renkang Hospital continued to optimize its operation management system as well as strengthen its management of medical technology and control of medical quality, treatment schemes and medical insurance expenses. This has contributed to the steady growth of the number of patients and revenue and the effective reduction of its operating costs.

With the self-sufficient resources of Renkang Hospital, together with adjustment and streamlining of personnel, and structure optimisation, it is well positioned to take advantage of the respective strengths of various personnel, promote effective cooperation and enhance working efficiency for the continuous growth development of Renkang Hospital. Renkang Hospital actively promoted advanced technology such as ultra-thin veneers, haemodialysis, blood perfusion and beeswax thermal therapy, expanded new businesses such as ozone autohemotherapy and gentle birth, and developed special projects. It shows encouraging results in various disciplines including in particular the disciplines of obstetrics & gynaecology, gerontology, stomatology, nursing home, blood perfusion room, anaesthesiology, clinical laboratory, chinese medicine and health examination.

We recruited and introduced talents in various disciplines, with more than 130 employees hired in Renkang Hospital in the year. We also focused on internal training and emphasised the importance of continuing education and encouraged our personnel to learn on the job and improve themselves, together with a more visible and structured promotion path.

Furthermore, Renkang Hospital continues to promote the development of special and exceptional specialities, including the disciplines of gynecology and obstetrics, paediatrics, stomatology, health examination, geriatrics and traditional Chinese medicine. Indeed, through the induction of talented individuals, investing in equipment, expanding inpatient wards and strengthening marketing efforts, the comprehensive strength and influence of these specialities are constantly enhanced. In 2019, Renkang Hospital became a member of the Southern Geriatric Disease Prevention and Control Alliance (南方中西醫結合老年病防治聯盟單位), the Dongguan Geriatric Medical Specialist Alliance (東莞市老年醫學專科聯盟合作單位) and the Guangdong Province's Commission on Occupational Health (廣東省職業健康協會理事單位).

Kangxin Hospital

In 2019, the Kangxin Hospital entered its third year of operation. With the rapid development of the hospital, it attracted cardiovascular specialists to join and well-known domestic experts to offer diagnosis at the hospital. Furthermore, the disciplines of Radiology and Clinical Laboratory obtained a number of patents and certifications and carried out a series of academic study. As a result, the number of patients in the 2019 increased substantially, with over 16,400 outpatient visits, an increase of 64.1% compared to full year 2018, and around 1,800 inpatient visits, an increase of 56.3% compared to full year 2018.

However, Kangxin Hospital faces several challenges, such as short operating history, new personnel composition, incomplete structure and general market downturn.

(1) In terms of surgeries, during the year 2019, Kangxin Hospital performed 145 cardiovascular surgeries, representing a year-on-year increase of 31.8%, and 580 cardiology surgeries, representing a year-on-year increase of 59.8%.

(2) For medical technology, under the continuing cooperation with Heart Federation (心臟聯盟), Kangxin Hospital actively developed 17 new technologies and projects including heart surgeries with minimal invasion, coronary bypass surgery (without stopping the heart), left atrial appendage closure, 3-dimensional radiofrequency ablation and stress echocardiogram. Currently Kangxin Hospital is the only non-government hospital in Chongqing with notable operations in both cardiology and cardiovascular surgery. It ranks fifth and second in Chongqing in terms of the number of cardiovascular surgeries and cardiology surgeries, respectively. Also, its diagnosis and treatment capability on serious and severe patients are clearly enhanced. Among 142 accident and emergency patients attended by ambulance, four patients with cardiac arrests were rescued, with 39 patients were diagnosed with chest pain followed with PCI surgeries, representing a year-on-year increase of 162.9%.

(3) In respect of hospital infrastructure, (i) Kangxin Hospital is one of the few non-government hospitals in Chongqing with HIV primary screening laboratory, with its clinical laboratory passing the test for HIV primary screening laboratory under Chongqing Health Commission (重慶市衛健委) at first attempt. (ii) In order to accommodate demand in the market, without deploying additional workforce, Kangxin Hospital established the hypertension health centre, and devised the first protocol in Chongqing for hypertension treatment with support and instructions from Shanghai Rujin Hospital (上海瑞金醫院). (iii) The organisational structure of Kangxin Hospital has further improved, with a change in registration regime of medical practitioners in June 2019, together with additional disciplines such as cardiac rehabilitation, pediatric cardiology and comprehensive internal medicine outpatient service. (iv) Phase II of the construction project is proceeding according to plan, with the launch of the main building in April 2019, and relocation of supporting facilities such as bus stations completed.

(4) In relation to brand and reputation, Kangxin Hospital was bestowed as the "High-Standard Chongqing Non-Government Hospital with Contribution and Development" (重慶民營醫療高品質發展貢獻力單位) in the "Top 70 Brands with Contribution" (健康70年民生貢獻力70品牌) event organised by the Chongqing Health Commission (重慶市衛健委).

The Group believes that the Kangxin Hospital will continue to strengthen its influence and reputation in the field of cardiovascular specialty in Southwest China and deliver stable returns in the foreseeable future.

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

		For the year ended 31 December			
Healthcare disciplines	Change	**2019**	% of revenue of the Group's owned hospitals	2018	% of revenue of the Group's owned hospitals
		RMB'000		*RMB'000*	
O&G related disciplines (婦產科有關科室)	+4.2%	**312,596**	16.9	300,043	19.1
Cardiovascular related disciplines (心血管有關科室)	+31.4%	**254,476**	13.8	193,684	12.3
Internal medicine related disciplines (內科有關科室)	+19.4%	**213,266**	11.5	178,675	11.4
General surgery related disciplines (普通外科有關科室)	+12.2%	**152,698**	8.3	136,124	8.7
Neurology related disciplines (神經醫學有關科室)	+18.2%	**120,504**	6.5	101,970	6.5
Emergency medicine related disciplines (急診有關科室)	+33.0%	**120,420**	6.5	90,549	5.8
Orthopaedics related disciplines (骨科有關科室)	+2.6%	**113,445**	6.1	110,588	7.0
Paediatrics related disciplines (兒童醫學有關科室)	+37.6%	**65,279**	3.5	47,455	3.0
Oncology related disciplines (腫瘤有關科室)	+42.8%	**51,153**	2.8	35,827	2.3
Medical aesthetic related disciplines (醫學美容有關科室)	+23.9%	**41,706**	2.3	33,657	2.1
Nephrology related disciplines (腎臟科有關科室)	+28.4%	**43,807**	2.4	34,116	2.2
Physical examination (體檢科)	+3.8%	**102,561**	5.5	98,791	6.3
Other disciplines (其他臨床科室)	+22.2%	**256,257**	13.9	209,633	13.3
Total*		**1,848,168**	100.0	1,571,112	100.0

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

In 2019, the Group performed a total of 46,094 surgeries (2018: 41,045), included in which 17,457 surgeries (2018: 14,758) are with level 3 or level 4 complexities, representing a year-on-year increase of 12.3% and 18.3%, respectively. Obstetrics and gynaecology ("**O&G**") disciplines, internal medicine disciplines, cardiovascular disciplines, general surgery disciplines and neurology disciplines (2018: O&G disciplines, internal medicine disciplines, cardiovascular disciplines, general surgery disciplines and orthopaedics disciplines) were the top five revenue generating disciplines of the Group for the year of 2019, accounting for approximately 57.0% of the Group's total revenue in hospital services in the same period (2018: 58.5%).

During the year ended 31 December 2019, revenue across all disciplines of our owned hospitals recorded considerable growth, primarily driven by local demands of our service offerings. In particular, (a) our O&G related disciplines continued to be our top and stable revenue driver, accounting for 16.9% (2018:19.1%) of the total revenue from our hospital service segment, and have recorded a year-on-year revenue increase of 4.2%, primarily attributable to the expansion of our O&G related workforce and medical facilities, and growth in local demand and penetration of reputation in the discipline especially at our O&G VIP centres; (b) revenue from cardiovascular related disciplines recorded a strong year-on-year increase of 31.4%, primarily attributable to the Group's continuous growth in industry reputation within Guangdong Province and the consolidation of revenue from Kangxin Hospital since its acquisition in August 2018; (c) revenue from oncology related disciplines recorded a significant year-on-year increase of 42.8% primarily attributable to the recruitment of new oncology professionals in 2017, which has continued to attract patients to Kanghua Hospital ever since; and (e) revenue from emergency medicine related disciplines recorded a year-on-year increase of 33.0%, mainly attributable to our upgrade and expansion of our emergence wards and ICU wards at Kanghua Hospital. The Group will continue to recruit medical experts and talents, accelerate the installation and implementation of new medical equipment and promote the development in all our disciplines comprehensively, as well as increase the capability to receive and treat critical tumor patients.

In 2019, the Group's main revenue driving strategies of our hospital services segment are:

(i) Cardiovascular disciplines: The Group is cooperating with Provincial People's Hospital (省人民醫院) in all aspects, attracting well-known experts, improving the level of interventional treatment of complex CTO pathological changes in the Cardiac Centre and further expanding the influence of specialty practices;

(ii) Neurology disciplines: The Group is establishing the Neuroscience NCU (神經醫學NCU), expanding wards, developing further facilities in the Stroke Centre (卒中中心) and cooperating with lower-level hospitals;

(iii) Oncology disciplines: The Group is using new radiotherapy equipment to consolidate and improve its advantages in the treatment of and technology used for nasopharyngeal cancer, breast cancer and cervical cancer, compared to others in the industry. The Group is further cooperating with the Cancer Centre of the University of Hong Kong-Shenzhen Hospital; and

(iv) Emergency medicine related disciplines: The Group is establishing emergency wards (急診科病), KICU wards (KICU病房), and Trauma Treatment Centres (創傷救治中心). The Group is also excelling in the treatment of trauma patients, strengthening the development of ECMO technology, conducting emergency applications of ECMO technology and building a training base for cardiopulmonary cerebral resuscitation. Moreover, the Group is establishing additional ICU wards and increasing the number of beds in its hospitals. The Group is additionally developing treatment for certain diseases (severe pancreatitis and sepsis) and expanding its superior projects (CRRT and ECMO technologies).

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 2019, the total revenue derived from special services amounted to RMB181.5 million (2018: RMB161.7 million), representing a year-on-year increase of 12.2%. In 2019, our revenue from VIP healthcare services including our VIP inpatient and VIP outpatient services recorded a year-on-year increase of 31.8%, primarily attributable to our more premium service offerings from Huaxin Building (華心樓) (a complex in Kanghua Hospital dedicated to VIP healthcare services), and wider recognition of our comprehensive O&G services dedicated to VIP patients. Our revenue from VIP inpatient services recorded RMB72.4 million (2018: RMB51.0 million), representing a year-on-year increase of 41.9%, primarily driven by the increase in average spending as our O&G service offerings at our VIP inpatient centre continues to gain reputation and market demand. Furthermore, our revenue from VIP outpatient service amounted to RMB37.6 million (2018: RMB32.6 million), representing a year-on-year increase of 15.3%.

However, our revenue from reproductive medicine has dropped to RMB52.7 million (2018: RMB63.9 million) with a year-on-year decrease of 17.5%. The drop of reproductive medicine is mainly due to the retirement of a reproductive medicine specialist at Kanghua Hospital in later 2018, and also, the gradually stabilising demand due to the two-child policy in the Guangdong Province since its launch in year 2016.

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

		For the year ended 31 December	
Special Services	Change	**2019**	2018
VIP healthcare services			
Inpatient visits	+34.0%	**3,639**	2,715
Outpatient visits	+1.6%	**58,182**	57,278
Revenue *(RMB'000)*	+31.8%	**110,247**	83,652
Reproductive medicine			
Number of outpatient visits	–20.3%	**48,486**	60,808
Revenue *(RMB'000)*	–17.5%	**52,701**	63,863
Plastic and aesthetic surgery			
Revenue *(RMB'000)*	+10.9%	**5,174**	4,664
Laser treatment			
Revenue *(RMB'000)*	+40.2%	**13,397**	9,553
Total revenue from special services *(RMB'000)*	+12.2%	**181,519**	161,732

Rehabilitation and other Healthcare Services

The Group's rehabilitation and other related healthcare services segment, through its ownership of 57% equity interest in Anhui Hualin Medical Investment Co., Ltd.* (安徽樺霖醫療投資有限公司) ("**Anhui Hualin**"), has recorded a revenue of RMB87.1 million (for the period from its acquisition on 1 April 2018 to 31 December 2018: RMB49.7 million) for the year ended 31 December 2019. Anhui Hualin directly and indirectly (through its wholly-owned subsidiary) holds sponsor interests in certain private non-enterprise entities in Anhui Province, the PRC. It mainly operates two rehabilitation hospitals, one general hospital, ten rehabilitation centres and one vocational training school (collectively referred to as "**Anhui Hualin Group**"). The Anhui Hualin Group has generated significant synergistic value to the Group and expanded our presence in the rehabilitation healthcare sector in the PRC.

Anhui Hualin Group currently employs more than 700 staff and has a stable cooperation with the Anhui Disabled Persons Federation (安徽省殘疾人聯合會) and local governments in the provision of training services for the disabled. The Anhui Hualin Group is also a major organisation offering children rehabilitation services in Auhui Province, the PRC.

Since its acquisition, Anhui Hualin Group has developed steadily, with its network of medical institutions and rehabilitation centres constantly expanding. In 2019, after participating in the government's public bidding, Anhui Hualin Group successfully won the bids of two rehabilitation centre projects: the Changfeng County Beicheng Rehabilitation Centre (長豐縣北城康復中心) and the Feixi County Kanghua Children's Rehabilitation Centre (肥西縣康華兒童康復中心).

One of the major hospitals of the Anhui Hualin Group is the Hefei Kanghua Rehabilitation Hospital (合肥康華康復醫院), a rehabilitation specialty hospital aiming to become 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, convenient rehabilitation treatment programmes. 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, educational rehabilitation and social rehabilitation centred around a class III rehabilitation specialty hospital. In 2019, Hefei Kanghua Rehabilitation Hospital also entered into the formal operation stage from the trial operation stage. By creating a customisable management method, actively exploring and maintaining referral channels, as well as constructing rehabilitation specialties, the Group's brand image has been successfully established in the local area. In 2019, the hospital also signed out-patient and in-patient medical insurance agreements with Hefei Medical Insurance Centre, thus obtaining the qualifications of a locally designated medical insurance institution. In addition, the Group's chain rehabilitation centres actively increased its business volume with the help of resources, venues, scale, experience and other advantages, enhancing the overall brand influence in Anhui Province's rehabilitation market.

Hefei Kanghua Rehabilitation Hospital established orthopaedics discipline in April 2019. In May 2019, it established nerve and spinal cord injury rehabilitation (renamed as intensive care rehabilitation in October 2019) and bones and joints rehabilitation (renamed as integrative medicine rehabilitation in November 2019) disciplines. In December 2019, with an addition of modern rehabilitation treatment, Kangfuya Sub-specialty Hospital (康復亞專科醫院) is established with specialised disciplines such as orthopaedics, intensive care rehabilitation, integrative medicine rehabilitation, modern rehabilitation treatment and children rehabilitation. With burn rehabilitation as the primarily development direction, Hefei Jingu Rehabilitation Hospital (合肥金谷康復醫院) has started the operation of hyperbaric oxygen therapy and Chinese medicine (pain management) in April and May 2019, respectively.

As at 31 December 2019, the hospitals and centres operated by Anhui Hualin Group have a total of 200 registered beds. In 2019, Anhui Hualin Group had 45,646 outpatient visits (from 1 April 2018 to 31 December 2018: 36,451), 4,561 inpatient visits (from 1 April 2018 to 31 December 2018: 1,295) and served 1,973 (from 1 April 2018 to 31 December 2018: 1,541) rehabilitation patients.

In the future, Anhui Hualin Group will continue to accrue talents through various channels and training, constantly enhance its medical software and hardware configuration, comprehensively improve the level of its medical services, further increase its business revenue, and continue to make beneficial contributions to the Group.

Hospital Management Services

In August 2018, the Group completed the acquisition of 60% equity interest of Kangxin Hospital and had become a non-wholly-owned subsidiary of the Company. The Board considers that full integration and consolidation of Kangxin Hospital into the Group's operations will enable the Group to benefit from the operating prospects of Kangxin Hospital to a greater extent in the long term. Since the acquisition of Kangxin Hospital, throughout year 2019 and up to the date of this announcement, the Group has no other management arrangement with third party hospitals and the Company will continue to search for appropriate opportunities to undertake hospital management operations to the extent commercially desirable to the Group.

Sale of Pharmaceutical Products

The Group's sale of pharmaceutical products segment includes a pharmaceuticals and medical consumables trading company established 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 operation of this pharmacy company has in general lowered our 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 2019 amounted to RMB18.6 million (2018: RMB16.0 million), representing a year-on-year increase of 15.8%.

Industry Outlook and Strategy

Entering 2019, the One Belt One Road Initiative had been promoted in all aspects and the strategy of Healthy China 2030 had been fully implemented. The demand for an international healthcare market had also increased, and the healthcare consumption upgrade of domestic had quickened. In 2019, new policies in the field of medicine and healthcare were frequently instituted in China and the pace of medical reform was further accelerated. Among these policies, those which are important for the direction of the medical services industry include:

(1) Promoting social capital to run medical services: policies are encouraging and supporting social capital to provide medical services, including simplifying the process of assessment and obtaining approval, promoting the division of labor between public medical institutions and social medical service providers, improving medical insurance support policies and improving the consolidated regulatory system.

(2) Implementing DRG (疾病診斷相關分組) payment: policies are promoting the change of medical insurance payment methods from "payment by project" to "payment by disease". That is, setting a fixed reimbursement standard for each disease and reimbursing the expenses to medical institutions by medical insurance institutions in accordance with a unified standard. This new method of payment will effectively solve the problem of excessive drug use in hospitals, unreasonable inspections and treatment plans and improve the quality of medical services.

(3) Supporting the heritage and innovation of Traditional Chinese Medicine ("**TCM**"): policies are strengthening the training of talents in TCM, including through promoting the combination of college education and doctor-accepted education and improving the evaluation system of professional titles of TCM doctors. Simultaneously, the state will be supporting the construction of scientific research and innovation arrangements such as TCM laboratories, as well as increasing pilot clinical collaborations between TCM and Western medicine for major and difficult diseases.

(4) Encouraging the construction of elderly care services system with the combination of medical care and nursing care: policies are strengthening market mechanisms, improving the training of nursing professionals for the elderly and encouraging social forces to participate in the elderly care services market. This will continuously improve the elderly care services system which is predicated on home care and relies on the social community, effectively meeting the diversified and multi-level needs of medical care and elderly services of the elderly.

(5) Continuing to promote the construction of medical association: policies are further integrating and medical resources are being shared within the regions. Additionally, policies are accelerating the establishment of a graded diagnosis and treatment model that consists of a first diagnosis in primary hospitals, a two-way referral system between higher and lower hospitals and the division of treatment for acute and chronic diseases.

In 2019, closely following the trend of medical reform policies, the Group actively promoted the establishment of the Medical Association (醫聯體) and deepened the layout strategy of its medical network through constantly consolidating the quality of its own medical services. In the future, it is believed that under the relevant support policies, the Group will further optimize its medical management system, focus on the development of key and characteristic specialties, develop a comprehensive layout in the One Health industry and expand its industry influence.

The impact of COVID-19

In the beginning of 2020, an unexpected and unprecedented pandemic caused by the novel coronavirus ("**COVID-19**") has affected a wide range of industries and sectors in the PRC and elsewhere, leading to a possible slowdown in global economy. In response to the threats of COVID-19, the Group, as a hospital operator, has put in place numerous precautionary measures to ensure the health and safety of our employees and the stable operations of our hospitals for the provision of responsive service to our patients.

At present, the Group continuously monitors the latest developments and coordinates actively with local healthcare authorities and organisations, as well as our stakeholders, to refine our policies, measures and best practices, including minimizing cross and secondary infections by implementing work shifts and flexible working arrangements, sourcing sufficient safety materials and protective gears for our front-line healthcare workers and administrative staff, and controlling patient movements and restricting non-patient visits to our hospital premises. As far as the Group's businesses are concerned, while the Group's hospitals remain operational as usual, the COVID-19 pandemic has resulted in a certain degree of operational disturbance, including temporary closures of our rehabilitation centres and rescheduling of some of our non-emergency services and surgeries.

The major epidemics in the past ten years (including SARS) have been catalysts for reform in the healthcare system and industry. With the continuous support of the PRC government to the healthcare system and industry in recent years, favourable policies may inspire progressive changes in the healthcare system and industry in response to the COVID-19 impact, such as accelerated development and application of internet medical services, integration of the Chinese and Western Medicine, and promotion in vaccinations and medical insurance. The Group intends to position itself to capture such opportunities, while maintaining fast-paced expansion and delivery of high quality services.

Future Plans for Material Investments and Capital Assets

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

FINANCIAL REVIEW

Segment Revenue

The Group generates revenue primarily from: (i) hospital services – providing healthcare services through its owned hospitals, namely Kanghua Hospital, Renkang Hospital and Kangxin Hospital (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 2019 (unaudited)

	Hospital services *RMB'000*	**Rehabilitation and other healthcare services** *RMB'000* *(Note)*	**Sale of pharmaceutical products** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Revenue	**1,848,168**	**87,115**	**18,577**	**1,665**	**1,955,525**
Cost of revenue	**(1,483,481)**	**(67,566)**	**(14,413)**	**(646)**	**(1,566,106)**
Gross profit	**364,687**	**19,549**	**4,164**	**1,019**	**389,419**
Gross profit margin	**19.7%**	**22.4%**	**22.4%**	**61.1%**	**19.9%**

For the year ended 31 December 2018 (audited)

	Hospital services *RMB'000*	Rehabilitation and other healthcare services *RMB'000* *(Note)*	Hospital management services *RMB'000*	Sale of pharmaceutical products *RMB'000*	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%

Note: The operation of rehabilitation and other healthcare services was acquired in April 2018.

Revenue from the Group's hospital services amounted to RMB1,848.2 million (2018: RMB1,571.1 million), representing a year-on-year increase of 17.6% and accounting for 94.5% (2018: 95.8%) of the total revenue of the Group.

Included in revenue from hospital services comprised (i) revenue from inpatient healthcare services amounting to RMB1,135.9 million (2018: RMB919.8 million) representing a year-on-year increase of 23.5%, accounting for 58.1% (2018: 56.1%) of the total revenue of the Group; (ii) revenue from outpatient healthcare services amounting to RMB609.7 million (2018: RMB552.5 million), representing a year-on-year increase of 10.4%, accounting for 31.2% (2018: 33.7%) of the total revenue of the Group; and (iii) revenue from physical examination services amounting to RMB102.6 million (2018: RMB98.8 million), representing a year-on-year increase of 3.8%, accounting for 5.2% (2018: 6.0%) of the total revenue of the Group. The increase in revenue from hospital services is 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 Kangxin Hospital (acquired since August 2018); and (iii) the growth in revenue across all our major disciplines and VIP special services during the year. During the year 2019, the revenue from our VIP special services accounts for approximately 9.3% of the Group's total revenue (2018: 9.9%) and 9.8% of the Group's revenue from our hospital services segment (2018: 10.3%). The solid growth in revenue from our hospital services has demonstrated that the demand of our service continues to remain strong and the reputation of the Kanghua brand has further strengthened especially in the Guangdong region.

Revenue from rehabilitation and other healthcare services amounted to RMB87.1 million (for the period from 1 April 2018 to 31 December 2018: RMB49.7 million) representing a year-on-year increase of 75.4%, accounting for 4.5% (2018: 3.0%) of the total revenue of the Group. In April 2018, the Group acquired Anhui Hualin which 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. The increase in revenue is mainly attributable to the establishment of Hefei Kanghua Rehabilitation Hospital in November 2018 (a rehabilitation specialty hospital aiming to be rated as a class III rehabilitation hospital) and the opening and transformation of other rehabilitation hospitals and centres within Anhui Hualin Group, which has attracted a considerable number of patients in the Anhui region.

In 2019, the Group did not have any revenue from the hospital management services segment (2018: RMB2.3 million). Our hospital management agreement with Kangxin Hospital ceased when the Group acquired the controlling interest in Kangxin Hospital in August 2018. During the year 2019 and up to the date of this announcement, the Group has no other management arrangement with third party hospitals and the Company will continue to search for appropriate opportunities to undertake hospital management operations to the extent commercially desirable to the Group.

Revenue from the sale of pharmaceutical products and medical consumables amounted to RMB18.6 million (2018: RMB16.0 million) representing a year-on-year increase of 15.8%, accounting for 0.9% (2018: 1.0%) of the total revenue of the Group. The pharmaceuticals and medical consumables trading operation was set up 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 is primarily due to the increase in the number of outpatient visits in both Kanghua Hospital and Renkang Hospital which drove pharmaceutical and medical consumable sales within both hospitals.

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 RMB1,483.5 million (2018: RMB1,232.1 million), representing a year-on-year increase of 20.4%. The greater extent of increase in cost of revenue for hospital services was primarily due to (i) the continual pressure in the rise of medical staff costs and other staff benefits due to shortage in medical professionals in the Guangdong Province; and (ii) full consolidation of the cost incurred at Kangxin Hospital which has caused the increase in cost of revenue more rapidly than revenue as it is still at an infancy stage of ramping up it operation and thus, it is operating at negative gross margin.

Cost of revenue of the Group's rehabilitation and other healthcare services amounted to RMB67.6 million (2018: RMB33.7 million) representing a year-on-year increase of 100.6%, and primarily consisted of staff costs, medical consumables, depreciation, utilities and rental expenses. The significant increase in cost of revenue of our rehabilitation and other healthcare services segment is mainly attributable to the rise in operating cost relating to the new Hefei Kanghua Rehabilitation Hospital which was established in November 2018 and fully operational in the year 2019.

During the year, the Group did not have any cost of revenue from our hospital management services segment (2018: RMB1.7 million). Our hospital management agreement with Kangxin Hospital ceased when the Group acquired the controlling interest in Kangxin Hospital in August 2018.

Cost of revenue of the Group's sale of pharmaceutical products amounted to RMB14.4 million (2018: RMB12.7 million) representing a year-on-year increase of 13.7%, mainly representing cost of inventory and purchase of pharmaceutical products, which was in line with the increase in revenue.

For the year ended 31 December 2019, pharmaceuticals, medical consumables and staff cost accounted for approximately 30.8% (2018: 31.1%), 27.9% (2018: 27.8%) and 30.1% (2018: 29.8%), respectively, of the total cost of revenue of the Group. Our total staff related costs including salary, bonus and other benefits had increased by 23.6% 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 on full consolidation of the Anhui Hualin Group and Kangxin Hospital during the current year.

Gross Profit and Gross Profit Margin

Total gross profit of the Group amounted to RMB389.4 million (2018: RMB358.9 million), representing a year-on-year increase of 8.5%. The overall gross profit margin decreased to 19.9% (2018: 21.9%), primarily due to:

(i) our significant growth in cardiovascular related disciplines, neurology related disciplines, emergence medicine related disciplines and oncology related disciplines during the current year. These medical disciplines usually require treatments typically involving more delicate, precise and advanced surgeries and diagnostics support and command a higher margin than basic medical services;

(ii) the growth in our VIP centres that are targeted towards high-end patients and typically command higher margin than basic healthcare services (our VIP inpatient and outpatient services related revenue recorded a year-on-year growth of 41.9% and 15.2%, respectively);

(iii) the overall increase in the average spending of our patients and the ability to increase healthcare consultation prices. In 2019, the Group has year-on-year growth of 8.5%, 3.9% and 15.0% in the average spending from inpatient, outpatient and physical examination healthcare services, respectively, from our owned hospital operations;

(iv) however, the above impact has been considerably offset by (a) the full consolidation of results of Kangxin Hospital which recorded a negative gross profit margin due to its infancy stage of ramping up its operation that incurs a large amount of fixed medical staff costs, overhead expenditure and other direct fixed costs; and (b) an increase in overall direct staff related costs of 23.6% and an increase in overall depreciation and amortisation expenses of 64.5% mainly caused by the impact of purchase of various new medical equipment and new leasehold improvement incurred in Kanghua Hospital, as well as the impact of application of new accounting standard (IFRS 16) relating to leases. The increase in staff related costs includes general increase in overall salary level, and more competitive compensation packages offered to our healthcare professionals.

Key Operational Information of our Owned Hospitals

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

		For the year ended 31 December	
	Change	**2019**	2018
Inpatient healthcare services			
Inpatient visits:			
Kanghua Hospital	+16.5%	**59,578**	51,159
Renkang Hospital	+5.7%	**14,135**	13,375
Kangxin Hospital	+231.8%	**1,855**	559
Total inpatient visits	+16.1%	**75,568**	65,093
Average spending per visit (RMB)			
Kanghua Hospital	+4.9%	**16,061.0**	15,308.8
Renkang Hospital	+1.1%	**9,277.5**	9,178.1
Kangxin Hospital	+3.9%	**25,794.6**	24,819.3
Outpatient healthcare services			
Outpatient visits:			
Kanghua Hospital	+8.5%	**1,335,875**	1,231,290
Renkang Hospital	+6.1%	**401,030**	378,094
Kangxin Hospital	+245.1%	**16,415**	4,757
Total outpatient visits	+8.6%	**1,753,320**	1,614,141
Average spending per visit (RMB)			
Kanghua Hospital	+1.6%	**376.6**	370.6
Renkang Hospital	+0.2%	**248.7**	248.1
Kangxin Hospital	-12.5%	**425.3**	485.8
Physical examination services			
Physical examination visits:			
Kanghua Hospital	–5.0%	**115,170**	121,261
Renkang Hospital	–16.5%	**70,464**	84,394
Total physical examination visits	–9.7%	**185,634**	205,655
Average spending per visit (RMB)			
Kanghua Hospital	+10.1%	**825.1**	749.2
Renkang Hospital	+13.5%	**106.9**	94.2

Other Income

The other income of the Group primarily consisted of bank and other interest income, fair value gain on and investment income from financial assets at FVTPL, government subsidies, rental income, clinical trial and related income and others. In 2019, other income amounted to RMB38.3 million (2018: RMB46.8 million), representing a year-on-year decrease of approximately 18.1%, primarily due to (i) an increase in fair value gain on financial assets at FVTPL of 35.0% to RMB8.7 million (2018: RMB6.4 million), which represents fair value gain from our portfolio investment fund; (ii) a decrease in investment income from financial assets at FVTPL of 20.9% to RMB14.5 million (2018: RMB18.4 million), which represents investment income from our principal-protected structured deposits with banks in the PRC; (iii) an increase in rental income to RMB6.2 million (2018: RMB4.7 million), which mainly represents rental income from our staff quarter; (iv) a decrease in government subsidies and clinical trial and related income; and (v) a decrease in bank and other interest income to RMB2.8 million (2018: RMB7.2 million) mainly as a result of decrease in average bank balances.

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 fund and portfolio investment fund (all classified as financial assets at FVTPL) to achieve higher interest income and capital gain return (which is recognised as "other income" above) without interfering with business operations or capital expenditures to earn better return on our excess cash balance, which consistent with our cash management policy.

Other Expenses, Gains and Losses

The other expenses, gains and losses of the Group primarily consisted of allowances on credit loss, loss on disposal of property, plant and equipment, donations and net exchange gain/loss. In 2019, other expenses, gains and losses amounted to a net loss of RMB0.7 million (2018: net gain of RMB2.2 million), primarily due to (i) a decrease in allowances on credit loss to RMB0.6 million (2018: RMB3.5 million), mainly due to an overall improvement on credit quality of our accounts and other receivables; (ii) donations made during the year of RMB2.0 million (2018: nil); and (iii) a recorded net exchange gain of RMB2.2 million (2018: net exchange gain of RMB5.9 million) mainly arising from our Hong Kong dollar denominated financial assets.

Impairment of Goodwill

During the year ended 31 December 2018, the Group has recognised (i) goodwill of RMB56.6 million arising from the acquisition of Anhui Hualin Group, which has been allocated to the CGU of rehabilitation and other healthcare services business; and (ii) goodwill of RMB125.4 million arising from the acquisition of Kangxin Hospital, which has been allocated to the CGU of hospital services business (the "**Kangxin Hospital CGU**"). As at 31 December 2019, the Board conducted a review of the carrying values of the aforementioned CGUs.

The recoverable amount of the CGU of rehabilitation and other healthcare services business has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by the management of the Group. The key assumptions are growth rates and pre-tax discount rates, which are estimated based on past practices and expectations of future changes in the market. The Board believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this CGU to exceed the aggregate recoverable amount of this CGU and determined that there is no impairment of this CGU.

The recoverable amount of the Kangxin Hospital CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by the management of the Group. The key assumptions are growth rates and pre-tax discount rates which are estimated based on past practices and expectations of future changes in the market. After taken into consideration of the historical performance and most recent actual performance of the Kangxin Hospital CGU, the Board considers that the estimated medium-term future growth in revenue of Kangxin Hospital will be lower than previously anticipated. Accordingly, the aggregate recoverable amount of Kangxin Hospital CGU is below its aggregate carrying amount, and an impairment loss of RMB60.0 million was recognised during the year ended 31 December 2019. The goodwill relating to the Kangxin Hospital CGU was approximately RMB65.4 million as at 31 December 2019.

Kangxin Hospital commenced operations in March 2017, and year 2019 was its third year of operation. The Board is of the view that the primary factors resulting in the change in future cash flow projections and the impairment of goodwill relating to the Kangxin Hospital CGU are as follows:

(i) the actual revenue performance of Kangxin Hospital during the year 2019 was lower than previously anticipated. The number of inpatient and outpatient visits as well as the number of surgeries operated in 2019 had not reached our initial forecast numbers;

(ii) competition for quality healthcare professionals in the Chongqing region is very keen and as Kangxin Hospital is still at an early stage of operation and developing its brand and reputation, it remains a challenge for Kangxin Hospital to recruit well-known and reputable doctors that are conducive to attracting patient visits. As a result, we have reduced the expected growth in number of patient visits in Kangxin Hospital; and

(iii) Kangxin Hospital has incurred fixed costs at a rate that is faster than its revenue growth as originally anticipated. In particular, certain fixed costs, including wages, repairs and maintenance and other fixed administrative expenses have increased at a higher rate than expected due to market conditions and the competitive landscape in Chongqing.

In view of the slow-down in revenue growth and the higher rate of costs increase, the management considers probable that there will be a decrease in the future cash flow projections in the short to medium term.

Impairment of goodwill in relation to the acquisitions of Anhui Hualin Group and Kangxin Hospital is assessed by comparing the recoverable amount of the relevant CGUs to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal, to its carrying values at the end of the Reporting Period. The value in use of the CGUs is determined by the Board based on the present value of estimated future cash flows to be generated from the CGUs and with reference to the valuation reports prepared by an independent professional valuer, which was approved by the Board. Where the actual future cash flows are less than expected, or changes in facts and circumstances resulting in downward revision of future cash flows, an impairment loss may arise. The management of the Group adopts significant judgement and assumptions in the value in use calculation for estimation of the recoverable amount of the CGUs. Such key assumptions include growth rates and pre-tax discount rates. During the year ended 31 December 2019, the Group recognised an impairment loss of RMB60.0 million on the goodwill relating to Kangxin Hospital as the recoverable amount of the Kangxin CGU is less than its carrying amount. The Board is of the view that no provision for impairment has to be recognised for the goodwill relating to Anhui Hualin Group for the year ended 31 December 2019. The management and the Board will closely monitor the situation, and make adjustments as appropriate should future market activities and conditions indicate that such adjustments are required.

As disclosed in this announcement, the recent COVID-19 pandemic has affected almost all industries and sectors, which may lead to a slowdown in the local and global economies. The situation has resulted in some businesses to temporarily cease operations for a significant amount of time during the first quarter of year 2020. Our hospitals are largely operating as usual, subject to a certain degree of business disruptions, including temporary closures of our rehabilitation centres and rescheduling of some of our non-emergency services or surgeries. The Board is of the view the operations and financial condition of the Group as a whole are relatively less affected by COVID-19 pandemic, primarily because the bulk of our revenue from healthcare services are not directly correlated to the economic cycles and the overall demand of our Group's healthcare services (particularly those that are essential to health and well-being) is likely to remain strong despite the COVID-19 pandemic in the medium to long term.

Administrative Expenses

The administrative expenses of the Group primarily consisted of staff costs, repairs and maintenance expenses, office expenses, depreciation and amortisation, rental expenses, utilities expenses, entertainment and travelling expenses and other expenses. In 2019, administrative expenses amounted to RMB232.3 million (2018: RMB185.2 million), representing a year-on-year increase of approximately 25.4%, primarily due to (i) an increase in administrative staff related costs to RMB89.0 million (2018: RMB72.6 million) as a result of general salary increase and increase in number of administrative staff headcounts; (ii) an increase in depreciation and amortisation to RMB32.4 million (2018: RM16.3 million) due to expansion of our operations as well as the impact of application of new accounting standard (IFRS 16) relating to leases; and (iii) an increase in office and administration costs as well as other utilities expenses due to expansion of our operations and acquisition of Anhui Hualin and Kangxin Hospital last year.

Finance Costs

Finance costs for the year amounted to RMB17.2 million (2018: RMB0.9 million). Finance costs for the current year represents (i) interest on bank loans raised during the year of RMB5.4 million (2018: RMB0.9 million); (ii) the interest element relating to lease liabilities charged to profit or loss during the current year due to application of new accounting standard (IFRS 16) relating to leases of RMB13.3 million (2018: nil); and (iii) less amount of interest capitalised in the cost of qualifying assets of RMB1.5 million (2018: nil).

Income Tax Expenses

The income tax expenses of the Group primarily consisted of PRC enterprise income tax and Hong Kong Profits Tax. In 2019, income tax expenses amounted to RMB68.8 million (2018: RMB60.5 million), representing a year-on-year increase of approximately 13.7%. The subsidiaries of the Group in the PRC are generally subject to income tax rate of 25% on their respective taxable income. Our effective tax rate in 2019 is 58.6% (2018: 27.2%), and the increase is primarily due to tax effect of tax losses not recognised for losses incurred of Kangxin Hospital and tax effect of impairment loss recognised in respect of goodwill.

Profit for the Year

In 2019, profit for the year amounted to RMB48.7 million (2018: RMB161.3 million), representing a year-on-year decrease of approximately 69.8% and profit for the year attributable to shareholders of the Company amounted to RMB74.3 million (2018: RMB167.9 million), representing a year-on-year decrease of approximately 55.7%. The decrease is primarily due to the continuing losses incurred by Kangxin Hospital and impairment loss recognised in respect of goodwill of RMB60.0 million for the current year.

FINANCIAL POSITION

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

During the year 2019, the Group acquired property, plant and equipment and incurred expenditure on construction in progress of RMB76.6 million (2018: RMB96.8 million) and RMB118.3 million (2018: RMB32.9 million), respectively, mainly for the purpose of upgrading and expanding the service capacity of our hospital operations and construction cost incurred of Phase II medical facility at our Kangxin Hospital.

As at 31 December 2019, the Group has right-of-use assets of RMB323.1 million which includes leasehold lands of RMB150.4 million (leasehold lands were classified as prepaid lease payment as at 31 December 2018) and leasehold land and buildings relating to leases of RMB172.7 million recognised in accordance with IFRS 16. During the year, the Group entered into new lease agreements for the use of properties in the PRC ranging from two to three years. The Group is required to make fixed monthly payments. On lease commencement, the Group recognised right-of-use assets and lease liabilities of RMB8.4 million each relating to those new leases.

In addition, as at 31 December 2019, the Group has deposits paid for acquisition of property, plant and equipment amounting to RMB109.6 million (2018: RMB81.1 million). The deposits mainly represent deposits paid for construction cost of Phase II medical facility at our Kangxin Hospital and amount paid for acquisition of new medical equipment and other new facilities as the Group continues to upgrade its medical facilities and expand its operation capacity.

Accounts and Other Receivables

The account receivables of the Group primarily consisted of balances due from social insurance funds, certain corporate customers and individual patients. As at 31 December 2019, accounts receivables increased to RMB264.2 million (2018: RMB176.5 million), of which 74.0% (2018: 77.7%) were aged within 90 days. Average accounts receivables turnover days for the current year is 41.1 days (2018: 30.2 days). The increase in accounts receivables is primarily due to expansion of our owned hospitals' operations and delay in accounts settlement from government bodies and federations on social insurance funds.

The other receivables of the Group primarily consisted of prepayments to suppliers, interest receivables and others. As at 31 December 2019, other receivables increased to RMB36.4 million (2018: RMB30.5 million) primarily due to (i) a slight decrease in prepayments to suppliers to RMB9.9 million (2018: RMB11.7 million); and (ii) an increase in other receivables mainly due to expansion of the Group's operations in general.

Accounts and Other Payables

The accounts and other payables of the Group primarily consisted of accounts payables, accrued expenses, receipts in advance, payables for acquisition of property, plant and equipment, provision for medical dispute claims and others. As at 31 December 2019, accounts and other payables increased slightly to RMB488.5 million (2018: RMB481.8 million) primarily due to (i) a slight decrease in accounts payable to RMB262.0 million (2018: RMB263.9 million); (ii) an increase of accrued expenses to RMB83.1 million (2018: RMB77.5 million) mainly due to increase in accrued staff salary and bonus due to increase in number of staff headcounts, and increase in other operational and administrative charges due to expansion in operation; and (iii) an increase in payable for acquisition of property, plant and equipment to RMB57.4 million (2018: RMB54.5 million) due to payables incurred for purchases of medical equipment purchases and improvement works made to our owned-hospitals during the year.

Net Current Assets and Net Assets

As at 31 December 2019, the Group recorded net current assets of RMB378.2 million (2018: RMB286.0 million) and net assets position of RMB1,457.6 million (2018: RMB1,509.5 million).

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources

The Group continued to maintain a strong financial position with cash and cash equivalents of RMB223.9 million as at 31 December 2019 (2018: RMB203.3 million). The increase is mainly due to operating cash inflow generated across all our operations. The Group continues to generate steady cash inflow from operations and coupled with sufficient cash and bank balances. Thus, 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 2019, the Group had investments (classified as financial assets at FVTPL) in aggregate of RMB477.2 million (2018: RMB479.1 million) primarily consisting of, (i) portfolio investment fund of RMB77.2 million (2018: RMB54.0 million), representing an investment fund deposited with a discretionary fund manager engaged in Hong Kong mandate to manage the fund and achieve appropriate capital gain return that is consistent with the Group's cash management policy. The portfolio included a mixture of cash and shares that are primarily listed in Hong Kong. During the year, consistent with its cash management policy, the Group made additional investment into the portfolio investment fund of HK$15.6 million (equivalent to approximately RMB13.4 million) for the purpose of utilising idle cash for better capital gain return; and (ii) structured bank deposits of RMB400.0 million (2018: RMB402.0 million), representing principal-protected products issued by a PRC commercial bank. At 31 December 2018, the Group had an unlisted fund measured at fair value of US$3.4

million (equivalent to approximately RMB23.2 million) representing an investment in equity securities of a private company in the PRC for the purpose of capital gain, strategic long-term investment and potential cooperation in healthcare. During the year 2019, the Group disposed of the unlisted fund and the relevant gain was recognised in profit or loss during the year ended 31 December 2018.

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:

	2019	2018
	RMB'000	*RMB'000*
Net cash generated from operating activities	**98,178**	176,963
Net cash used in investing activities	**(212,882)**	(285,388)
Net cash from (used in) financing activities	**135,105**	(74,424)
Net increase (decrease) in cash and cash equivalents	**20,401**	(182,849)

Net cash generated from operating activities

In 2019, the net cash generated from operating activities amounted to RMB98.2 million (2018: RMB177.0 million), representing a year-on-year decrease of 44.5%, which was primarily due to (i) our improved Adjusted EBITDA for the Reporting Period; (ii) changes in working capital including increase in inventories, increase in accounts and other receivables and decrease in accounts and other payables; and (iii) increase in tax paid during the year amounting to RMB71.9 million (2018: RMB53.3 million). The decrease in operating cash inflow was generally attributable to the overall increase in operating costs of the Group especially the loss incurred at our Kangxin Hospital during the year.

Net cash used in investing activities

In 2019, net cash used in investing activities amounted to RMB212.9 million (2018: RMB285.4 million), representing a year-on-year decrease of 25.4%, which was primarily due to (i) no significant acquisition being made during the current year; (ii) a decrease in investment income received from financial assets at FVTPL and interest received as compared with last year; and (iii) an increase in purchase of property, plant and equipment as compared with last year due to expansion of operations.

Net cash from (used in) financing activities

In 2019, net cash from financing activities amounted to RMB135.1 million (2018: net cash used in financing activities of RMB74.4 million), which was mainly due to (i) new bank loans (net of bank loan arrangement fees of RMB12.6 million) of the Group amounting to RMB222.8 million (2018: nil); (ii) the Group's net advances from non-controlling shareholders of Anhui Hualin and Kangxin Hospital of RMB7.7 million (2018: net advances from non-controlling shareholders of subsidiaries of RMB41.0 million); and (iii) the Group's repayment of lease liabilities of RMB22.0 million (2018: nil). During the year, the Group obtained new bank loan facilities in aggregate amounting to RMB620.0 million for the purpose of providing funding for the development of its Phase II medical facility and financing its operation at Kangxin Hospital, in which RMB235.4 million has been drawn down during the year.

Significant Investment, Acquisition and Disposal

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

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 92 to 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 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 during the year was RMB194.9 million (2018: RMB129.7 million). The Group has financed its capital expenditure mainly through cash flows generated from operating activities and bank loans obtained during the current year.

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 2019, of the net proceeds from the initial public offering, (i) RMB68.0 million, representation approximately 8.7% of the net proceeds, has been utilised and used as general working capital; (ii) RMB131.2 million, representing approximately 16.8% of the net proceeds, has been utilised and used on expansion of our current operations and upgrading our hospital's facilities; and (iii) RMB157.8 million, representing approximately 20.2% of the net proceeds, has been utilised and used for acquisition and potential acquisition of businesses. As at 31 December 2019, out of the balance of the unutilised net proceeds of RMB425.6 million, part of which has been used to purchase certain financial products (classified as financial assets at FVTPL) to achieve higher interest income and capital gain return without interfering with our 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

During the year, the Group obtained new bank loan facilities in the aggregate amount of RMB620.0 million for the purpose of funding the development of the Phase II medical facility and financing operations at Kangxin Hospital, in which RMB235.4 million has been drawn down during the year. The principal agreements underlying such bank loan facilities include the following:

(i) a RMB420.0 million fixed asset facility agreement (固定資產借款合同) with Industrial and Commercial Bank of China Limited, Chongqing Jiangbei Branch, pursuant to which RMB169.4 million has been drawn down during the year. The bank loan carried an interest rate at the benchmark lending rate offered by the People's Bank of China (adjusted annually from the drawn down date) and is secured by shares pledged over the entire equity in Kangxin Hospital held by the Company and its non-controlling shareholder. As at 31 December 2019, the effective interest rate of the secured bank loan is 5.9% per annum; and

(ii) a RMB200.0 million financial leasing agreement (融資租賃合同) with Industrial and Commercial Bank of China Leasing Co., Ltd., pursuant to which RMB66.0 million has been drawn down during the year. The loan carried an interest rate at the benchmark lending rate offered by the People's Bank of China plus 5%, which was fixed at the drawn down date. This agreement involves a sale and lease back arrangement over certain medical equipment assets of Kangxin Hospital, pursuant to which such assets have been transferred to the lender and leased back to Kangxin Hospital, with an option exercisable by Kangxin Hospital to purchase the assets at a nominal consideration upon the maturity of the lease. Despite that such arrangement assumes the legal form of a lease, the Group retains effective control over such assets; thus, the Group accounted for such arrangement as a secured loan at amortised cost at an effective interest rate of 6.74% per annum and repayable in quarterly variable instalments until September 2027. In addition, such assets have been pledged to the lender as security throughout the loan period. As at 31 December 2019, the property, plant and equipment with net book value of RMB58.8 million had been pledged to secure the banking facility granted.

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

Contingent Liabilities

The Group is subject to legal proceedings and claims in the ordinary of business primarily arising from medical disputes brought 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 2019, the total stated claim amount of the Group's on-going medical disputes was approximately RMB5.8 million (2018: RMB9.8 million) and there were certain medical disputes without claim amount stated. Based on the Group's assessment, during the year ended 31 December 2019, approximately RMB0.4 million (2018: RMB1.3 million) had been provided and included in accounts and other payables of the Group.

As at 31 December 2019, 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 2019, certain property, plant and equipment of the Group with net book value of RMB58.8 million (2018: nil) had been pledged to secure banking facilities granted to the Group (2018: the Group had no banking facilities).

Capital commitments

The capital commitments of the Group were primarily attributable to construction costs relating to the expansion and renovation of the Group's medical facilities. As at 31 December 2019, the capital commitments in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements were RMB332.0 million (2018: RMB116.0 million).

Financial Instruments

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

Exposure to fluctuation in Exchange rates

The proceeds of raised by the Company in its initial public offering of its H Shares is denominated in Hong Kong dollars. The Group deposits 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 2019, the Group's gearing ratio (total interest-bearing bank loans divided by total equity and multiplied by 100%) was 14.8% (2018: zero).

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31 December 2019, 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 "**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 Reporting Period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

EVENTS AFTER THE REPORTING PERIOD

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

FINAL DIVIDEND

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2019.

REVIEW OF UNAUDITED ANNUAL RESULTS

The Company's audit committee has reviewed the Group's unaudited annual results for the financial year ended 31 December 2019 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).

The audit process for the annual results for the financial year ended 31 December 2019 has not been completed due to delay in the audit procedures resulting from the COVID-19 coronavirus pandemic, including numerous travel restrictions and quarantine measures. The unaudited results contained herein have not been agreed by the Company's auditor. An announcement relating to the audited results will be made when the audit process has been completed. The Company currently expects the audit process will be completed by 20 April 2020.

FURTHER ANNOUNCEMENT(S)

Following the completion of the audit process, the Company will issue further announcement(s) as and when appropriate in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting. In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the audit process.

PUBLICATION OF ANNUAL RESULTS AND 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 2019 annual report of the Company containing all the information required by the Hong Kong Listing Rules will be dispatched to the shareholders and made available on the above websites in due course.

APPRECIATION

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

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

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

Hong Kong
30 March 2020

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

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

Non-executive Director:
Mr. Lv Yubo

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective 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.*