KANGHUA

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

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

(Stock Code: 3689)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- Revenue for the year decreased by 10.8% to RMB1,745.0 million (2019: RMB1,955.5 million).
- Loss for the year amounting to RMB50.1 million (2019: profit of RMB48.7 million).
- Loss for the year attributable to owners of the Company amounting to RMB25.4 million (2019: profit of RMB74.3 million).
- Loss per share amounting to RMB7.6 cents (2019: earnings per share of RMB22.2 cents).
- The Group recognised an impairment loss on goodwill amounting to RMB77.4 million for the year (2019: RMB60.0 million).
- Adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation# ("**Adjusted EBITDA**") for the year decreased by 32.1% to RMB196.5 million (2019: RMB289.2 million).
- The Board does not recommend the distribution of a final dividend for the year (2019: nil).

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

FINAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Guangdong Kanghua Healthcare Co., Ltd. (the "**Company**", "**we**" or "**us**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the financial year ended 31 December 2020 (the "**Reporting Period**") together with the comparative audited figures for the preceding financial year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		2020	2019
	NOTES	***RMB'000***	*RMB'000*
Revenue	3	**1,745,023**	1,955,525
Cost of revenue		**(1,481,868)**	(1,566,106)
Gross profit		**263,155**	389,419
Other income	4	**41,201**	29,591
Other expenses, gains and losses	5	**(5,123)**	8,594
Net reversal (net provision) of impairment losses under expected credit loss model		**1,847**	(596)
Impairment loss on goodwill	11	**(77,400)**	(60,000)
Administrative expenses		**(227,774)**	(232,282)
Finance costs	6	**(21,995)**	(17,241)
(Loss) profit before taxation	7	**(26,089)**	117,485
Income tax expenses	8	**(23,967)**	(68,797)
(Loss) profit and total comprehensive (expense) income for the year		**(50,056)**	48,688
(Loss) profit and total comprehensive (expenses) income for the year attributable to:			
– owners of the Company		**(25,372)**	74,264
– non-controlling interests		**(24,684)**	(25,576)
		(50,056)	48,688
(Loss) earnings per share, basic (RMB cents)	10	**(7.6)**	22.2

CONSOLIDATED STATEMENT OF FINANICAL POSITION
At 31 December 2020

	NOTES	**2020** **RMB'000**	2019 RMB'000
Non-current assets			
Property, plant and equipment		**976,272**	917,670
Right-of-use assets		**382,845**	323,102
Goodwill	11	**44,613**	122,013
Deposits paid for acquisition of property, plant and equipment		**91,218**	109,645
Financial assets at fair value through profit or loss		**67,663**	–
Fixed bank deposits	12	**–**	37,000
		1,562,611	1,509,430
Current assets			
Inventories		**56,756**	69,768
Accounts and other receivables	13	**248,679**	300,588
Financial assets at fair value through profit or loss	14	**400,000**	477,150
Restricted bank balances	12	**1,182**	2,345
Fixed bank deposits	12	**5,000**	–
Bank balances and cash	12	**179,673**	223,880
		891,290	1,073,731
Current liabilities			
Accounts and other payables and provision	15	**516,868**	488,534
Amounts due to non-controlling shareholders of subsidiaries		**18,856**	138,854
Tax payables		**22,907**	34,401
Bank loans – due within one year	16	**7,574**	7,468
Lease liabilities		**30,685**	26,294
		596,890	695,551
Net current assets		**294,400**	378,180
Total assets less current liabilities		**1,857,011**	1,887,610

	NOTES	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Bank loans – due after one year	16	**250,256**	208,785
Deferred tax liabilities		**21,945**	21,383
Lease liabilities		**177,308**	199,884
		449,509	430,052
Net assets		**1,407,502**	1,457,558
Capital and reserves			
Share capital	17	**334,394**	334,394
Reserves		**998,136**	1,022,031
Equity attributable to owners of the Company		**1,332,530**	1,356,425
Non-controlling interests		**74,972**	101,133
Total equity		**1,407,502**	1,457,558

NOTES:

1. GENERAL

廣東康華醫療股份有限公司 (Guangdong Kanghua Healthcare Co., Ltd.*) (the "**Company**") was established as a limited liability company in the People's Republic of China (the "**PRC**") and its overseas listed 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 東莞市康華投資集團有限公司 (Dongguan Kanghua Investment Group Co., Ltd.*), a limited liability company established in the PRC. The addresses of the registered office and the principal place of business in Hong Kong of the Company are 3/F, Outpatient Zone One, Dongguan Kanghua Hospital, Nancheng Street 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, sale of pharmaceutical products and provision of other services (represents elderly healthcare services) in the PRC.

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

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

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of Business
Amendments to IFRS 9, IAS 9 and IFRS 7	Interest Rate Benchmark Reform

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

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 and the related Amendments[1]
Amendment to IFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018 – 2020[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 June 2020
5 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as non-current rights that are in existence at the end of the reporting period. Specifically, the amendments classify that

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 *Financial Instruments: Presentation*.

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

Amendment to IFRS 16 *Covid-19-Related Rent Concessions*

The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 Leases if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application is not expected to have impact on the Group's financial position and performance as the Group does not intend to apply the practical expedient.

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) sale of pharmaceutical products; and (iv) provision of other services.

Revenue

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

	2020	2019
	RMB'000	*RMB'000*
Recognised over time – output method		
Hospital services:		
– Inpatient healthcare services	**977,929**	1,135,867
– Outpatient healthcare services	**528,826**	609,740
– Physical examination services	**113,697**	102,561
Rehabilitation and other healthcare services:		
– Rehabilitation hospital services	**64,210**	53,345
– Rehabilitation centre services and other healthcare services	**36,201**	33,770
Others	**6,622**	1,665
	1,727,485	1,936,948
Recognised at a point in time		
Sale of pharmaceutical products	**17,538**	18,577
	1,745,023	1,955,525

Segment information

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

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

(i)	Hospital services:	Provision of hospital services includes (i) inpatient healthcare services which generally refer to the treatment of patients who are hospitalised overnight or for an indeterminate period of time; (ii) outpatient healthcare services which generally refer to the treatment of patients who are hospitalised for less than 24 hours; and (iii) physical examinations services which generally refer to the clinical examination of individuals for signs of diseases and health advisory services.
(ii)	Rehabilitation and other healthcare services:	Provision of rehabilitation services generally refers to provision of special care services to patients with permanent or long-term physical or mental disabilities. Other healthcare services include elderly healthcare and training services for the disabled.
(iii)	Sale of pharmaceutical products:	Sales of pharmaceutical products to patients of the Group's hospitals and outside customers.
(iv)	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 2020

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

For the year ended 31 December 2019

	Hospital services *RMB'000* *(note)*	Rehabilitation and other healthcare services *RMB'000* *(note)*	Sale of pharmaceutical products *RMB'000*	Others *RMB'000*	Total *RMB'000*
SEGMENT REVENUE					
External sales	1,848,168	87,115	18,577	1,665	1,955,525
Segment profit	304,688	19,549	4,164	1,018	329,419
Other income					29,591
Other expenses, gains and losses					8,594
Net provision of impairment losses under expected credit loss model					(596)
Administrative expenses					(232,282)
Finance costs					(17,241)
Profit before taxation					117,485

Note: During the year ended 31 December 2020, impairment losses on goodwill of RMB49,900,000 and RMB27,500,000 are allocated to hospital services segment and rehabilitation and other healthcare services segment, respectively (2019: RMB60,000,000 allocated to hospital services segment).

There were no inter-segment sales during both years.

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

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

Segment assets and liabilities

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

Geographical information and information about major customers

All revenue are generated in the PRC where almost all of the non-current assets of the Group are also located 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

	2020	2019
	RMB'000	*RMB'000*
Investment income from financial assets at FVTPL *(note (i))*	**16,439**	14,508
Fixed operating lease income	**5,426**	6,235
Bank and other interest income	**4,038**	2,789
Clinical trial and related income	**3,088**	848
Government subsidies *(note (ii))*	**6,345**	739
Others	**5,865**	4,472
	41,201	29,591

Notes:

(i) The amount represents investment income mainly in the form of dividend income or interest income from financial assets at FVTPL.

(ii) The government subsidies mainly represented the subsidies on costs incurred for operation of rehabilitation centers and hospitals, research and development projects, medical related seminars and other COVID-19 related subsidies in 2020 with no special and unfulfilled conditions attached.

5. OTHER EXPENSES, GAINS AND LOSSES

	2020	2019
	RMB'000	*RMB'000*
Fair value gain on financial assets at FVTPL *(note)*	**4,130**	8,701
Loss on disposals/write-off of property, plant and equipment	**(1,513)**	(246)
Net exchange (loss) gain	**(4,906)**	2,152
Donations	**(2,834)**	(2,013)
	(5,123)	8,594

Note: The comparative of the amount is reclassified from other income to conform with the current year's presentation.

6. FINANCE COSTS

	2020	2019
	RMB'000	*RMB'000*
Interest on bank loans	**15,332**	5,387
Interest on lease liabilities	**12,493**	13,343
	27,825	18,730
Less: Amount capitalised in property, plant and equipment	**(5,830)**	(1,489)
	21,995	17,241

7. (LOSS) PROFIT BEFORE TAXATION

	2020	2019
	RMB'000	*RMB'000*
(Loss) profit before taxation has been arrived at after charging:		
Directors' emoluments	**3,068**	3,910
Other staff costs:		
Supervisors' emoluments	**820**	861
Other salaries and allowances	**532,428**	527,599
Retirement benefit schemes contributions	**12,744**	26,511
Total staff costs	**549,060**	558,881
Depreciation of property, plant and equipment	**109,266**	91,200
Depreciation of right-of-use assets	**33,622**	31,404
Research and development expenditure	**1,595**	1,030
Short-term lease rentals in respect of rehabilitation centres and staff quarters	**276**	813
Variable lease rentals in respect of hospitals	**6,569**	6,078
Auditor's remuneration	**2,366**	2,694
Cost of inventories recognised as expenses (representing pharmaceutical products, consumables and others used, included in cost of revenue)	**805,426**	919,463

8. INCOME TAX EXPENSES

	2020 *RMB'000*	2019 *RMB'000*
PRC Enterprise Income Tax ("**EIT**")		
Current tax	**23,109**	67,795
(Over)under provision of EIT in prior years	**(160)**	32
	22,949	67,827
Hong Kong Profits tax		
Current tax	**167**	72
Underprovision of Hong Kong Profits Tax in prior years	**289**	–
	23,405	67,899
Deferred tax charge	**562**	898
	23,967	68,797

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

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

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

9. DIVIDENDS

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.

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2020, nor has any dividend been proposed since 31 December 2020.

10. (LOSS) EARNINGS PER SHARE

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

	2020	2019
	RMB'000	*RMB'000*
(Loss) earnings:		
(Loss) profit for the year attributable to the owners of the Company for the purpose of calculating (loss) earnings per share	**(25,372)**	74,264

	2020	2019
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	**334,394,000**	334,394,000

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

11. GOODWILL

During the year ended 31 December 2020, the goodwill allocated to the cash-generating unit ("**CGU**") of Anhui Hualin ("**Hualin's Goodwill**") and Kangxin Hospital ("**Kangxin's Goodwill**") are impaired by RMB27,500,000 (2019: nil) and RMB49,900,000 (2019: RMB60,000,000) respectively in view of the recoverable amounts of the two CGUs are less than its own carrying amount. As at 31 December 2020, the carrying amount of Hualin's Goodwill and Kangxin's Goodwill are RMB29,101,000 (2019: RMB56,601,000) and RMB15,512,000 (2019: RMB65,412,000), respectively.

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

At 31 December 2020, the fixed bank deposits carried fixed interest rates at 3.10% (2019: 4.13% to 4.26%) per annum with original maturity at 3 months and is classified as current assets since their remaining maturity is less than 3 months from the end of the reporting period (2019: the fixed bank deposits carried fixed interest rates rating from 4.13% to 4.26% 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 rates ranging from 0.30% to 0.35% (2019: 0.30% to 0.35%) per annum as at 31 December 2020.

Bank balances carried prevailing market rates ranging from 0.00% to 1.05% (2019: 0.00% to 1.05%) per annum as at 31 December 2020.

13. ACCOUNTS AND OTHER RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Accounts receivables	**212,400**	273,928
Less: Allowance for credit loss	**(7,694)**	(9,769)
	204,706	264,159
Prepayments to suppliers	**16,442**	9,935
Interest receivables	**594**	995
Others	**26,937**	25,499
Total accounts and other receivables	**248,679**	300,588

As at 1 January 2019, the carrying amount of accounts receivables from contracts with customer was RMB186,063,000, net of impairment allowance of RMB9,573,000.

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

	2020	2019
	RMB'000	*RMB'000*
Within 30 days	**121,199**	128,564
31 to 90 days	**36,124**	67,041
91 to 180 days	**43,012**	41,195
181 to 365 days	**2,992**	25,821
Over 365 days	**1,379**	1,538
	204,706	264,159

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	RMB'000	*RMB'000*
Portfolio investment fund *(note (i))*	**67,663**	77,150
Structured bank deposits *(note (ii))*	**400,000**	400,000
	467,663	477,150
Analysed for reporting purpose as:		
Current assets	**400,000**	477,150
Non-current assets	**67,663**	–
	467,663	477,150

Notes:

(i) As part of the Group's cash management activities, the Group has a portfolio investment fund, the underlying portfolio of which includes a mixture of cash and shares that are primarily listed in Hong Kong. As at 31 December 2019, the portfolio investment fund was maintained by a discretionary fund manager and measured at fair value. During the year ended 31 December 2020, such portfolio investment fund was disposed of and part of the proceeds were rolled over to a new portfolio investment fund. At 31 December 2020, the Group currently does not expect any immediate use of the new portfolio investment fund in the short term and thus, the new portfolio investment fund is classified as non-current assets. The Group may at its discretion redeem the new fund subject to the relevant procedures, requirements and restrictions.

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

15. ACCOUNTS AND OTHER PAYABLES AND PROVISION

	2020	2019
	RMB'000	*RMB'000*
Accounts payables	**256,802**	262,040
Accrued expenses	**94,045**	83,062
Receipt in advance *(note)*	**100,659**	61,017
Payables for acquisition of property, plant and equipment	**41,681**	57,397
Other tax payables	**3,070**	3,796
Others	**17,655**	20,847
Other payables	**257,110**	226,119
Sub-total accounts and other payables	**513,912**	488,159
Provision for medical dispute claims	**2,956**	375
Total accounts and other payables and provision	**516,868**	488,534

Note: Included in the balance are advances from the PRC social insurance which represent operating cash of RMB52,533,000 (2019: RMB20,667,000) 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:

	2020	2019
	RMB'000	*RMB'000*
Within 30 days	**72,662**	99,938
31 to 90 days	**108,215**	100,364
91 to 180 days	**42,749**	31,467
181 to 365 days	**15,473**	10,793
Over 365 days	**17,703**	19,478
	256,802	262,040

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:

	2020	2019
	RMB'000	*RMB'000*
At the beginning of the year	**375**	1,280
Provision to the year	**4,558**	597
Utilisation of the provision	**(1,977)**	(1,502)
At the end of the year	**2,956**	375

16. BANK LOANS

	2020	2019
	RMB'000	*RMB'000*
Variable rate secured bank loan	**204,647**	155,601
Fixed-rate secured loan	**53,183**	60,652
	257,830	216,253

	2020	2019
	RMB'000	*RMB'000*
The carrying amounts of the loans are repayable*:		
Within one year	**7,574**	7,468
Within a period of more than one year but not exceeding two years	**21,897**	7,574
Within a period of more than two years but not exceeding five years	**73,549**	57,818
Within a period of more than five years	**154,810**	143,393
	257,830	216,253
Less: Amount due within one year shown under current liabilities	**(7,574)**	(7,468)
Amount shown under non-current liabilities	**250,256**	208,785

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

17. SHARE CAPITAL

	Number of domestic shares	Number of H shares	Share capital
	'000	*'000*	*RMB'000*
At 1 January 2019, 31 December 2019 and 31 December 2020	250,000	84,394	334,394

18. CAPITAL COMMITMENTS

	2020	2019
	RMB'000	*RMB'000*
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**255,496**	311,631

19. CONTINGENT LIABILITIES

The Group is involved as defendants in certain medical disputes arising from its normal business operations. Except for those disputes with provision made as disclosed in Note 15, the management of the Group believes that the final result of other medical disputes with total claims of RMB6,792,000 (2019: RMB5,789,000) as at 31 December 2020 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Overview for 2020

In the beginning of year 2020, the unexpected and unprecedented pandemic caused by the novel coronavirus disease 2019 ("**COVID-19**") exerted downward pressure on national economic development, and accordingly, the operations of a wide range of industries and sectors in the PRC have been severely affected. During the pandemic, the Group's operations were affected, including temporary restrictions and closures of rehabilitation centres, and rescheduling of some of our non-emergency services and surgencies at our hospitals to suppress the spread of the virus. The restriction and control measures caused a decline in the volume of outpatient visits, inpatient visits and surgical operations during the first half of 2020. The implementation of various pandemic prevention policies and preventive measures to control the COVID-19 pandemic have temporarily suppressed in the demand for our medical services. However, as the condition of the pandemic improved towards the third quarter of the year, our operations quickly bounced back with volume of patient visits gradually returning to normal levels before the pandemic. In particular, the volume of our rehabilitation services increased significantly during the second half of the year.

In 2020, the Group's consolidated revenue for the year amounted to RMB1,745.0 million (2019: RMB1,955.5 million), representing a year-on-year decrease of 10.8%, mainly attributable to the decline in overall patient visits of our owned-hospitals during the pandemic. The Group's owned-hospitals (making up our hospital services segment), namely Dongguan Kanghua Hospital Co., Ltd.* (東莞康華醫院有限公司) ("**Kanghua Hospital**") (康華醫院), Dongguan Renkang Hospital Co., Ltd.* (東莞仁康醫院有限公司) ("**Renkang Hospital**") (仁康醫院) and 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), all recorded a decline in revenue of 12.7%, 5.8% and 29.6%, respectively. Revenue from our hospital services segment for the Reporting Period amounted to RMB1,620.5 million (2019: RMB1,848.2 million), representing an overall year-on-year decrease of 12.3%

However, our rehabilitation and other related healthcare services segment, through our ownership of 57% equity interest in Anhui Hualin Medical Investment Co., Ltd.* (安徽樺霖醫療投資有限公司) ("**Anhui Hualin**"), recorded a revenue for the year of RMB100.4 million (2019: RMB87.1 million), representing a year-on-year increase of 15.3%. Even though our rehabilitation centres were unable to resume normal operation until the later half of the second quarter of 2020 due to measures implemented to suppress COVID-19, the volume of patient visits rebounded strong in the second half year of 2020. The increase in revenue is driven by the positive business sentiment in the region, and in particular, the maturity in the operation of our Hefei Kanghua Rehabilitation Hospital (合肥康華康復醫院), which commenced operations in November 2018 (a rehabilitation specialty hospital aiming to become a class III rehabilitation hospital in the long term), stimulating the revenue growth of our rehabilitation and other related healthcare services segment.

The Group's consolidated loss for the year ended 31 December 2020 amounted to RMB50.1 million (2019: profit for the year of RMB48.7 million). The loss incurred for the Reporting Period is mainly attributable to: (i) the significant decline in revenue and profit at Kanghua Hospital and Renkang Hospital mainly as a result of the decline in the number of patient visits across all their major service offerings during the COVID-19 pandemic; (ii) the continuing loss incurred at Kangxin Hospital for the current year; and (iii) the Group recognised an impairment loss on goodwill in respect of the cash generating units of Kangxin Hospital ("**Kangxin Hospital CGU**") and Anhui Hualin ("**Anhui Hualin CGU**") in aggregate of RMB77.4 million (2019: an impairment loss on goodwill in the Kangxin Hospital CGU of RMB60.0 million). During the current year, Kangxin Hospital faced a number of ongoing challenges, including the burden of retaining professional headcounts, overhead expenditure and fixed costs, as well as the loss of certain key professional healthcare talent during the year. This is due to the fierce and intense competition for healthcare professionals and experts in the local Chongqing market. The Board considers that the estimated short to medium-term future growth of Kangxin Hospital and Anhui Hualin were lower than previously anticipated. Accordingly, the aggregate recoverable amount of Kangxin Hospital CGU and Anhui Hualin CGU are below its aggregated own carrying amount, which resulted in the recognition of an impairment loss in goodwill in a total of RMB77.4 million during the Reporting Period.

The Group's Adjusted EBITDA recorded a year-on-year decrease of 32.1% to RMB196.5 million (2019: RMB289.2 million), which indicates that the Group's core operation as a whole remained stable and profitable, after eliminating the effects of financing, investment-related income, effects of exchange rates changes, capital expenditures and extraordinary non-cash related losses.

During the Reporting Period, the Group actively responded to the impact brought by the COVID-19 pandemic, and strived to ensure stable and effective recovery of our operations across all our operating segments. Meanwhile, the Group seized the opportunity to expand our business in elderly healthcare services. In July 2020, the Group succeeded in bidding for the land use rights of a land parcel to undertake an integrated healthcare project for developing comprehensive elderly healthcare medical facilities, with a particular focus on geriatric patients and rehabilitation in Dongguan City. The Board expects that such development will further enhance the Group's capability in providing high-end integrated medical care to meet the increasing demand for such services in Guangdong Province (and in particular Dongguan City). The consideration for the acquisition of the land parcel amounted to RMB82.6 million. Details of the transaction are disclosed in the Company's announcement dated 23 July 2020.

Hospital Services

The Group's owned hospitals, namely, Kanghua Hospital (our approved Grade A Class III general hospital), Renkang Hospital (our Grade A Class II standard general hospital) and Kangxin Hospital (our private hospital specializing in cardiovascular discipline), represent the Group's hospital services segment. During the Reporting Period, COVID-19 caused a number of temporary adverse impacts on our key operating performance indicators, in particular (i) the total number of inpatient visits declined to 56,589 (2019: 75,568), representing a year-on-year decrease of 25.1%; (ii) the overall average spending per inpatient visit amounted to RMB17,281.3 (2019: RMB15,031.1), representing a year-on-year increase of 15.0%; (iii) the overall bed utilisation rate dropped to 65.2% (2019: 85.6%), primarily caused by the decrease in bed utilisation during the most intense period of the COVID-19 pandemic; (iv) the average length of stay slightly increased to 7.6 days (2019: 7.3 days); (v) the total number of outpatient visits declined to 1,358,516 (2019: 1,753,320), representing a year-on-year decrease of 22.5%; (vi) the overall average spending per outpatient visit amounted to RMB389.3 (2019: RMB347.8), representing a year-on-year increase of 11.9%; and (vii) the total number of surgical operations declined to 39,082 (2019: 46,056), representing a year-on-year decrease of 15.1%.

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	**2020**	2019
Inpatient healthcare services			
Inpatient visits	–25.1%	**56,589**	75,568
Average length of stay (days)	+0.3	**7.6**	7.3
Average spending per visit *(RMB)*	+15.0%	**17,281.3**	15,031.1
Outpatient healthcare services			
Outpatient visits	–22.5%	**1,358,516**	1,753,320
Average spending per visit *(RMB)*	+11.9%	**389.3**	347.8
Physical examination services			
Physical examination visits	–9.8%	**167,388**	185,634
Average spending per visit *(RMB)*	+22.9%	**679.2**	552.5

Kanghua Hospital

In 2020, Kanghua Hospital continued to restructure the healthcare management departments, strengthen horizontal communication and enhance working efficiency. Kanghua Hospital continued to pursue new management concepts, including the tools that apply "data and performance management and multi-quality control" ("資料績效管理、多品質管制"), in order to enhance the monitoring and analysis of key medical quality process and outcome indicators. As one of the six designated hospitals for treatment of infectious diseases in Dongguan City under the pandemic, Kanghua Hospital was instructed by the Board to "fight against the pandemic" and safeguard the health of the public and our employees. The medical staff of Kanghua Hospital rose to the challenge, with more than 400 medical staff members volunteering to fight against the pandemic on the front line. The pandemic affected the operations of Kanghua Hospital, resulting in a decrease in the total number of patients during the current year.

During the Reporting Period, Kanghua Hospital recorded a revenue of RMB1,357.3 million (2019: RMB1,554.9 million), representing a year-on-year decrease of 12.7%. In 2020, Kanghua Hospital had outpatient visits of 1,039,428 (2019: 1,335,875), representing a year-on-year decrease of 22.2% and inpatient visits of 44,013 (2019: 59,578), representing a year-on-year decrease of 26.1%.

In 2019, Kanghua Hospital established the "Internet + Medical Healthcare Services" (互聯網 + 護理服務) organisational structure. With the "Household Kanghua Angel" (康華天使到家) project formally implemented, Kanghua Hospital also became the first hospital in Dongguan City to develop and operate an online nurse appointment platform. In 2020, Kanghua Hospital continued to optimise its online services and further pushed forward with the trial operations as an internet hospital. Our management is of the view that the new internet service is expected to reduce the impacts of pandemic on the operations in the future.

In January 2020, the Department of Respiratory and Critical Medicine of Kanghua Hospital formally obtained the certification as a PCCM-certified class III hospital. The "PCCM Standardisation Construction Project" (PCCM規範化建設項目), which was initiated by various medical associations and institutions, aims to promote standardised development and improve the overall national standard of the Department of Respiratory and Critical Medicine, and to comprehensively build a national team of respiratory and critical medical physicians. The project will meet the increasingly strict clinical requirements to address respiratory diseases.

In 2020, Kanghua Hospital received a 5-star expertise rating and a 3A creditworthiness rating from the Chinese Non-governmental Medical Institute Association (中國非公立醫療機構協會). Kanghua Hospital was also honoured as one of the "brands that contributed to combatting against COVID-19" (抗擊新冠貢獻品牌) at the second Private Medical Care Ceremony of the Guangdong Province (廣東社會辦醫第二屆品牌盛典), and as an enterprise with outstanding charitable contribution (突出貢獻愛心企業) at the 10th anniversary of the Guangdong Poverty Alleviation Day and Dongguan Charity Day (廣東扶貧濟困日暨東莞慈善日十周年). In addition, Kanghua Hospital became a CDQI "National Standardised Atrial Fibrillation Centre (Model Centre)" (CDQI "國家標準化房顫中心(示範中心)"), a member of Chinese Heart Failure Centre (中國心衰中心), and a designated collection hospital for the Chinese Hematopoietic Stem Cell Donor Database (中國造血幹細胞捐獻者資料庫定點採集醫院). Kanghua Hospital quickly adapted its brand marketing to the prevailing circumstances by firmly securing necessary resources and enhancing its efforts to discover and write stories about combatting COVID-19 on cases specific to Kanghua Hospital, which attracted external media to actively quote and report these stories to increase Kanghua Hospital's positive social influence.

In 2020, Kanghua Hospital improved the scope, coverage and quality of its nursing service, including:

(1) stepping up its effort to build its nursing team by improving its management structure and the competency of the team members and improving the benefits for nurses to reduce staff turnover in the team;

(2) improving the quality of nursing service through the development of specialist departments. Kanghua Hospital actively participated in the work of specialist alliances and provincial and municipal nursing associations, with an aim to expand the influence of its specialist work. Kanghua Hospital also actively built and promoted professional nurse training centres and actively carried out projects on the research and development of nursing services and new nursing technologies, and managed the access authorisation process for high-risk and highly sophisticated nursing technologies;

(3) using the "two evaluations" system ("雙評") as an opportunity to comprehensively improve the quality of nursing services;

(4) further improving its healthcare services by implementing a target management system to promote good quality nursing service across the hospital and promoting the goal of "the administration and logistics departments serve the clinical departments, and the clinical departments serve patients" (行政後勤服務臨床，臨床服務患者的格局); and

(5) expanding the coverage of nursing service to maximise the value of the nursing profession, supporting the development of the "good health" concept and stepping up its efforts to enrich its talent pool by continuously optimising and adjusting its team structure to ensure the dynamic development of its talent base.

In 2020, Kanghua Hospital successfully recruited multiple talents with doctorate or master degrees to further strengthen its professional team, and attended many campus job fairs to enlarge its pool of junior talents. Kanghua Hospital also encouraged its employees to improve their academic qualifications and actively assisted its employees in securing professional titles. In future, Kanghua Hospital will continue to recruit and promote talents according to its strategic development plan, and tap into its talent pool to continue its development momentum.

Renkang Hospital

In the social security system evaluation in 2019, Renkang Hospital achieved a better result. In 2020, Renkang Hospital continued its good work in medical insurance management by adjusting charging standards and social security reimbursement to increase the income per capita. Renkang Hospital also established the Department of Emergency and Critical Medicine, and introduced high-calibre talents to provide strong life support and protection to clinical departments. These efforts have raised the emergency and first aid standards of the hospital. In terms of equipment investments, according to the equipment procurement plan at the beginning of the year, the radiology department introduced and installed high-end CT and DR equipment, which was put into use in December 2020.

During the Reporting Period, Renkang Hospital recorded a revenue of RMB224.6 million (2019: RMB238.4 million), representing a year-on-year decrease of 5.8%. In 2020, Renkang Hospital had outpatient visits of 304,127 (2019: 401,030), representing a year-on-year decrease of 24.2% and inpatient visits of 11,243 (2019: 14,135), representing a year-on-year decrease of 20.5%.

In terms of academic development of the hospital, in order to strengthen the management of medical technologies, Renkang Hospital organised the medical technology files of the medical staff, and evaluated and summarised the scientific research projects and new technologies launched by the hospital. In accordance with the national management standards for medical technologies, restricted medical technologies in the Department of Orthopaedics and Department of Obstetrics and Gynaecology shall be registered with the Municipal Health Bureau, and the hospital shall continue to improve its standard of medical technologies.

In strengthening the construction of key specialties of the hospital, Renkang Hospital established the "Department of Respiratory and Critical Medicine", which was actively constructed in accordance with the specialty evaluation standards and became the first Class 2 hospital in Dongguan that was awarded the "Class 2 Hospital with excellent performance in the national PCCM standardisation construction project" title (全國PCCM科室規範化建設二級醫院優秀單位). We strive to improve in the annual evaluation and inspection, and promoted the rescue treatment for respiratory medicine and critical medicine cases. At the same time, Renkang Hospital established the Department of Emergency and Critical Medicine by introducing academic leaders and forming an ICU team to improve emergency and first aid standards. The Department of Obstetrics and Gynecology, Department of Stomatology, Department of Chinese Medicine, and Department of Anesthesiology actively developed new businesses and technologies, which brought upon good economic and social benefits.

In the second half of 2020, Renkang Hospital established its new Department of Oncology, which offered standardised chemotherapy, immunotherapy, targeted therapy and endocrine therapy for cancer patients and completed PICC for 8 cases. Renkang Hospital reduced the per capita expenses of cancer inpatients for their benefit. In addition, Renkang Hospital rebuilt the Department of Nephrology. By building on the existing operations of the haemodialysis room, Renkang Hospital fully utilised the operational capacity of the Department of Nephrology's outpatient division, inpatient wards, haemodialysis room and peritoneal dialysis room, bringing the total revenue and profitability of the department to a new level. Shortly after its development, the department is already showing a positive development momentum. At the same time, Renkang Hospital made early preparations for its laboratory testing capability through the development of its testing room and the addition of new testing equipment, and was designated as one of the first PCR testing institutions in Dongguan. Renkang Hospital conducted almost 40,000 COVID-19 PCR tests in 2020, significantly contributing to the prevention and control of COVID-19.

Kangxin Hospital

In the first half of 2020, the COVID-19 pandemic severely impacted the operations of Kangxin Hospital. Despite a decrease in the number of patients, the overall construction level and medical treatment capability of the hospital have improved. Since the pandemic, Kangxin Hospital adhered to scientific prevention and control measures, and not a single infected or suspected case was reported in the hospital during the year. Besides effectively maintaining our own prevention and control, Kangxin Hospital also actively supported the prevention and control work of the local government. It immediately established a critical medical team consisting of 30 medical staff (being the first medical team from a private hospital in Chongqing), and simultaneously sent 11 groups consisting of a total of 150 medical staff to provide medical protection for quarantine stations in Jiangbei District. This engagement currently remains active. Since Chongqing initiated the first-level response to the pandemic prevention and control on 24 January, Kangxin Hospital has made every effort to ensure the normal admission of patients by continuing with the services of outpatient consultations and operations, as well as ensuring that patients, if deemed necessary, should be admitted to minimise the casualties due to the pandemic.

During the Reporting Period, Kangxin Hospital has recorded a revenue of RMB38.6 million (2019: RMB54.8 million), representing a year-on-year decrease of 29.6%. In 2020, Kangxin Hospital had outpatient visits of 14,961 (2019: 16,415), representing a year-on-year decrease of 8.9%; inpatient visits of 1,333 (2019: 1,855), representing a year-on-year decrease of 28.1%; and performed 486 (2019: 725) cardiovascular surgeries, representing a year-on-year decrease of 33.0%.

Although the admission of patients was affected, Kangxin Hospital strived to seek breakthroughs in technology and continued to strengthen its business construction. In the first half of 2020, Kangxin Hospital completed a number of extremely rare, complicated and challenging surgeries. The Department of Ultrasound performed its first "stress myocardial contrast echocardiography" case for a patient before surgery; the Department of Cardiology successfully performed an interventional surgery for a child with the rare "Noonan Syndrome"; and the Department of Cardiovascular Surgery successfully performed the first TAVR (Transcatheter Aortic Valve Replacement) surgery as the first case in a private hospital in the Southwestern Region. On 12 December 2020, the Department of Cardiology successfully carried out a transcatheter aortic valve implantation (TAVI). In the same month, the Department of Cardiology carried out its first case using the CRTD pacing technology.

Meanwhile, Kangxin Hospital was designated by National Health Commission's Capacity Building and Continuous Education Centre (國家衛生健康委能力建設和繼續教育中心) as the "Primary Hospital Electrophysiology Specialty Training Project Base" ("基層醫院電生理專項能力培訓專案基地"), indicating that its capability in electrophysiology interventional surgery is recognised by the government and other peers in the industry. In October 2020, Kangxin Hospital successfully developed its Department of Cardiology, which excelled in passing the inspection and acceptance as one of the municipal-level key clinical discipline projects of Chongqing. During the two-year development period, the hospital attached great importance to and mobilised all resources for the development of the department. The Department of Cardiology made great efforts to standardise its management, strengthen the training and cultivation of key talents, and develop new technologies and new business operations, resulting in significant improvements in the number of patient visits, the number of operations, the difficulty of the operations and level of management of the department.

Despite its operational potential, Kangxin Hospital also faced many ongoing challenges. The temporary loss of certain key medical experts has, a certain extent, caused further decline in patient visits at Kangxin Hospital during the year, and is expected to have an adverse impact on our short-term management forecast in revenue growth. As a result, the Group has further recognised an impairment loss on goodwill of RMB49.9 million in respect of the Kangxin Hospital CGU during the current year, compared to an impairment loss on goodwill of RMB60.0 million during the year ended 31 December 2019. However, the Group will continue to step up in recruiting experienced medical experts and improving of our medical capabilities to regain and attract local patients.

The year 2021 will be a crucial one for Kangxin Hospital. Facing the challenges as a result of COVID-19, the implementation of the new health care reform and new medical insurance policies, and the incompleteness of its own organisation structure, Kangxin Hospital characterises 2021 as the "year of full operations". By setting the full occupation of beds as its overall objective, the hospital will closely adhere to the motto of "striving to increase the admission of patients, consolidating its leading technical expertise, adapting to the current changes, and making up for its shortcomings" (努力增收病人，鞏固技術高點，順應時代變化，完善短板結構). Kangxin Hospital aims to overcome the various difficulties and to admit and treat more patients, further improve the level of medical technology, perfect its organisation structure, strictly control potential risks, and strive to promote the healthy and rapid development of the hospital.

Kangxin Hospital will continue to consolidate its leading technical expertise. In view of the substantial price cuts of coronary stents under the centralised procurement system, the Department of Cardiology will continue to explore its advantages as a municipal-level key clinical discipline. It will tap into its technical expertise in atrial fibrillation to improve the department's expertise in cardiac electrophysiology therapy, and further improve its capability of diagnosing and treating hypertension, heart failure, coronary artery and other diseases. Kangxin Hospital will highlight its specialty in treating complex coronary artery diseases, and step up its efforts to build a hypertension centre that aims to establish the standardised treatment procedure for hypertension with "Kangxin" characteristics. Kangxin Hospital will also enhance the penetration into other related disciplines such as diabetes and lipid metabolic dysfunction. Kangxin Hospital will attempt to seek a breakthrough in cardiac surgical operations in relation to paediatric congenital heart defect, coronary artery bypass and valve replacement. In respect of the outpatient and emergency disciplines, Kangxin Hospital will build a comprehensive internal medicine discipline to admit and treat more patients, optimise its structure and process, develop emergency systems and district-level chest pain centres, with an aim to improve its emergency and critical care capabilities.

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

Healthcare disciplines	Change	2020	% of revenue of the Group's owned hospitals	2019	% of revenue of the Group's owned hospitals
		For the year ended 31 December			
		RMB'000		*RMB'000*	
O&G related disciplines (婦產科有關科室)	–17.9%	**256,581**	15.8	312,596	16.9
Cardiovascular related disciplines (心血管有關科室)	–22.2%	**197,902**	12.2	254,476	13.8
Internal medicine related disciplines (內科有關科室)	–11.6%	**188,515**	11.6	213,266	11.5
General surgery related disciplines (普通外科有關科室)	–14.6%	**130,441**	8.1	152,698	8.3
Neurology related disciplines (神經醫學有關科室)	–6.3%	**112,929**	7.0	120,504	6.5
Emergency medicine related disciplines (急診有關科室)	–11.4%	**106,720**	6.6	120,420	6.5
Orthopaedics related disciplines (骨科有關科室)	–12.2%	**99,589**	6.1	113,445	6.1
Oncology related disciplines (腫瘤科有關科室)	+5.2%	**53,823**	3.3	51,153	2.8
Nephrology related disciplines (腎臟科有關科室)	+19.2%	**52,218**	3.2	43,807	2.4
Medical aesthetic related disciplines (醫學美容有關科室)	–8.2%	**38,268**	2.4	41,706	2.3
Paediatrics related disciplines (兒童醫學有關科室)	–48.4%	**33,702**	2.1	65,279	3.5
Physical examination (體檢科)	+10.9%	**113,697**	7.0	102,561	5.5
Other disciplines (其他臨床科室)	–7.9%	**236,067**	14.6	256,257	13.9
Total*		**1,620,452**	100.0	1,848,168	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 2020, the Group performed a total of 39,170 surgeries (2019: 46,094), including 15,346 surgeries (2019: 17,457) with level 3 or level 4 complexities, representing a year-on-year decrease of 15.0% and 12.1%, respectively. The decline is primarily attributable to the COVID-19 pandemic which caused the rescheduling of some of our non-emergency services and surgeries. However, the impact of the pandemic on our hospital operations was temporary. The number of patient visits of our hospitals rebounded since June 2020 and the business operations and medical service revenue resumed normal during the second half of 2020.

Obstetrics and gynaecology ("**O&G**") disciplines, cardiovascular disciplines, internal medicine disciplines, general surgery disciplines and neurology disciplines (2019: O&G disciplines, cardiovascular disciplines, internal medicine disciplines, general surgery disciplines and neurology disciplines) were the top five revenue generating disciplines of the Group for the current year, accounting for approximately 54.7% of the Group's total revenue in hospital services segment in the same period (2019: 57.0%).

During the Reporting Period, revenue from all our major disciplines of our owned hospitals recorded a substantial decline, which are mainly caused by the decrease in patient visits due to the COVID-19 pandemic. In particular, O&G-related disciplines remained to be our largest medical discipline and recorded a significant decrease in revenue with a year-on-year decline of 17.9%. Our O&G related disciplines have been a stable revenue driver for the Group, and the significant decrease in revenue is primarily attributable to a decline in patient visits as pregnant women are generally reluctant to attend regular check-ups and hospital visits during the pandemic. However, since March 2020, with the implementation of the pandemic prevention and control measures, the COVID-19 pandemic has been under control. The Dongguan Municipal Government issued the latest notice to speed up the resumption of work and production in Dongguan City. In order to "fully support the resumption of work and production, and strictly prevent and control the pandemic within the department" ("全力支持復工復產，嚴格科內疫情防控"), the Department of Gynecology of Kanghua Hospital, began to fully admit outpatients and inpatients, under the pre-condition of further improving the relevant measures for pandemic prevention and control. Also, revenue from cardiovascular related disciplines recorded a year-on-year decrease of 22.2%, primarily attributable to the decline in revenue from Kangxin Hospital and the rescheduling of non-emergency surgeries. Revenue from paediatrics-related disciplines also recorded a considerable year-on-year decrease of 48.4%, primarily attributable to the stay-at-home policy implemented nation-wide and children were advised not to attend hospitals during the time of the pandemic. Despite the drop in revenue across all our medical disciplines, our oncology-related disciplines and nephrology related disciplines recorded a year-on-year increase of 5.2% and 19.2%, respectively, primarily because these disciplines are generally less interrupted by the pandemic and their patients normally require regular and on-going medical attention.

VIP Special Services

The Group's special services are high-end healthcare services that extend beyond basic medical services and are specifically catered for more affluent patients who are willing to pay a premium for higher quality and customised services that are not generally available in public hospitals. The Group's special services consist of VIP healthcare services, reproductive medicine, plastic and aesthetic surgery and laser treatment. In 2020, the total revenue derived from special services amounted to RMB157.2 million (2019: RMB181.5 million), representing a year-on-year decrease of 13.4%. Although, during the year 2020, the number of both VIP inpatient and outpatient visits have decreased significantly, the average spending per inpatient visit of our VIP healthcare services amounted to RMB24,270.9 (2019: RMB19,895.0), representing a year-on-year increase of 22.0%, primarily because the demand of our service offerings from Huaxin Building (華心樓) (a complex in Kanghua Hospital dedicated to VIP healthcare services), in particular, our O&G services to VIP patients maintained strong. Our revenue from VIP inpatient services recorded RMB65.2 million (2019: RMB72.4 million), representing a year-on-year decrease of 9.9%, primarily caused by a decline in the number of inpatient visits. Furthermore, our revenue from VIP outpatient service amounted to RMB26.9 million (2019: RMB37.6 million), representing a year-on-year decrease of 28.5%.

Our revenue from reproductive medicine has dropped to RMB43.6 million (2019: RMB52.7 million) with a year-on-year decrease of 17.3%. The drop in revenue of reproductive medicine is mainly caused by the reduction in the demand for the services of our reproductive medicine centre during the time of the pandemic.

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**	**2020**	2019
VIP healthcare services			
Inpatient visits	–26.2%	**2,687**	3,639
Outpatient visits	–35.4%	**37,562**	58,182
Revenue *(RMB'000)*	–15.3%	**93,392**	110,247
Reproductive medicine			
Number of outpatient visits	–18.6%	**39,476**	48,486
Revenue *(RMB'000)*	–17.2%	**43,627**	52,701
Plastic and aesthetic surgery			
Revenue *(RMB'000)*	–12.7%	**4,515**	5,174
Laser treatment			
Revenue *(RMB'000)*	+16.8%	**15,654**	13,397
Total revenue from special services *(RMB'000)*	–13.4%	**157,188**	181,519

Rehabilitation and other Healthcare Services

During the Reporting Period, the Group's rehabilitation and other related healthcare services segment, through its ownership of 57% equity interest in Anhui Hualin, recorded a revenue of RMB100.4 million (2019: RMB87.1 million), representing a year-on-year increase of 15.3%. 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, a general hospital, an outpatient centre, eleven rehabilitation centres and one vocational training school (collectively referred to as "**Anhui Hualin Group**"). The Anhui Hualin Group has generated significant synergies to the Group and expanded our presence in the rehabilitation healthcare sector in the PRC. Since its acquisition, Anhui Hualin Group has developed steadily, with its network of medical institutions and rehabilitation centres constantly expanding.

Anhui Hualin Group currently employs more than 800 staff and has a stable cooperation with the Anhui Disabled Persons Federation (安徽省殘疾人聯合會) and local governments in the provision of training services for the disabled. The Anhui Hualin Group is also a major organisation offering children rehabilitation services in Auhui Province, the PRC. As at 31 December 2020, the three hospitals operated by Anhui Hualin Group have a total of 360 registered beds. During the Reporting Period, Anhui Hualin Group has 32,046 (2019: 45,646) outpatient visits, 2,941 (2019: 4,561) inpatient visits and served 2,436 (2019: 1,973) rehabilitation patient visits.

At the beginning of 2020, due to the pandemic, substantially all offline business activities were prohibited according to the requirements of the authorities including Hefei Municipal Health Commission, Anhui Disabled Persons' Federation and Hefei Human Resources and Social Security Bureau. This caused a sharp decrease in Anhui Hualin's business revenue during the first half of the year. The operation of the hospitals faced tremendous pressure. In the face of unprecedented difficulties and pressures, Anhui Hualin has adopted a series of effective measures to "increase revenue and cut expenditure", while ensuring the stability of key business backbone personnel. These efforts have laid the foundation for facilitating the resumption of work and production in the "post-pandemic period". Gradually until mid-2020, the three major business operations resumed work and service, which has successfully safeguarded the sustainable development of the Anhui Hualin Group.

As to academic progress, Anhui Hualin hired a number of experts and consultants, laying the foundation for future development. In contrast to the closure of most institutions due to the pandemic in earlier half of the year, the new rehabilitation institutions in Feixi and Beicheng took the initiative to admit children that required rehabilitation, which overfulfilled their designated quota. During the pandemic, our rehabilitation centres continued their operations with online rehabilitation service. After resumption of work, Anhui Hualin convinced the Anhui Provincial Disabled Persons' Federation to issue an official document to include online rehabilitation service in the financial fund payment, which directly increased the income of the rehabilitation centres during the pandemic period and mitigated the adverse impacts to a certain extent. In 2020, Anhui Hualin actively submitted tenders for new projects, including the management of Hefei Compulsory Drug Rehabilitation Centre and the operation of Hefei Daoxiang Village Home for the Disabled (合肥稻香村殘疾人之家). At the same time, Anhui Hualin actively expanded non-medical projects, including Hefei Kangaiyun Pharmacy (合肥康愛雲大藥房), and Hefei Xiaguang Primary School and Children's Disability Rehabilitation and Nursery Project (合肥霞光小學兒童殘障康復托養項目).

Anhui Hualin placed tremendous effort in expanding its business and operational presence in the Anhui Province. However, ever since the opening of Hefei Kanghua Rehabilitation Hospital (合肥康華康復醫院) in November 2018 (a rehabilitation specialty hospital aiming to become a class III rehabilitation hospital in the long term), Anhui Hualin Group's revenue growth was lower than previously anticipated. With the rapid expansion in its business operations, Anhui Hualin Group also incurred significantly fixed costs and capital expenditure. As a result, the management anticipates that the rise in operating cost and expenditure will suppress its revenue growth potential in the short to medium-term, which is expected to have an adverse impact on the short-term management forecast in its profitability. Therefore, in this regard, the Group recognised an impairment loss on goodwill of RMB27.5 million in respect of the Anhui Hualin CGU during the current year.

In 2020, Hefei Kanghua Rehabilitation Hospital continued to step up the effort to implement new projects and new technologies such as Ilizarov surgery, early rehabilitation treatment for critically ill patients, respiratory rehabilitation, neurogenic bladder function rehabilitation, botulinum toxin injection technology and transcranial magnetic stimulation treatment. As its specialised care generates more impressive construction and treatment results, the hospital has gradually built the specialty disciplines of Kanghua Hospital (i.e. the Department of Paediatric Rehabilitation and the Department of Neurological Rehabilitation).

Hefei Jingu Hospital (合肥金谷醫院) has established a team of in-house and external experts with years of experience in burns rehabilitation, and built its own distinctive brand in Anhui Province. Hefei Jingu Hospital established stable core clinical referral business with the Burns Department of the first affiliated hospital of Anhui Medical University, Hi-Tech Zone Campus (安醫一附院、高新院區燒傷科). Kanghua Paediatric Rehabilitation was further recognised by the disabled persons federations after the verification and audits conducted by the Disabled Persons Federations in 2020. Hefei Jingu Hospital became an influential brand in the field of rehabilitation of disabled children in Anhui Province, and further increased its benefits to the overall society.

In the future, Anhui Hualin Group will continue to recruit and nurture talent through various channels, constantly enhance its medical software and hardware configuration, comprehensively improve the level of its medical services, further increase its business revenue and implement strict control on costs.

Hospital Management Services

In August 2018, the Group completed the acquisition of 60% equity interest of Kangxin Hospital and it 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 the years 2019 and 2020, 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 the patients of the Group's hospitals. In general, the operation of this pharmaceutical company has lowered our overall cost of revenue through centralising the purchase function and thereby increasing the overall margin of the Group. Revenue from sales of pharmaceutical products for the Reporting Period amounted to RMB17.54 million (2019: RMB18.58 million), representing a year-on-year decrease of 5.6%, primarily due to the downsizing of the Group's overall operations during the pandemic earlier in the year.

Elderly Healthcare Services

The Group's other segment represents the provision of elderly healthcare services, which commenced in 2018, with the strategy to establish a comprehensive elderly healthcare centre located in Renkang Hospital, namely, Renkang Elderly Care Centre (仁康護理院) initially with 60 registered beds to explore the potential of providing quality high-end elderly care services to local residents in Houjie Town, Dongguan City. In view of the accelerating aging population problem in the PRC that leads to the high development potential of the healthcare and elderly care industry, the establishment of the Renkang Elderly Care Centre was the Group's first presence and extension of our big health concept business development. In April 2020, the first phase of Renkang Elderly Care Centre formally started the medical insurance settlement work and was awarded by the Provincial Department of Civil Affairs as a four-star elderly care centre in the same month. In June 2020, the second phase of the nursing home project passed the inspection of the Municipal Health Supervision Bureau and the Civil Affairs Bureau. In August 2020, the second phase of the elderly care centre commenced operation with the addition of 48 registered beds and became a designated medical institution covered by the social insurance system (社會保險定點醫療機構).

Revenue from provision of elderly healthcare services for the Reporting Period amounted to RMB6.62 million (2019: RMB1.67 million), representing a year-on-year increase of 296.4% as a result of the increase in intake of patients during the current year. Since Renkang Elderly Care Centre is still in its early stages of operation, this segment is currently operating under loss. However, the management expects that as the number of intakes increases with Renkang Elderly Care Centre gradually gaining reputation in the local area, the operating performance will improve in the future.

In 2020, the Group has seized the opportunity to expand our business in elderly healthcare services by successfully bidding for the land use rights of a land parcel to develop comprehensive elderly healthcare medical facilities with a particular focus on geriatric patients and rehabilitation. The Board expects that such development will further enhance the Group's capability in providing high-end integrated medical care to meet the increasing demand for such services in Guangdong Province (and in particular Dongguan City). The consideration for the acquisition of the land parcel amounted to RMB82.6 million. Details of the transaction are disclosed in the Company's announcement dated 23 July 2020.

Industry Outlook and Strategy

In view of the impact of the COVID-19 pandemic in the PRC during year 2020, the authorities at the national level have commensurately realigned the policy of the entire healthcare industry. The pandemic and 5G technology have catalysed the rise of internet medical treatments. During the COVID-19 pandemic, given the environmental constraints, as well as the improving internet applications, the number of people seeking online medical consultation has significantly increased. Furthermore, medical informatisation has greatly improved the efficiency and workflow of medical services. The emergence of medical kiosks in our hospitals provides the conditions required for the transformation and upgrade in medical institutions. The National Health Commission, the State Food and Drug Administration and the National Health Security Administration have successively issued the "Notice for Further Improving Medical Consultation and Treatment Reservation System and Enhancing the Construction of Smart Hospitals" and other related documents, providing a route to upgrade and transform medical institutions. These initiatives also lay down key guidelines for construction of internet hospitals. In response, our hospitals expedited the construction work of internet hospitals.

The government promotes centralised procurement and use of pharmaceutical products, and constantly introduces relevant policies aimed at lowering purchase prices of pharmaceutical products and regulating the procurement process. In April 2020, five government departments, including the National Health Security Administration, issued the "Notice on Launching National Work on Centralised Procurement and Use of the Second Batch of Pharmaceutical Products", pursuant to which it is stated that the standardised and normalised method for centralised procurement of pharmaceutical products is established to carry out the comprehensive reform of strengthening centralised procurement and use of pharmaceutical products. Although such policy is only applicable to public hospitals, the Group makes reference to and assesses the centralized procurement model and its effectiveness, as such model may play a meaningful role in further reducing procurement costs and regulating procurement processes.

The use of medical insurance funds has improved. The Dongguan Municipal Health Security Administration Bureau, the Dongguan Municipal Health Bureau and the Dongguan Municipal Finance Bureau simultaneously issued the "Notice on Printing and Distributing the Dongguan Municipal Efficiency Improvement Programme of the Use of Medical Insurance Funds" in accordance with the State Council's recommended guidance. The notice emphasises that medical insurance funds must be utilised under the principle of "determining expenditure based on income, while maintaining a balance between income and expenditure with a surplus" ("以收定支、收支平衡、略有結餘"). In this regard, the income and expenditure budget for medical insurance funds shall be prepared scientifically and implemented strictly. For the purposes of graded medical consultation and treatment based on the city healthcare scheme driven by the medical insurance funds, such funds will strategically purchase basic medical services, which will encourage designated hospitals to actively regulate the medical consultation and treatment practices, as well as to improve the momentum to pursue medical quality. This notice strives for the transformation of designated hospitals from scale expansion to internal development, for the purposes of controlling the unreasonable growth in medical expenses and alleviating the financial burden on the insured. Furthermore, this notice aims to improve the efficient use of medical insurance funds and to advance the stable and sustainable development of the social medical security system. By implementing the abovementioned policies, we can further regulate medical consultation and treatment practices, and improve the quality of medical services. In the meantime, we can make use of this opportunity to develop the clinical trial advantages for various diseases, enhancing our competitiveness.

The year 2021 is a year of global economic uncertainties in the post COVID-19 era, kicking off Kanghua Hospital's fourth five-year plan. After 15 years of operation, Kanghua Hospital, under the leadership of its board of directors, has built up our own teams, strong disciplines, an extensive network of connections, and a reputable brand, based on our five core disciplines. Kanghua Hospital entered a period of stable operations, and has proved to have strong innovative capability and risk resilience. On the other hand, we also saw the rapid development of local public hospitals in 2020, which was supported by government policies, especially from the emergence of public hospitals as the primary source of healthcare under the background of prevention of control of COVID-19. The reform of payment methods under the medical insurance system forced us to change our business philosophy from extensive growth of income to optimising our income structure. In terms of the overall market, the competition among hospitals became more intense due to the impact of COVID-19 and the structure of the industry on local population and demographics, the division of market as a result of the development of integrated health care systems, and the improvement of service capability of primary healthcare hospitals. We also need to promptly address the historical issues accumulated within our hospitals during our rapid development in the past decades. In particular, with the introduction of the new standards for the assessment of classified hospitals, we must be well prepared for the upcoming assessment in 2024. As such, we must formulate a sound operational plan this year to address the rapidly changing policies and market environment, considering the actual situation at our hospitals.

The impact of COVID-19

In the beginning of 2020, an unexpected and unprecedented pandemic caused by the COVID-19 has affected a wide range of industries and sectors in the PRC. 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 to provide responsive service to our patients.

At present, the pandemic in the PRC is considered well under control, however, the Group will continuously monitor the latest developments and coordinates actively with local healthcare authorities and organisations, as well as our stakeholders, to continuously refine our policies, measures and best practices in minimizing cross and secondary infections. As far as the Group's businesses are concerned, the Group's hospitals remain operational as usual.

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 respect to the COVID-19 situation, 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

In July 2020, the Group has succeeded in bidding for the land use rights of a land parcel to undertake an integrated healthcare project developing a comprehensive medical facility with a particular focus on geriatric patients and rehabilitation to offer first-class geriatric and rehabilitation services in Dongguan City. The Board expects that such development will further enhance the Group's capability in providing high-end integrated medical care to meet the increasing demand for quality geriatric and rehabilitation services in Guangdong Province (and in particular Dongguan City). The consideration for the acquisition of the land parcel amounted to RMB82.6 million. Details of the transaction are disclosed in the Company's announcement dated 23 July 2020.

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

FINANCIAL REVIEW

Segment Revenue

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

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

For the year ended 31 December 2020

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

For the year ended 31 December 2019

	Hospital services *RMB'000*	Rehabilitation and other healthcare services *RMB'000*	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%

Revenue from the Group's hospital services amounted to RMB1,620.5 million (2019: RMB1,848.2 million), representing a year-on-year decrease of 12.3% and accounting for 92.9% (2019: 94.5%) of the total revenue of the Group.

Revenue from hospital services comprised (i) revenue from inpatient healthcare services amounted to RMB977.9 million (2019: RMB1,135.9 million), representing a year-on-year decrease of 13.9%, accounting for 56.0% (2019: 58.1%) of the total revenue of the Group; (ii) revenue from outpatient healthcare services amounted to RMB528.8 million (2019: RMB609.7 million), representing a year-on-year decrease of 13.3%, accounting for 30.3% (2019: 31.2%) of the total revenue of the Group; and (iii) revenue from physical examination services amounted to RMB113.7 million (2019: RMB102.6 million), representing a year-on-year increase of 10.8%, accounting for 6.5% (2019: 5.2%) of the total revenue of the Group. The decrease in revenue from hospital services is mainly due to (i) decrease in the number of inpatient, outpatient and physical examination visits due to the COVID-19 pandemic in the first half of year 2020, and to certain extent, offset by an increase in overall average spending; (ii) the decline in revenue across all of our major medical disciplines and our VIP special services. During the Reporting Period, the revenue from our VIP special services accounted for approximately 9.0% (2019: 9.3%) of the Group's total revenue and 9.7% (2019: 9.8%) of the Group's revenue from our hospital services segment. The decline in revenue from our hospital services is primarily caused by the decrease in the total number of patient visits which led to the decrease in healthcare services income during the period of the pandemic in the first half of year 2020. Although the number of physical examination visits has declined, revenue from physical examination services has increased as compared to year 2019. During the year, the Kanghua Hospital has entered a number of new physical examination service contracts with local corporates in Dongguan, and these service contracts are largely relates to the provision of higher valued services. The management is of the view that local corporates had raised health awareness for staff and employees after the pandemic, and increased willingness in spending on regular check ups and COVID-19 testing for employees. The Board is of the view that the decrease in total number of patient visits in year 2020 is largely temporary and the number of patient visits of our hospital has rebounded soon after the ease of the pandemic. Business operations and medical services revenue have substantially returned to normal level as compared with the corresponding period last year. The Board is of the view that the fundamental demand for our services remained strong and stable.

Revenue from rehabilitation and other healthcare services amounted to RMB100.4 million (2019: RMB87.1 million), representing a year-on-year increase of 15.3%, accounting for 5.8% (2019: 4.5%) of the total revenue of the Group. Despite the operational disturbance, including temporary closures of our rehabilitation centres during the period of the COVID-19 pandemic, patient visits had substantially rebounded since mid-2020. In addition, the increase in revenue is largely contributed from Hefei Kanghua Rehabilitation Hospital (a rehabilitation specialty hospital aiming to be rated as a class III rehabilitation hospital) as its business operations began to mature and gain acceptance as well as reputation from the local community and the government.

Revenue from the sale of pharmaceutical products and medical consumables amounted to RMB17.54 million (2019: RMB18.58 million), representing a year-on-year decrease of 5.6%, accounting for 1.0% (2019: 0.9%) 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 decrease in revenue from the sale of pharmaceutical products and medical consumables is primarily due to the decrease in the number of outpatient visits in both Kanghua Hospital and Renkang Hospital during the period of the pandemic in year 2020.

Revenue from the others segment represents income from provision of elderly healthcare services at Renkang Elderly Care Centre, which amounted to RMB6.62 million (2019: RMB1.67 million), representing a year-on-year increase of 296.4%, accounting for 0.4% (2019: 0.1%) of the total revenue of the Group. In June 2020, the second phase of the nursing home project passed the inspection of the Municipal Health Supervision Bureau and the Civil Affairs Bureau. In August 2020, the second phase of the elderly care centre commenced operation with the addition of 48 registered beds and became a designated medical institution covered by the social insurance system. The increase in revenue is mainly attributable to the increase in our operating capacity and intake of patients during the year.

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 segment decreased to RMB1,391.2 million (2019: RMB1,483.5 million), representing a year-on-year decrease of 6.2%. The decrease in cost of revenue for hospital services segment is mainly attributable to the decline in hospital service operations during the year due to the outbreak of COVID-19 pandemic, which caused the reduction in certain variable costs including cost of pharmaceuticals and medical consumables as well as certain utilities expenses and staff related costs.

Cost of revenue of the Group's rehabilitation and other healthcare services segment amounted to RMB69.8 million (2019: RMB67.6 million) representing a year-on-year increase of 3.3%, and primarily consisted of staff costs, medical consumables, depreciation, utilities and rental expenses. The increase in cost of revenue is in line with the increase in revenue for the year, mainly as a result of increase in direct staff headcounts and departmental costs including direct consumables and office expenses.

Cost of revenue of the Group's sale of pharmaceutical products segment amounted to RMB14.0 million (2019: RMB14.4 million), representing a year-on-year decrease of 2.8%, mainly represent cost of purchase of pharmaceutical products, which was in line with the decrease of revenue.

Cost of revenue of the Group's others segment (provision of elderly healthcare services at Renkang Elderly Care Centre) amounted to RMB6.9 million (2019: RMB0.6 million), representing a year-on-year increase of 960.8%, which mainly represent the cost of services including direct staff cost and consumables incurred at the elderly care centre. The significant increase is due to the official commencement in operation of the centre in late-2019 with substantial increase in staff headcounts and full deployment of its services in 2020.

For the year ended 31 December 2020, pharmaceuticals, medical consumables and staff cost accounted for approximately 27.6% (2019: 30.8%), 26.7% (2019: 27.9%) and 31.8% (2019: 30.1%), respectively, of the total cost of revenue of the Group. Our total staff related costs including salary, bonus and other benefits had increased slightly by 0.2% as compared with the prior year. Although the pandemic during the first half of 2020 had caused temporary closures in certain operations or substantial drop in our business, however, our frontline headcount remains relatively stable, as we believe the pandemic was temporary and it is more important to maintain high level of staff morale through a stable workforce.

Gross Profit and Gross Profit Margin

Total gross profit of the Group amounted to RMB263.2 million (2019: RMB389.4 million), representing a year-on-year decrease of 32.4%. The overall gross profit margin decreased to 15.1% (2019: 19.9%), primarily due to:

1. the decrease in overall patient visits and revenue of our major medical healthcare disciplines form our hospital service operations due to the COVID-19 pandemic during the first half of 2020, while our major cost of revenue, such as direct staff costs, depreciation and amortisation, rental and utilities expenses remains relatively fixed;

2. the unexpected and unprecedented pandemic causing a sudden pause and slowdown in the Group's business operations across all segments. However, the total number of our staff headcounts have not been reduced during the time of the pandemic with a view that the effects of the outbreak was temporary and short. Although, the local government has granted a concession in staff social security contribution during the year, our overall staff costs remain relatively the same compared with prior year;

3. although there is an overall increase in the average spending of patients from our inpatient and outpatient business for the current year, such increase was caused by the fall in patient visits with lower average spending that required non-emergency medical services during the time of the pandemic. Such effect did not fully compensate the loss in revenue; and

4. Kangxin Hospital and Renkang Elderly Healthcare Centre both continued running at negative gross margin as there are still in their early stage of ramping up their operations and reputation, while they incurred a large amount of fixed medical staff headcounts and staff costs, overhead expenditure and other direct fixed costs.

Key Operational Information of our Owned Hospitals

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

		For the year ended 31 December	
	Change	**2020**	**2019**
Inpatient healthcare services			
Inpatient visits:			
Kanghua Hospital	-26.1%	**44,013**	59,578
Renkang Hospital	-20.5%	**11,243**	14,135
Kangxin Hospital	-28.1%	**1,333**	1,855
Total inpatient visits	-25.1%	**56,589**	75,568
Average spending per visit *(RMB)*			
Kanghua Hospital	+15.6%	**18,570.5**	16,061.0
Renkang Hospital	+22.7%	**11,382.2**	9,277.5
Kangxin Hospital	-5.2%	**24,456.9**	25,794.6
Outpatient healthcare services			
Outpatient visits:			
Kanghua Hospital	-22.2%	**1,039,428**	1,335,875
Renkang Hospital	-24.2%	**304,127**	401,030
Kangxin Hospital	-8.9%	**14,961**	16,415
Total outpatient visits	-22.5%	**1,358,516**	1,753,320
Average spending per visit *(RMB)*			
Kanghua Hospital	+11.2%	**418.7**	376.6
Renkang Hospital	+15.8%	**288.1**	248.7
Kangxin Hospital	-5.9%	**400.2**	425.3
Physical examination services			
Physical examination visits:			
Kanghua Hospital	-24.5%	**87,005**	115,170
Renkang Hospital	+14.0%	**80,324**	70,464
Total physical examination visits	-9.9%	**167,329**	185,634
Average spending per visit *(RMB)*			
Kanghua Hospital	+45.9%	**1,203.7**	825.1
Renkang Hospital	+4.5%	**111.7**	106.9

Other Income

The other income of the Group primarily consisted of bank and other interest income, investment income from financial assets at FVTPL, government subsidies, fixed operating lease income (rental income), clinical trial and related income and others. In 2020, other income amounted to RMB41.2 million (2019: RMB29.6 million), representing a year-on-year increase of approximately 39.2%, primarily due to (i) an increase in investment income from financial assets at FVTPL of 13.3% to RMB16.4 million (2019: RMB14.5 million), which represents realised investment returns from our portfolio investment account and interest income from our principal-protected structured deposits with banks in the PRC; (ii) a decrease in rental income to RMB5.4 million (2019: RMB6.2 million), mainly represents rental income from our staff quarter (temporary rental concession was granted to our staff during the pandemic); (iii) an increase in government subsidies to RMB6.3 million (2019: RMB0.7 million), primarily due to subsidies received from government bodies during the pandemic and other subsidies from operation of our rehabilitation centres and hospitals as well as research and development projects; (iv) an increase in clinical trail and related income to RMB3.1 million (2019: RMB0.8 million); and (v) an increase in bank and other interest income to RMB4.0 million (2019: RMB2.8 million) mainly due to more idle bank balances being placed as fixed bank deposits during the year.

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

Other Expenses, Gains and Losses

The other expenses, gains and losses of the Group primarily consisted of fair value gain on financial assets at FVTPL, loss on disposal of property, plant and equipment, donations and net exchange gain/loss. In 2020, other expenses, gains and losses amounted to a net loss of RMB5.1 million (2019: net loss of RMB8.6 million), primarily due to (i) a decrease in fair value gain on financial assets at FVTPL to RMB4.1 million (2019: RMB8.7 million); (ii) an increase in loss on disposal of property, plant and equipment to RMB1.5 million (2019: RMB0.2 million); (iii) donations made during the year of RMB2.8 million (2019: RMB2.0 million); and (iv) a recorded net exchange loss for the year of RMB4.9 million (2019: net exchange gain of RMB2.2 million) mainly arising from our Hong Kong dollar denominated financial assets.

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

During the Reporting Period, impairment losses under expected credit loss model recorded a net reversal of provision of RMB1.8 million (2019: net provision of RMB0.6 million). Over the past few years, the Group has increased efforts to recover overdue debts including recovering receivables from patients through legal actions, as well as tightening credit reviews given to corporate customers. The net reversal of provision is mainly attributable to (i) the decrease on overall balance of accounts receivables at the end of the reporting period; (ii) an improved aging of the Group's accounts receivables; and (iii) certain long outstanding debts has been recovered by the Group during the year.

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

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

Impairment of Goodwill

During the year ended 31 December 2018, the Group recognised (i) goodwill of RMB56.6 million arising from the acquisition of Anhui Hualin Group, which has been allocated to the CGU of rehabilitation and other healthcare services business (the Anhui Hualin CGU); and (ii) goodwill of RMB125.4 million arising from the acquisition of Kangxin Hospital, which has been allocated to the CGU of hospital services business (the Kangxin Hospital CGU). As at 30 June 2020 (the Group's interim reporting date) and 31 December 2020, the Board conducted a review of the carrying values of the aforementioned CGUs.

The recoverable amounts of the Anhui Hualin CGU and Kangxin Hospital CGU have been determined based on a value in use calculation by references to valuation reports prepared by an independent professional valuer. The calculations use the respective cash flow projections of Anhui Hualin Group and Kangxin Hospital based on their financial budgets approved by the management of the Group. The key assumptions are growth rates and pre-tax discount rates, which are estimated based on past practices and expectations of future changes in the market. At 30 June 2020, after taken into consideration of the historical performances and most recent actual performances of the Anhui Hualin CGU and Kangxin Hospital CGU, the Board considers that the estimated medium-term future growth in revenue and results of Anhui Hualin Group and Kangxin Hospital will be lower than previously anticipated. Accordingly, the respective aggregate recoverable amount of Anhui Hualin CGU and Kangxin Hospital CGU are below their aggregate carrying amount. During the six months ended 30 June 2020, the Group recognised impairment losses of RMB27.5 million (for the year ended 31 December 2019: nil) and RMB48.5 million (impairment loss of RMB60.0 million is recognised for the year ended 31 December 2019) related to goodwill allocated to the Anhui Hualin CGU and Kangxin Hospital CGU, respectively.

Furthermore, at 31 December 2020, the Board conducted a further review of the carrying values of the aforementioned CGUs. With respect to Anhui Hualin CGU, as actual performance of the Anhui Hualin Group for the full year ended 31 December 2020 achieved better results due to its significant rebound in its revenue, the Board considered no further impairment is required in respect of the goodwill allocated to the Anhui Hualin CGU. However, with respect to Kangxin Hospital CGU, after taken into consideration of the most recent actual performances of the Kangxin Hospital CGU, the Board considers that the estimated medium-term future growth in revenue and results of Kangxin Hospital will be further lowered. Hence, additional impairment loss of RMB1.4 million has been made for the second half of year 2020, and the total impairment loss for the Reporting Period amounted to RMB49.9 million has been charged to profit or loss.

As at 31 December 2020, the carrying amount of goodwill relating to the Anhui Hualin CGU is approximately RMB29.1 million (2019: RMB56.6 million) and the Kangxin Hospital CGU is approximately RMB15.5 million (2019: RMB65.4 million).

Anhui Hualin Group was acquired by the Group in March 2018, and since then it is under rapid operational and business expansion. At 30 June 2020, 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 Anhui Hualin CGU are as follows:

(i) the actual revenue performance of Anhui Hualin Group during the year 2019 and in particular, the first half of 2020 was lower than previously anticipated. Anhui Hualin Group has undergone rapid business diversion and expansion over the past year, however, the number of patient visits and revenue growth have not reached our initial management forecast. Despite the fact that the effects of the COVID-19 pandemic were only temporary, the management have reduced the expected growth rates in revenue of its hospitals and rehabilitation centres operations;

(ii) ever since the opening of Hefei Kanghua Rehabilitation Hospital in November 2018, the stimulation of revenue growth for Anhui Hualin Group, particularly in the first half of year 2020 was lower than previously forecasted. At the same time, such rapid expansion has incurred significant burden on various fixed costs and capital expenditure; and

(iii) the local competition has been intense in the Anhui region, in particular, the competition for healthcare workers, which may have further pressure on staff costs in the short-term.

Kangxin Hospital commenced operations in March 2017, and 2020 was its fourth year of operation. At 30 June 2020 and 31 December 2020, 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) despite the COVID-19 pandemic was only temporary, the actual revenue performance of Kangxin Hospital during the year 2019, and in particular during the first half of 2020, was lower than previously anticipated. The number of inpatient and outpatient visits as well as the number of surgeries operated in 2020 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. During the Reporting Period, Kangxin Hospital has lost certain key medical experts and talent, which to a certain extent have caused further decline in patient visits at Kangxin Hospital. It is expected that there will be an adverse impact on our short-term management forecast in revenue growth. As a result, we have reduced the expected growth in number of patient visits in Kangxin Hospital in the short-term; 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 for both Anhui Hualin Group and Kangxin Hospital, the management considers probable that there will be a decrease in the future cash flow projections in the short-to medium-term at time of the respective assessment dates. 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 cashflows 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. 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 COVID-19 pandemic has affected almost all industries and sectors. The situation has resulted in some businesses to temporarily cease operations for a significant amount of time during the first half of year 2020. At present, our hospitals and rehabilitation centres have resumed normal operation and are largely operating as usual with stringent and restrictive policies and controls being implemented. The Board is of the view the operations and adverse financial conditions of the Group as a whole for the year are largely temporary. The effects of the COVID-19 pandemic is less likely to be permanent, primarily because the bulk of our 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 in the medium to long term.

Administrative Expenses

The administrative expenses of the Group primarily consist of staff costs, repairs and maintenance expenses, office expenses, depreciation and amortisation, rental expenses, utilities expenses, entertainment and travelling expenses and other expenses. In 2020, administrative expenses amounted to RMB227.8 million (2019: RMB232.3 million), representing a year-on-year decrease of approximately 1.9%, primarily due to (i) a decrease in administrative staff related costs to RMB79.6 million (2019: RMB89.0 million) as a result of decrease in bonus payment and social security insurance contribution during the year, however, our number of administrative staff headcounts remains relatively the same; (ii) an increase in depreciation and amortisation to RMB36.2 million (2019: RM32.4 million); and (iii) a decrease in overall office and administration costs as well as other utilities expenses as a result of costs savings as well as temporary closures and reduction of our operations during the time of the pandemic.

Finance Costs

Finance costs for the year amounted to RMB22.0 million (2019: RMB17.2 million). Finance costs for the current year represents (i) interest on bank loans raised during the year of RMB15.3 million (2019: RMB5.4 million); (ii) the interest element relating to lease liabilities charged to profit or loss during the current year due to application of IFRS 16 relating to leases of RMB12.5 million (2019: RMB13.3 million); and (iii) adjustment by amount of interest capitalised in the cost of qualifying assets of RMB5.8 million (2019: RMB1.5 million). The increase was finance costs is primarily due to the increase in the Group's bank borrowings during the year.

Income Tax Expenses

The income tax expenses of the Group primarily consisted of PRC enterprise income tax and Hong Kong Profits Tax. In 2020, income tax expenses amounted to RMB24.0 million (2019: RMB68.8 million), representing a year-on-year decrease of approximately 65.2%. The subsidiaries of the Group in the PRC are generally subject to income tax rate of 25% on their respective taxable income. Our effective tax rate for the Reporting Period was -91.9% (2019: 58.6%). The decrease in income tax expenses was primarily due the decrease in profits generated at Kanghua Hospital and Renkang Hospital during the year, as well as, the tax effect of tax losses not recognised for losses incurred of Kangxin Hospital, as well as, the tax effect of impairment loss recognised in respect of goodwill.

Loss for the Year

The Group recorded loss for the Reporting Period amounting to RMB50.1 million (2019: profit of RMB48.7 million), and loss attributable to shareholders of the Company amounted to RMB25.4 million (2019: profit attributable to shareholders of RMB74.3 million). The loss is primarily due to the continuing losses incurred by Kangxin Hospital, the decrease in profits generated at Kanghua Hospital and Renkang Hospital, and impairment loss recognised in respect of goodwill of RMB77.4 million (2019: RMB60.0 million) for the current year.

FINANCIAL POSITION

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

During the Reporting Period, the Group acquired property, plant and equipment and incurred expenditure on construction in progress of RMB82.9 million (2019: RMB76.6 million) and RMB86.9 million (2019: RMB118.3 million), respectively, mainly for the purpose of upgrading and expanding the service capacity of the Group's hospital and rehabilitation services operations and construction cost incurred of Phase II medical facility at our Kangxin Hospital.

At 31 December 2020, the Group had right-of-use assets of RMB382.8 million (2019: RMB323.1 million) which includes leasehold lands of RMB231.5 million (2019: RMB150.4 million) and leasehold land and buildings relating to leases of RMB151.3 million (2019: RMB172.7 million) recognised in accordance with IFRS 16. During the year, the Group acquired land use rights of a land parcel to undertake an integrated healthcare project to develop comprehensive elderly healthcare medical facilities in Dongguan City for the total consideration of RMB85.1 million. In addition, during the year, the Group entered into new lease agreements for the use of properties in the PRC ranging from 3 to 7 years. The Group is required to make fixed monthly payments. On lease commencement, the Group recognised right-of-use assets and lease liabilities of RMB8.3 million (2019: RMB8.4 million) each relating to those new leases.

At 31 December 2020, the Group had deposits paid for acquisition of property, plant and equipment amounting to RMB91.2 million (2019: RMB109.6 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 2020, accounts receivables decreased to RMB204.7 million (2019: RMB264.2 million), of which 76.9% (2019: 74.0%) were aged within 90 days. Average accounts receivables turnover days for the current year is 49.0 days (2019: 41.1 days). The decrease in accounts receivables and increase in accounts receivable turnover days is primarily due to (i) decline in revenue of our hospitals operations; and (ii) delays in settlement from Dongguan social insurance funds and certain corporate customers. The management is of the view that the increase in average accounts receivables turnover days is temporary and primarily due to the effects of the COVID-19 pandemic during the year.

The other receivables of the Group primarily consisted of prepayments to suppliers, interest receivables and others. As at 31 December 2020, other receivables increased to RMB44.0 million (2019: RMB36.4 million) primarily due to (i) an increase in prepayments to suppliers to RMB16.4 million (2019: RMB9.9 million); and (ii) an increase in other receivables mainly due to expansion of the Group's operations of our rehabilitation and other healthcare services segment and others segment (elderly healthcare services).

Accounts and Other Payables and Provisions

The accounts and other payables and provisions of the Group primarily consisted of accounts payables, accrued expenses, receipt in advance, payables for acquisition of property, plant and equipment, provision for medical dispute claims, other tax payables and others. As at 31 December 2020, accounts and other payables and provisions increased to RMB516.9 million (2019: RMB488.5 million) primarily due to (i) slight decrease in accounts payable to RMB256.8 million (2019: RMB262.0 million) as a result of decreases in our hospital services operations and purchases of supplies during the year; (ii) increase of accrued expenses to RMB94.0 million (2019: RMB83.1 million) mainly because of increases in operational and administrative charges; and (iii) an increase in receipt in advance to RMB100.7 million (2019: RMB61.0 million) by reason of an increase in temporary funds received from social security insurance fund; (iv) a decrease in payable for acquisition of property, plant and equipment to RMB41.7 million (2019: RMB57.4 million) owing to reduction in medical equipment purchases and improvement works made to our owned-hospitals during the year; and (v) an increase in provision for medical dispute claims to RMB3.0 million (2019: RMB0.4 million).

Net Current Assets

As at 31 December 2020, the Group recorded net current assets of RMB294.4 million (2019: RMB378.2 million) and net assets position of RMB1,407.5 million (2019: RMB1,457.6 million).

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources

The Group continued to maintain a strong financial position with cash and cash equivalents of RMB179.7 million (2019: RMB223.9 million) and fixed bank deposits of RMB5.0 million as at 31 December 2020 (2019: RMB37.0 million). The Group continues to generate steady cash inflow from operations and coupled with sufficient cash and bank balances, in the opinion of the Directors, the Group will have adequate and sufficient liquidity and financial resources to meet the working capital requirement of the Group for at least the next twelve months following the end of the Reporting Period.

As at 31 December 2020, as part of the Group's cash management activities, the Group had investments (classified as financial assets at FVTPL) in aggregate of RMB467.7 million (2019: RMB477.2 million), primarily consisting of, (i) portfolio investment fund of RMB67.7 million (2019: RMB77.2 million), representing a portfolio investment fund, the underlying portfolio of which included a mixture of cash and shares that are primarily listed in Hong Kong; and (ii) structured short-term bank deposits of RMB400.0 million (2019: RMB400.0 million), representing principal-protected products issued by a PRC commercial bank.

As part of the Group's cash management policy to manage excess cash, the Group purchases investment products from financial institutions to achieve higher interest income without interfering with business operations or capital expenditures. The Group carefully balances the risks and returns associated with the investment products when making the investment decisions. The senior management of the Group is closely involved in scrutinizing 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:

	2020	2019
	RMB'000	*RMB'000*
Net cash generated from operating activities	**275,292**	98,178
Net cash used in investing activities	**(182,152)**	(212,882)
Net cash (used in) from financing activities	**(138,215)**	135,105
Net (decrease) increase in cash and cash equivalents	**(45,075)**	20,401

Net cash generated from operating activities

During the Reporting Period, the net cash generated from operating activities amounted to RMB275.3 million (2019: RMB98.2 million), representing a year-on-year increase of 180.4%. Although, there is a deterioration of performance in Adjusted EBITDA for the Reporting Period, however, changes in working capital including decreases in inventories, accounts and other receivables and accounts and other payables as well as decrease in income tax paid have caused a substantial an increase in net generated from operating activities.

Net cash used in investing activities

During the Reporting Period, the net cash used in investing activities amounted to RMB182.2 million (2019: RMB212.9 million), representing a year-on-year decrease of 14.4%. The decrease is primarily attributable to (i) a decrease in cash used in deposits paid for acquisition of property, plant and equipment to RMB33.8 million (2019: RMB76.6 million); (ii) net withdrawal of fixed bank deposits during the year; (iii) a net decrease in purchase of financial assets at FVTPL; and (iv) partly offset by payments made for acquisition of land use rights (rights-of-use assets) in the current year of RMB85.1 million (2019: nil).

Net cash (used in) from financing activities

During the Reporting Period, the net cash used in financing activities amounted to RMB138.2 million (2019: net cash generated from financing activities of RMB135.1 million) and primarily consists of (i) net repayments to non-controlling shareholders of subsidiaries of RMB120.0 million (2019: net advances of RMB7.7 million); (ii) no dividends was paid in the current year (2019: dividend payment of RMB53.4 million); (iii) raised less new bank loans in the current year of RMB50.0 million (2019: new bank loans raised of RMB235.4 million); and (iv) increase in interest paid and repayment of bank loans during the current year.

Significant Investment, Acquisition and Disposal

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

Cash Management Activities

As part of the Group's cash management, the Group has from time to time purchased investment products issued by a reputable PRC commercial bank with terms ranging from 61 days to 117 days and portfolio investment funds to achieve higher interest income without interfering with business operations or capital expenditures. The investment products are not rated by any credit rating agency but is classified as low-risk by the issuing bank and may involve liquid listed securities. The Group carefully balances the risks and returns associated with the investment products when making the investment decisions. The senior management of the Group is closely involved in scrutinizing any decision of the Group to purchase investment products.

Capital Expenditures

The Group regularly makes capital expenditures to expand its operations, maintain its medical facilities and improve its operating efficiency. Capital expenditures primarily consist of purchases of property, plant and equipment. The capital expenditures of the Group during the year were RMB169.8 million (2019: RMB194.9 million). The Group has financed its capital expenditures mainly through cash flows generated from operating activities and bank loans.

USE OF PROCEED FROM THE INITIAL PUBLIC OFFERING

The Company's H shares were listed on the Stock Exchange on 8 November 2016. The Company's net proceeds from the initial public offering of its H shares amounts to approximately RMB782.6 million (equivalent 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 2020, of the net proceeds from the initial public offering, (i) RMB71.6 million, representating approximately 9.2% of the net proceeds, has been utilised and used as general working capital; (ii) RMB134.7 million, representing approximately 17.2% of the net proceeds, has been utitlised and used on expansion of our current operations and upgrading our hospital's facilities; and (iii) RMB158.8 million, representing approximately 20.3% of the net proceeds, has been utitlised and used for acquisition and potential acquisition of businesses. As at 31 December 2020, out of the balance of the unutilised net proceeds of RMB417.5 million, part of such proceeds has been used to purchase certain financial products (classified as financial assets at FVTPL) to achieve higher interest income and capital return without interfering with our business operations or capital expenditures to earn better return on our excess cash balance, and the remaining balance 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

In 2019, the Group obtained new bank loan facilities in the aggregate amount of RMB620.0 million for the purpose of funding the development of the Phase II medical facility and financing the operations of Kangxin Hospital, in which, up to 31 December 2020, RMB285.4 million has been drawn down. As at 31 December 2020, the Group had secured bank loans of carrying amount of RMB257.8 million (2019: RMB216.3 million). The principal agreements underlying such bank loan facilities include the following:

(i) a RMB420.0 million fixed asset facility agreement (固定資產借款合同) with Industrial and Commercial Bank of China Limited, Chongqing Jiangbei Branch, pursuant to which RMB169.4 million has been drawn down in 2019 and RMB50.0 million has been drawn down in 2020. 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 2020, the effective interest rate of the secured bank loan is 5.84% (2019: 5.9%) per annum. As at 31 December 2020, the carrying amount of the borrowing in respect of such arrangement amounted to RMB204.6 million (2019: RMB155.6 million); and

(ii) a RMB200.0 million financial leasing agreement (融資租賃合同) with Industrial and Commercial Bank of China Leasing Co., Ltd., pursuant to which RMB66.0 million has been drawn down in 2019 (2020: nil). 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% (2019: 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 2020, the carrying amount of the borrowing in respect of such arrangement amounted to RMB53.2 million (2019: RMB60.7 million). As at 31 December 2020, the property, plant and equipment with net book value of RMB45.5 million (2019: 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 2020, the total stated claim amount of the Group's on-going medical disputes was approximately RMB6.8 million (2019: RMB5.8 million) and there were certain medical disputes without claim amount stated. Based on the Group's assessment, during the year ended 31 December 2020, approximately RMB3.0 million (2019: RMB0.4 million) had been provided and included in accounts and other payables of the Group.

As at 31 December 2020, 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 2020, certain property, plant and equipment of the Group with net book value of RMB45.5 million (2019: RMB58.8 million) had been pledged to secure banking facilities granted to the Group.

Capital commitments

The capital commitments of the Group were primarily attributable to construction costs relating to the expansion and renovation of the Group's medical facilities. As at 31 December 2020, the capital commitments in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements were RMB255.5 million (2019: RMB332.0 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 non-controlling shareholders of subsidiaries, bank loans and lease liabilities. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Exposure to fluctuation in Exchange rates

The proceeds of raised by the Company in its initial public offering of its H Shares is denominated in Hong Kong dollars. The Group deposits 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 2020, the Group's gearing ratio (total interest-bearing bank loans divided by total equity and multiplied by 100%) was 18.3% (2019: 14.8%).

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31 December 2020, 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 final dividend for the year ended 31 December 2020.

ANNUAL GENERAL MEETING

The Company will hold the annual general meeting (the "**AGM**") at Meeting Room 1, 2nd Floor of Dongguan Kanghua Hospital Administration Center in 1000 Dongguan Avenue, Nancheng District, Dongguan, Guangdong Province, PRC at 3:00 p.m. on Wednesday, 23 June 2021 for the Shareholders to consider, and if thought fit, approve the resolutions relating to, among others, (i) the 2020 Work Report of the Board; (ii) the 2020 Work Report of the Supervisory Committee; (iii) the 2020 Financial Reports; (iv) the annual report for 2020; and (v) election of directors of the third session of the Board; (vi) election of supervisor of the third session of the supervisory committee; (vii) the re-appointment of domestic auditor and international auditor of the Company for 2021 and authorise the Board to determine their respective remuneration. A special resolution will be proposed at the AGM approve the general mandate to issue Shares.

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

The register of members of H Shares of the Company will be closed from Monday, 24 May 2021 to Wednesday, 23 June 2021, both days inclusive, during which no transfer of H Shares will be registered. In order to qualify for attending the AGM and vote for all resolutions to be submitted thereat, all transfer instruments of the H Shares together with the relevant share certificates shall be lodged with the Company's H Shares registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, before 4:30 p.m., on Friday, 21 May 2021 for registration.

REVIEW OF RESULTS ANNOUNCEMENT

The Company's audit committee has reviewed the Group's annual results for the financial year ended 31 December 2020 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, Mr. Chan Sing Nun (the chairman of the audit committee), Mr. Yeung Ming Lai and Dr. Chen Keji. Among them, Mr. Chan Sing Nun has the appropriate professional qualifications (a certified public accountant accredited by the Hong Kong Institute of Certified Public Accountants).

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this annual results announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this annual results announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.kanghuagp.com). The 2020 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.

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

Hong Kong

29 March 2021

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

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

Non-executive Director:
Mr. Lv Yubo

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