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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

- Revenue for the Reporting Period increased by 14.5% to RMB871.5 million (six months ended 30 June 2020: RMB761.0 million).

- Profit for the Reporting Period amounted to RMB14.8 million (six months ended 30 June 2020: Loss of RMB126.2 million).

- Profit for the period attributable to owners of the Company amounted to RMB30.9 million (six months ended 30 June 2020: Loss of RMB106.3 million).

- Earnings per share amounted to RMB9.2 cents (six months ended 30 June 2020: Loss per share of RMB31.8 cents).

- Adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation# ("**Adjusted EBITDA**") for the Reporting Period increased by 284.4% to RMB111.1 million (six months ended 30 June 2020: RMB28.9 million).

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

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

INTERIM RESULTS

The board of directors (the "**Board**") of Guangdong Kanghua Healthcare Co., Ltd.* (the "**Company**" or "**our company**", "**we**" or "**us**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**" or "**our Group**"), for the six months ended 30 June 2021 (the "**Reporting Period**") together with the comparative figures for the corresponding period in 2020.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	3	**871,485**	760,987
Cost of revenue		**(741,640)**	(687,813)
Gross profit		**129,845**	73,174
Other income	4	**15,750**	15,796
Other expenses, gains and losses	5	**2,596**	(2,876)
Net reversal of impairment losses under expected credit loss model		**1,303**	–
Impairment loss on goodwill		**–**	(76,000)
Administrative expenses		**(103,441)**	(123,246)
Finance costs		**(10,210)**	(11,294)
Profit (loss) before taxation	6	**35,843**	(124,446)
Income tax expenses	7	**(21,044)**	(1,773)
Profit (loss) and total comprehensive income (expenses) for the period		**14,799**	(126,219)
Profit (loss) and total comprehensive income (expense) for the period attributable to:			
– owners of the Company		**30,875**	(106,324)
– non-controlling interests		**(16,076)**	(19,895)
		14,799	(126,219)
Earnings (loss) per share, basic *(RMB cents)*	9	**9.2**	(31.8)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	NOTES	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	10	**997,601**	976,272
Right-of-use assets	10	**371,699**	382,845
Goodwill		**44,613**	44,613
Deposits paid for acquisition of property, plant and equipment		**94,457**	91,218
Financial assets at fair value through profit or loss	12	**70,546**	67,663
		1,578,916	1,562,611
Current assets			
Inventories		**63,257**	56,756
Accounts and other receivables	11	**278,175**	248,679
Financial assets at fair value through profit or loss	12	**500,000**	400,000
Restricted bank balances		**2,063**	1,182
Fixed bank deposits		**–**	5,000
Bank balances and cash		**213,392**	179,673
		1,056,887	891,290
Current liabilities			
Accounts and other payables and provision	13	**625,917**	516,868
Amount due to non-controlling shareholders of subsidiaries		**64,439**	18,856
Tax payables		**17,666**	22,907
Bank loans – due within one year	14	**15,740**	7,574
Lease liabilities		**34,485**	30,685
		758,247	596,890
Net current assets		**298,640**	294,400
Total assets less current liabilities		**1,877,556**	1,857,011

	NOTES	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Non-current liabilities			
Bank loans – due after one year	14	**267,857**	250,256
Deferred tax liabilities		**22,013**	21,945
Lease liabilities		**165,385**	177,308
		455,255	449,509
Net assets		**1,422,301**	1,407,502
Capital and reserves			
Share capital	15	**334,394**	334,394
Reserves		**1,029,011**	998,136
Equity attributable to owners of the Company		**1,363,405**	1,332,530
Non-controlling interests		**58,896**	74,972
Total equity		**1,422,301**	1,407,502

NOTES:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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 elderly healthcare services in the PRC.

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

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("**IAS 34**") "Interim Financial Reporting" issued by the International Accounting Standards Board ("**IASB**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on Hong Kong Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for financial assets at fair value through profit or loss ("**FVTPL**") which are measured at fair values at the end of each reporting period.

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards ("**IFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2020.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatory effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

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

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

3. REVENUE AND SEGMENT INFORMATION

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

Revenue

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

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Recognised over time – output method:		
Hospital services:		
– Inpatient healthcare services	**487,392**	467,957
– Outpatient healthcare services	**281,633**	226,472
– Physical examination services	**52,321**	27,162
Rehabilitation and other healthcare services:		
– Rehabilitation hospital services	**19,723**	22,143
– Rehabilitation centre services and other healthcare services	**24,524**	9,315
Elderly healthcare services	**5,166**	1,636
	870,759	754,685
Recognised at a point in time:		
Sale of pharmaceutical products	**726**	6,302
	871,485	760,987

Segment information

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

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

(i) Hospital services: Provision of hospital services includes (i) inpatient healthcare services which generally refer to the treatment of patients who are hospitalised overnight or for an indeterminate period of time; (ii) outpatient healthcare services which generally refer to the treatment of patients who are hospitalised for less than 24 hours; and (iii) physical examinations services which generally refer to the clinical examination of individuals for signs of diseases and health advisory services.

(ii)	Rehabilitation and other healthcare services:	Provision of rehabilitation services which generally refer to provision of special care services to patients with permanent or long-term physical or mental disabilities. Other healthcare services include elderly healthcare and training services for the disabled.
(iii)	Sale of pharmaceutical products:	Sales of pharmaceutical products to patients of the Group's hospitals and outside customers.
(iv)	Elderly healthcare services:	Provision of elderly healthcare services, including assisted living, adult daycare, long-term care, residential care and hospice care to the aged patients.

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

Segment revenues and results

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

For the six months ended 30 June 2021 (unaudited)

	Hospital services *RMB'000*	**Rehabilitation and other healthcare services** *RMB'000*	**Sale of pharmaceutical products** *RMB'000*	**Elderly healthcare services** *RMB'000*	**Total** *RMB'000*
SEGMENT REVENUE					
External revenue	**821,346**	**44,247**	**726**	**5,166**	**871,485**
Segment profit	**127,786**	**981**	**116**	**962**	**129,845**
Other income					**15,750**
Other expenses, gains and losses					**2,596**
Net reversal of impairment losses under expected credit loss model					**1,303**
Administrative expenses					**(103,441)**
Finance costs					**(10,210)**
Profit before taxation					**35,843**

For the six months ended 30 June 2020 (unaudited)

	Hospital services *RMB'000*	Rehabilitation and other healthcare services *RMB'000*	Sale of pharmaceutical products *RMB'000*	Elderly healthcare services *RMB'000*	Total *RMB'000*
SEGMENT REVENUE					
External revenue	721,591	31,458	6,302	1,636	760,987
Segment profit (loss)	20,744	(23,907)	1,372	(1,035)	(2,826)
Other income					15,796
Other expenses, gains and losses					(2,876)
Administrative expenses					(123,246)
Finance costs					(11,294)
Loss before taxation					(124,446)

There were no inter-segment sales during both periods.

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

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

4. OTHER INCOME

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank and other interest income	**904**	2,641
Investment income from financial assets at FVTPL	**4,729**	3,141
Rental income	**1,826**	2,926
Government subsidies *(note)*	**2,064**	2,149
Others	**6,227**	4,939
	15,750	15,796

Note: The government subsidies mainly represent the subsidies on costs incurred for operation of rehabilitation centres and hospitals, elderly healthcare centres, research and development projects and medical related seminars with no special and unfulfilled conditions attached.

5. OTHER EXPENSES, GAINS AND LOSSES

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Fair value gain (loss) on financial assets at FVTPL	**3,692**	(2,581)
Net exchange (loss) gain	**(977)**	1,312
Donations	**(110)**	(1,413)
Loss on disposals/write-off of property, plant and equipment	**(9)**	(194)
	2,596	(2,876)

6. PROFIT (LOSS) BEFORE TAXATION

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit (loss) before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**55,585**	54,191
Depreciation of right-of-use assets	**17,807**	16,410
Research and development expenditure	**686**	186
Short-term lease rentals in respect of rehabilitation centres and staff quarters	**2,071**	133
Variable lease rentals in respect of hospitals	**5,771**	3,274
Cost of inventories recognised as expenses (representing pharmaceutical products, consumables and others used, included in cost of revenue)	**397,972**	372,164

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("**EIT**")		
Current tax	**20,989**	1,409
Overprovision of EIT in prior years	**(17)**	(172)
	20,972	1,237
Hong Kong Profits Tax		
Underprovision in prior years	**4**	289
	20,976	1,526
Deferred tax charge	**68**	247
	21,044	1,773

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 periods.

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.

8. DIVIDENDS

No dividends were paid, declared or proposed during the current interim period (six months ended 30 June 2020: nil). The directors of the Company have determined that no dividend will be paid in respect of the current interim period (six months ended 30 June 2020: nil).

9. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings (loss):		
Profit (loss) for the period attributable to owners of the Company for the purpose of calculating basic earnings (loss) per share	**30,875**	(106,324)

	Six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	**334,394,000**	334,394,000

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

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT/RIGHT-OF-USE ASSETS

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB164,000 (six months ended 30 June 2020: RMB253,000) for cash proceeds of RMB155,000 (six months ended 30 June 2020: RMB59,000), resulting in a loss on disposals/write-off of RMB9,000 (six months ended 30 June 2020: RMB194,000).

In addition, during the current interim period, the Group acquired property, plant and equipment and incurred expenditure on construction in progress of RMB32,724,000 and RMB44,354,000 (six months ended 30 June 2020: RMB26,124,000 and RMB35,110,000), respectively, for the purpose of upgrading and expanding the service capacity of the Group's hospital operations.

During the current interim period, the Group entered into new lease agreements for the use of properties in the PRC for 2 to 5 years (six months ended 30 June 2020: 3 to 5 years). The Group is required to make fixed monthly payments. On commencement of the leases, the Group recognised right-of-use assets and lease liabilities of RMB6,661,000 (six months ended 30 June 2020: RMB1,038,000) each relating to those new leases.

11. ACCOUNTS AND OTHER RECEIVABLES

	At **30 June 2021** ***RMB'000*** **(unaudited)**	At 31 December 2020 *RMB'000* (audited)
Accounts receivables	**236,739**	212,400
Less: Allowance for credit loss	**(6,381)**	(7,694)
	230,358	204,706
Prepayments to suppliers	**13,141**	16,442
Interest receivables	**–**	594
Others	**34,676**	26,937
	278,175	248,679

The individual patients of the Group would usually settle payments by cash, credit cards 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:

	At 30 June 2021 *RMB'000* (unaudited)	At 31 December 2020 *RMB'000* (audited)
Within 30 days	**92,910**	121,199
31 to 90 days	**88,910**	36,124
91 to 180 days	**36,489**	43,012
181 to 365 days	**8,773**	2,992
Over 365 days	**3,276**	1,379
	230,358	204,706

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2021 *RMB'000* (unaudited)	At 31 December 2020 *RMB'000* (audited)
Portfolio investment fund *(note (i))*	**70,546**	67,663
Structured bank deposits *(note (ii))*	**500,000**	400,000
	570,546	467,663
Analysed for reporting purpose as:		
Current assets	**500,000**	400,000
Non-current assets	**70,546**	67,663
	570,546	467,663

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 1 January 2020, 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 30 June 2021, 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 banks in the PRC for guaranteed principal and variable investment returns. The majority of these structured deposits are with maturities of less than six months and the principal is generally renewed when matured.

13. ACCOUNTS AND OTHER PAYABLES AND PROVISION

	At **30 June** **2021** ***RMB'000*** **(unaudited)**	At 31 December 2020 *RMB'000* (audited)
Accounts payables	**281,249**	256,802
Accrued expenses	**85,093**	94,045
Receipts in advance *(note)*	**182,880**	100,659
Payables for acquisition of property, plant and equipment	**43,525**	41,681
Other tax payables	**2,273**	3,070
Others	**27,918**	17,655
Other payables	**341,689**	257,110
Sub-total accounts and other payables	**622,938**	513,912
Provision for medical dispute claims	**2,979**	2,956
Total accounts and other payables and provision	**625,917**	516,868

Note: Included in the balance are advances from the PRC social insurance which represent operating cash of RMB142,471,000 (31 December 2020: RMB52,533,000) advanced from the PRC government for the daily operations of the hospitals operated by the Group.

The credit period of accounts payables is 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:

	At **30 June** **2021** ***RMB'000*** **(unaudited)**	At 31 December 2020 *RMB'000* (audited)
Within 30 days	**70,451**	72,662
31 to 90 days	**147,946**	108,215
91 to 180 days	**28,413**	42,749
181 to 365 days	**11,174**	15,473
Over 365 days	**23,265**	17,703
	281,249	256,802

14. BANK LOANS

	At **30 June** **2021** ***RMB'000*** **(unaudited)**	At 31 December 2020 *RMB'000* (audited)
Variable rate secured bank loan *(note (a))*	**234,188**	204,647
Fixed rate secured loan *(note (b))*	**49,409**	53,183
	283,597	257,830

	At **30 June** **2021** ***RMB'000*** **(unaudited)**	At 31 December 2020 *RMB'000* (audited)
The carrying amounts of the loans are repayable*:		
Within one year	**15,740**	7,574
Within a period of more than one year but not exceeding two years	**26,391**	21,897
Within a period of more than two years but not exceeding five years	**80,952**	73,549
Within a period of more than five years	**160,514**	154,810
	283,597	257,830
Less: Amounts due within one year shown under current liabilities	**(15,740)**	(7,574)
Amounts shown under non-current liabilities	**267,857**	250,256

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

Notes:

(a) At 30 June 2021, the bank loan carried interest at the benchmark interest rate for loan offered by the People's Bank of China and adjusted annually from the drawn down date. The effective interest rate of the secured bank loan is 5.82% (31 December 2020: 5.84%) per annum. The main purpose of the loan is to finance the payment of phase 2 medical facility development of 重慶康華眾聯心血管病醫院有限公司 (Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd.) ("**Kangxin Hospital**") and to settle certain amount due to a non-controlling shareholder of a subsidiary.

At 30 June 2021, the bank loan was secured with the key terms and securities pledged as follows:

(i) financial guarantees provided by the Company, Mr. Wang Junyang, chairman of the Group, 東莞市東成石材有限公司, a company controlled by Dongguan Xingye Group Co., Ltd. ("**Xingye Group**"), and 東莞嘉德醫療投資有限公司 (collectively referred as the "**Guarantors**") with respective maximum amount of RMB500,000,000 (31 December 2020: RMB500,000,000); and

(ii) share pledges over the equity shares in Kangxin Hospital held by the Company and 東莞嘉德醫療投資有限公司.

(b) The fixed rate secured loan represents a financing arrangement with Industrial and Commercial Bank of China Leasing Co., Ltd., an independent third party. Pursuant to the arrangement, the Group has transferred legal title of certain medical equipment to Industrial and Commercial Bank of China Leasing Co., Ltd., and shall then be leased back for use by the Group. Upon expiry of the lease term, the Group has an option to repurchase these medical equipment at a cash consideration of RMB1. At 30 June 2021, the carrying amount of these medical equipment is approximately RMB38,867,000 (31 December 2020: RMB45,517,000), and is guaranteed by the Guarantors.

The transfers of these medical equipment do not satisfy the requirements of IFRS 15 to be accounted for as a sale of assets. The Group continued to recognise the transferred assets and initially recognised a secured loan equal to the transfer proceeds. At 30 June 2021, the carrying amount of the borrowing in respect of such arrangements amounted to RMB49,409,000 (31 December 2020: RMB53,183,000). The loan carried effective interest rate of 6.74% (31 December 2020: 6.74%) per annum and would be settled with quarterly instalments until September 2027.

15. SHARE CAPITAL

	Number of domestic shares *'000*	**Number of H shares** *'000*	**Share capital** *RMB'000*
At 1 January 2020 (audited), 31 December 2020 (audited) and 30 June 2021 (unaudited)	250,000	84,394	334,394

16. CAPITAL COMMITMENTS

	At 30 June 2021 ***RMB'000*** **(unaudited)**	At 31 December 2020 *RMB'000* (audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**223,324**	255,496

17. CONTINGENT LIABILITIES

The Group is involved as defendants in certain medical disputes arising from its normal business operations. Except for those disputes with provision made as disclosed in Note 13, the management of the Group believes that the final result of other medical disputes with total claims of RMB5,517,000 (31 December 2020: RMB6,792,000) as at 30 June 2021 will not have a material impact on the financial position or operations of the Group and the amount of outflow, if any, cannot be determined with sufficient reliability prior to judicial appraisals. Accordingly, no provision is made in this regard.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Overview for the six months ended 30 June 2021

In the first half of 2021, the novel coronavirus disease 2019 ("**COVID-19**") pandemic continued. However, with vaccination programs rolled out across the PRC and the continuous implementation of pandemic prevention policies in many parts of the country, the PRC economy, in particular, the healthcare market and hospital operation sector, demonstrated signs of stabilisation and gradually recovered from the effects of the pandemic. The PRC economy, especially in the Guangdong Province, generally maintained stable with positive favourable momentum due to the outstanding performance in the COVID-19 pandemic control and prevention, and healthcare market recovery has been driven by government support and the effective implementation of in-depth reform carried forward from year 2020.

In the first half of 2021, the Group's consolidated revenue amounted to RMB871.5 million (six months ended 30 June 2020: RMB761.0 million), representing a period-on-period increase of 14.5%, mainly attributable to the increase in revenue from our hospital services segment and an increase in the overall patient visits of our owned-hospital operations. 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**"), Dongguan Renkang Hospital Co., Ltd.* (東莞仁康醫院有限公司) ("**Renkang Hospital**") have both recorded increases in revenue of 9.7% and 45.8%, respectively. However, our 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**"), continued to be dampened by the effects from prior year and its revenue recorded a mild decline of 1.7% as compared with the first half of year 2020.

Our rehabilitation and other related healthcare services segment, through our ownership of 57% equity interest in Anhui Hualin Medical Investment Co., Ltd.* (安徽樺霖醫療投資有限公司) ("**Anhui Hualin**") (Anhui Hualin directly and indirectly (through its wholly-owned subsidiary) holds sponsor interests in the managed and controlled entities, all of which are private non-enterprise entities in Anhui Province, the PRC), has recorded a revenue of RMB44.2 million for the Reporting Period (six months ended 30 June 2020: RMB31.5 million), representing a period-on-period increase of 40.7%, primarily due to recovery from the pandemic, and in particular, the strong growth in revenue from our children rehabilitation and other healthcare services.

The Group's consolidated profit for the six months ended 30 June 2021 amounted to RMB14.8 million (six months ended 30 June 2020: consolidated loss of RMB126.2 million). The turnaround from loss in the corresponding period last year to profit for the Reporting Period is mainly attributable to: (i) the increase in revenue and profit recorded at Kanghua Hospital and Renkang Hospital primarily as a result of the increase in the number of patient visits across all its service offerings. Our revenue from hospital services segment recorded an increase in revenue of 13.8% from RMB721.6 million for the first half of year 2020 to RMB821.3 million for the Reporting Period; (ii) no further impairment loss on goodwill in respect of the cash generating unit of Kangxin Hospital ("**Kangxin Hospital CGU**") and Anhui Hualin ("**Anhui Hualin CGU**") for the Reporting Period (six months ended 30 June 2020: the Group recognised an impairment loss on goodwill in respect of the Kangxin Hospital CGU and Anhui Hualin CGU in aggregate of RMB76.0 million), and (iii) however, our performance has continued to be affected by the significant loss incurred at Kangxin Hospital (which commenced operation in March 2017 and was acquired by the Group in August 2018), in the current interim period, Kangxin Hospital recorded a decline in revenue of 1.7% as compared with the prior interim period, primarily due to the residual impact of the COVID-19 pandemic from year 2020 and other ongoing challenges including huge burden on professional headcounts, overhead expenditure and fixed costs.

The Group's Adjusted EBITDA (Adjust EBITDA is earnings before accounting for bank and other interest income, finance costs, taxes, depreciation and amortisation, fair value gain (loss) and investment income from financial assets at FVTPL, net exchange gain (loss) and impairment loss on goodwill) has recorded a period-on-period increase of 284.4% to RMB111.1 million (six months ended 30 June 2020: RMB28.9 million), which demonstrated that the Group's core operation rebounded solidly from prior interim period and remained profitable, after eliminating the effects of financing, investment-related income, effects of exchange rates, capital expenditures and extraordinary non-cash related losses.

Hospital Services

The Group's owned hospitals, namely, Kanghua Hospital, Renkang Hospital and Kangxin Hospital, represent our Group's hospital services segment. During the Reporting Period, the Group sees a solid recovery from effects of COVID-19 outbreak in year 2020, with our key operating performance indicators as follows: (i) the total number of inpatient visits increased to 31,308 (for six months ended 30 June 2020: 26,030), representing a period-on-period increase of 20.3%; (ii) the overall average spending per inpatient visit amounted to RMB15,567.7 (six months ended 30 June 2020: RMB17,977.6), representing a period-on-period decrease of 13.4% (however, representing an increase of 4.6% from RMB14,883.7 for the six months ended 30 June 2019); (iii) the overall bed utilisation rate increased to 69.1% (six months ended 30 June 2020: 60.8%), mainly affected by the low bed utilisation at Kangxin Hospital; (iv) the average length of stay remained relatively stable at 7.2 days (six months ended 30 June 2020: 7.6 days); (v) the total number of outpatient visits increased to 698,486 (six months ended 30 June 2020: 566,568), representing a period-on-period increase of 23.3%; (vi) the overall average spending per outpatient amounted to RMB403.2 (six months ended 30 June 2020: RMB399.7), representing a period-on-period increase of 0.9%; and (vii) the total number of surgical operations increased to 19,416 (six months ended 30 June 2020: 17,991), representing a period-on-period increase of 8.0%.

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

		For the six months ended 30 June	
	Change	**2021**	2020
Inpatient healthcare services			
Inpatient visits	+20.3%	**31,308**	26,030
Average length of stay *(days)*	-0.4	**7.2**	7.6
Average spending per visit *(RMB)*	-13.4%	**15,567.7**	17,977.6
Outpatient healthcare services			
Outpatient visits	+23.3%	**698,486**	566,568
Average spending per visit *(RMB)*	+0.9%	**403.2**	399.7
Physical examination services			
Physical examination visits	-11.9%	**46,058**	52,305
Average spending per visit *(RMB)*	+118.8%	**1,136.0**	519.3

Kanghua Hospital

In the first half of 2021, Kanghua Hospital continued to (i) strengthen media linkage and improve the quality of publicity; (ii) recruit talents and retain talents through performance management reform; and (iii) tighten cost control and deepen quality services. During the first half of the year, Kanghua Hospital strengthened its linkage with more media to increase the positive exposure rate of Kanghua Hospital and improve the quality of publicity. In February 2021, Kanghua Hospital was awarded the "Five-star" Party Organisation in Dongguan City (東莞市"五星級"黨組織). In May 2021, it was awarded the Dongguan City Excellent League (General) Branch (東莞市優秀團(總)支部), and Kanghua Hospital was the only medical service provider awarded in the evaluation. In July 2021, Kanghua Hospital was rated as a demonstration site for the "Four Haves" project of party building in private hospitals in Guangdong Province (廣東省民營醫院黨建"四有"工程示範點). Of the seven hospitals in Dongguan, Kanghua Hospital was one of the three private hospitals being awarded this rating. In order to fully respond to the normalisation of the pandemic, Kanghua Hospital has strengthened the storage and response capabilities of various epidemic prevention materials. At the same time, the hospital has actively followed up the centralised procurement work of the national and provincial platforms to reduce the proportion of pharmaceutical and the proportion of consumable consumption. In the first half of the year, Kanghua Hospital and the Social Health Centre strengthened cooperation in many aspects. For example, the newly added endocrinology department provided expert outpatient clinics in Nancheng Social Health Centre, and the cardiovascular centre visited Dongkeng Social Health Centre for strengthening cooperation and exchanges of skills. At present, Kanghua Hospital will increase the attraction of talents, deepen the medical discipline construction, in order to meet the needs of the core talents of our hospital's Fourth-Five Plan, and vigorously promote and assist the hospital's performance reform and further retain talents.

During the Reporting Period, Kanghua Hospital has recorded revenue of RMB672.2 million (six months ended 30 June 2020: RMB613.0 million), representing a period-on-period increase of 9.7%. Up to 30 June 2021, Kanghua Hospital has outpatient visits of 512,460 with an increase of 18.9% as compared with the corresponding period last year and inpatient visits of 24,191 with an increase of 16.0% as compared with the corresponding period last year.

Renkang Hospital

In the first half of 2021, in accordance with the unified deployment of the Health Bureau of Dongguan City and Houjie Town, Renkang Hospital has actively carried out normalised prevention and control of COVID-19 and the business operation and performance of the hospital have steadily improved. Renkang Hospital has also launched business skills competitions to improve the quality of the medical care it provides. In 2021, the Department of Medical Education and the Department of Nursing jointly launched cardiopulmonary resuscitation, tracheal intubation and medical record writing competitions at Renkang Hospital to improve the technical standards of the medical staff. At the same time, Renkang Hospital strengthened its in-depth cooperation with Kanghua Hospital. In order to transfer the strength of Kanghua Hospital's medical technology and assist Renkang Hospital in developing steadily in the medical standards of various disciplines, Kanghua Hospital dispatched experts for outpatient visits, surgical guidance and business operations, discussions about thorny cases, and gradually strengthened the establishment of a unified management model. In addition, Renkang Hospital has made preliminary progress in the Class II grading evaluation work, and carried out counselling and training work for second-level general hospitals. At present, Renkang Hospital has established a work leadership group to clarify the division of labour and strive to obtain the evaluation qualification.

During the Reporting Period, Renkang Hospital has recorded revenue of RMB130.1 million (six months ended 30 June 2020: RMB89.2 million), representing a period-on-period increase of 45.8%. Up to 30 June 2021, Renkang Hospital has outpatient visits of 175,782 with an increase of 37.1% as compared with the corresponding period last year and inpatient visits of 6,285 with an increase of 39.7% as compared with the corresponding period last year.

Kangxin Hospital

In the first half of 2021, the revenue of Kangxin Hospital has slightly declined as compared to the corresponding period in 2020. Despite facing numerous challenges, Kangxin Hospital seized the opportunities for vaccination and actively expanded its admission of patients, with the number of outpatients, discharged patients and number of performed surgeries significantly increasing as compared to the corresponding period in 2020. The overall standard of equipment and peripheral influences have also increased significantly. In the first half of 2021, with the approval of the Jiangbei District Health Commission of Chongqing City, Kangxin Hospital officially became a spot for COVID-19 vaccination. Expanding its business in an all-rounded way, Kangxin Hospital has built a strategic partnership with a physical examination centre in Chongqing, giving full play to the advantages of both parties in the field of medical services and further improving the channelling of various sources of diseases. In the first half of 2021, Kangxin Hospital also vigorously strengthened its market promotion. The charity event for patients with supraventricular tachycardia ("**SVT**"), under which Kangxin Hospital performed radiofrequency ablation surgeries for 100 SVT patients, has been officially completed. Moreover, cardiology experts from Kangxin Hospital, together with teachers and students of the School of Medicine of Chongqing Energy Vocational College, went to a community centre of Xiangrui Xicheng, Jiangjin District, Chongqing, the PRC to carry out a free cardiac consultation and rehabilitation event with the theme of "Strengthening Professional Skills, Protecting People's Health", which further spread the influence of Kangxin Hospital to the vicinity.

During the Reporting Period, Kangxin Hospital has recorded revenue of RMB19.0 million (six months ended 30 June 2020: RMB19.3 million), representing a period-on-period decrease of 1.7%. Up to 30 June 2021, Kangxin Hospital has outpatient visits of 10,244 with an increase of 43.1% as compared with the corresponding period last year; inpatient visits of 832 with an increase of 24.6% as compared with the corresponding period last year; and 280 (six months ended 30 June 2020: 240) performed cardiovascular surgeries with an increase of 16.7% as compared with the corresponding period last year.

Despite its operational potentials, Kangxin Hospital has continued to face many ongoing challenges, including huge burden on professional headcounts, overhead expenditure and fixed costs, as well as the inadequacy of certain key professional healthcare talents. The competition for healthcare professionals and experts remained intense in the local Chongqing market. The loss of certain key medical experts in year 2020 caused lagging patient visits at Kangxin Hospital during the current interim period. However, the Group will continue to step up its recruitment of experienced medical experts and improvement of our medical capabilities to regain and attract local patients.

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

		For the six months ended 30 June			
Healthcare disciplines	**Change**	**2021**	**% of revenue of the Group's owned hospitals**	2020	% of revenue of the Group's owned hospitals
		RMB'000		*RMB'000*	
O&G-related disciplines (婦產科有關科室)	+4.0%	**122,077**	**14.9**	117,382	16.3
Internal medicine-related disciplines (內科有關科室)	+6.4%	**95,367**	**11.6**	89,633	12.4
Cardiovascular-related disciplines (心血管有關科室)	-6.8%	**92,703**	**11.3**	99,458	13.8
General surgery-related disciplines (普通外科有關科室)	-8.3%	**57,457**	**7.0**	62,628	8.7
Neurology-related disciplines (神經醫學有關科室)	+9.3%	**56,605**	**6.9**	51,776	7.2
Emergency medicine-related disciplines (急診有關科室)	+2.1%	**53,610**	**6.5**	52,512	7.3
Orthopaedics-related disciplines (骨科有關科室)	+13.0%	**50,717**	**6.2**	44,899	6.2
Oncology-related disciplines (腫瘤有關科室)	+14.0%	**29,394**	**3.6**	25,782	3.6
Nephrology-related disciplines (腎臟科有關科室)	+16.7%	**29,232**	**3.5**	25,049	3.5
Medical aesthetic-related disciplines (醫學美容有關科室)	+49.4%	**24,062**	**2.9**	16,105	2.1
Paediatrics-related disciplines (兒童醫學有關科室)	+81.2%	**19,700**	**2.4**	10,869	1.5
Physical examination (體檢科)	+92.6%	**52,321**	**6.4**	27,162	3.8
Other disciplines (其他臨床科室)	+40.4%	**138,102**	**16.8**	98,336	13.6
Total		**821,347**	**100.0**	721,591	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 the first half of 2021, the Group performed a total of 19,416 surgeries (six months ended 30 June 2020: 17,991), including 7,218 surgeries (six months ended 30 June 2020: 7,084) with level 3 or level 4 complexities, representing a period-on-period increase of 8.0% and 1.9%, respectively. The increase is primarily attributable to the gradual normalisation over scheduling of surgeries in the Group's hospitals operations after the COVID-19 pandemic. The Board believes that the impact of the pandemic on our hospital operations is temporary, despite occasional operational disturbance in the business operations due to isolated cases identified in Guangzhou and other regions of the PRC, and medical service operations have substantially returned to the normal level.

Obstetrics and gynaecology ("**O&G**") disciplines, internal medicine disciplines, cardiovascular disciplines, general surgery disciplines and neurology disciplines (six months ended 30 June 2020: O&G disciplines, cardiovascular disciplines, internal medicine disciplines, general surgery disciplines and emergency medicine disciplines) were the top five revenue-generating disciplines of the Group for the first half of 2021, accounting for approximately 51.7% of the Group's total revenue in the same period (six months ended 30 June 2020: 58.4%).

During the six months ended 30 June 2021, except for cardiovascular disciplines and general surgery disciplines (which recorded a decline in revenue), revenue from all our major disciplines of our owned hospitals has increased as compared with the corresponding period last year, which is mainly due to an increase in patient visits after gradual recovery in our hospital operations from the COVID-19 pandemic. Our O&G-related disciplines remained to be our largest medical discipline and recorded a period-on-period increase in revenue of 4.0%. However, revenue from O&G-related disciplines has not returned to our normal level in 2019, primarily due to the continued impact resulting from low patient visits and pregnancy level during the period of the COVID-19 pandemic in year 2020.

Revenue from cardiovascular-related disciplines recorded a period-on-period decrease of 6.8%, primarily attributable to the decline in revenue from Kangxin Hospital and deceleration in the growth of our surgeries in this discipline. However, our revenue from paediatrics-related disciplines, medical aesthetic-related disciplines and physical examination has recorded considerable growth, with a period-on-period increase of 81.2%, 49.4% and 92.6%, respectively. Patient visits and revenue rebounded substantially over these disciplines, demonstrating strong demand for our services as soon as the condition of the pandemic has eased starting from the second half of year 2020.

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 the first half of 2021, the total revenue derived from special services amounted to RMB85.8 million (six months ended 30 June 2020: RMB78.3 million), representing a period-on-period increase of 9.6%.

Our revenue from VIP inpatient services recorded RMB30.1 million for the Reporting Period (six months ended 30 June 2020: RMB30.8 million), representing a period-on-period decrease of 2.3%, primarily caused by a decline in the average spending of our inpatients. Revenue from VIP outpatient service amounted to RMB22.8 million for the Reporting Period (for the six months ended 30 June 2020: RMB21.6 million), representing a period-on-period increase of 5.9%. In the first half of 2021, the numbers of both VIP inpatient and outpatient visits have increased as compared with prior interim period, primarily due to recovery from the pandemic. However, the average spending per inpatient visit of our VIP healthcare services amounted to RMB36,378.5 (six months ended 30 June 2020: RMB43,437.2), representing a period-on-period decrease of 16.3%, and the average spending per outpatient visit of our VIP healthcare services amounted to RMB1,159.6 (six months ended 30 June 2020: RMB1,413.1), representing a period-on-period decrease of 17.9%. The demand for our service offerings from Huaxin Building (華心樓) (a complex in Kanghua Hospital dedicated to VIP healthcare services) has maintained stable. The decrease in patients average spending is primarily due to a more diverse patient base which visited Kanghua Hospital after the pandemic in various different disciplines, whereas, there were a more focused group of customers from O&G discipline during the earlier time of the pandemic in year 2020.

Our revenue from reproductive medicine increased to RMB20.0 million (six months ended 30 June 2020: RMB17.8 million) with a period-on-period increase of 11.8%. The increase in revenue of reproductive medicine is again due to recovery of our reproductive medicine service after the pandemic and at the same time, Kanghua Hospital has increased investment and deployed more resources in its business development team over the discipline.

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

		For the six months ended 30 June	
Special Services	**Change**	**2021**	2020
VIP healthcare services			
Inpatient visits	+16.6%	**827**	709
Outpatient visits	+29.0%	**19,675**	15,251
Revenue *(RMB'000)*	+1.1%	**52,900**	52,348
Reproductive medicine			
Number of outpatient visits	+32.2%	**21,173**	16,017
Revenue *(RMB'000)*	+11.8%	**19,963**	17,849
Plastic and aesthetic surgery			
Revenue *(RMB'000)*	+0.5%	**2,053**	2,042
Laser treatment			
Revenue *(RMB'000)*	+79.2%	**10,872**	6,066
Total revenue from special services *(RMB'000)*	+9.6%	**85,788**	78,305

Rehabilitation and other Healthcare Services

During the Reporting Period, the Group's rehabilitation and other related healthcare services segments, through its ownership of 57% equity interest in Anhui Hualin, have recorded a revenue of RMB44.2 million (six months ended 30 June 2020: RMB31.5 million), representing a period-on-period increase of 40.7%. 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, twelve rehabilitation centres and one vocational training school (collectively referred to as "**Anhui Hualin Group**"). 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 members of 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. Anhui Hualin Group is also a major organisation offering children rehabilitation services in Auhui Province, the PRC. As at 30 June 2021, the three hospitals operated by Anhui Hualin Group have a total of 220 registered beds. During the Reporting Period, Anhui Hualin Group has 8,084 (six months ended 30 June 2020: 20,666) outpatient visits, 331 (six months ended 30 June 2020: 1,430) inpatient visits and served 169,560 (six months ended 30 June 2020: 62,083) rehabilitation patient visits.

In the first half of 2021, although revenue from this segment has recorded a substantial increase of 40.7%, revenue from rehabilitation hospital services has recorded a period-on-period decline of 10.9% to RMB19.7 million (six months ended 30 June 2020: RMB22.1 million). Revenue from rehabilitation centres services and other healthcare service (in particular our children rehabilitation operation) has recorded a period-on-period increase of 163.3% to RMB24.5 million (six months ended 30 June 2020: RMB9.3 million). During the Reporting Period, our Hefei Jingu Hospital (合肥金谷醫院) and Hefei Kanghua Rehabilitation Hospital (合肥康華康復醫院) were under periodical investigation by the relevant authority, and were required to be temporarily closed for two months before its reopening later in June 2021. This temporary closure has caused to certain extent in operational disturbance and loss of patient visits.

Sales 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. Revenue from sales of pharmaceutical products for the Reporting Period amounted to RMB0.7 million (six months ended 30 June 2020: RMB6.3 million), representing a period-on-period decrease of 88.5%. From the beginning of the pandemic in year 2020, the operation of our pharmaceutical stores within our hospitals has been difficult, mainly as a result of the decline in patient visits and various pharmaceutical reform policies and measures being implemented at the national level. Going forward, the Group has plans to reduce and retrench the operation of this segment and gradually integrate with our hospital services segment in later half of year 2021.

Elderly Healthcare Services

The Group's elderly healthcare services segment commenced in 2018, with the strategy to establish a comprehensive elderly healthcare centre located inside 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, the PRC. In view of the accelerating aging population problem in the PRC that leads to the high development potential of the healthcare and elderly care industry, the establishment of the Renkang Elderly Care Centre was the Group's first presence and extension of our big health concept business development.

In the first half of 2021, Renkang Elderly Care Centre continued to upgrade and achieved outstanding performance. Up to June 2021, the centre has a total of 108 beds with 104 elderly patients, achieving a bed utilisation rate of 96%. Revenue from provision of elderly healthcare services for the Reporting Period amounted to RMB5.2 million (six months ended 30 June 2020: RMB1.6 million), representing a period-on-period increase of 215.8%, primarily due to an increase in intake of patients during the current interim period. As the operation matures, as well as the centre became a designated medical institution covered by the social insurance system in Dongguan, the PRC in 2020, Renkang Elderly Care Centre has gradually gained reputation in the local area with bed utilisation close to 100% and received more enquiry from local potential patients. In the current period, the development of the third phase elderly centre building has commenced inside Renkang Hospital (construction cost will be provided by the landlord of Renkang Hospital), aiming to provide the best in the class elderly healthcare services and satisfy the overwhelming demand for elderly healthcare service in the district.

With respect to the land use rights of a land parcel acquired in year 2020, the management expects that the construction of the main facilities will commence in later half of year 2021. The land use rights of the land parcel were to develop a comprehensive elderly healthcare medical facility with a particular focus on geriatric patients and rehabilitation. The Board expects that such development will further enhance the Group's capability in providing high-end integrated medical care to meet the increasing demand for such services in Guangdong Province, the PRC (and in particular Dongguan City, the PRC).

Industry Outlook and Strategy

Year 2021 is the first year after the healthcare industry withstood the challenges brought by the COVID-19 pandemic in the PRC. The continuous raging of the COVID-19 pandemic continued to affect the PRC as well as the global economies. In this new era, the healthcare industry in the PRC faces both challenges and opportunities with the rise of online medical consultation, smart hospitals and the advancement of communication technology, all of which have enabled patients to choose alternative online medical treatments. The implementation of the COVID-19 pandemic prevention and control measures by the PRC government across the country has led to an upsurge of online medical treatments. Various hospitals have broken through the limitations of traditional face-to-face medical treatments and have provided patients with more options of various forms of medical treatments.

Prevention and Control of the COVID-19 Pandemic, and Deepening the Reform of the Disease Prevention and Control System

In the first half of 2021, the impact of the COVID-19 pandemic on the medical industry continued. Although the COVID-19 pandemic in the PRC was sporadic and locally clustered, it continued to consume a lot of social resources. Hospitals also had to tighten the COVID-19 pandemic prevention and control measures at all times. The Group therefore had to carry out a procurement plan under the normalisation of the COVID-19 pandemic, pay attention to market changes in a timely manner, and respond quickly. At the same time, in the first half of 2021, the health-related needs of the people were also stimulated, and medical institutions with strong comprehensive service capabilities, wide coverage, and good technical standards won the trust of patients. After the COVID-19 pandemic becomes effectively controlled, we believe that the Group's business will further continue to grow significantly.

Reform of Medical Insurance Payment Methods

In 2021, the reform of medical insurance payment methods continued. The competition between medical institutions and medical insurance management departments has become a competition between medical institutions, prompting medical institutions to carry out refined management, improve their service quality, and offer better development for medical institutions. In view of the reform, the market has promoted pilot projects, including the payment depending on the type or the group of diseases diagnosed, in order to refine the management.

Procurement of Pharmaceutical Consumables

In 2021, centralised procurement of pharmaceuticals and high-value consumables was normalised. The centralised procurement put forward new requirements for hospital operations, which will change the profit model of hospitals. While further reducing the operating costs of medical institutions, the centralised procurement also led to higher requirements for the improvement of medical technology and core competitiveness of medical institutions. The Group normalised and institutionalised the centralised procurement of drugs, and gradually expanded the scope of centralised procurement of drugs and high-value medical consumables.

Online Healthcare Development

Online healthcare and digitalisation continued to develop rapidly in 2021. The medical and healthcare industry will continue to accelerate and upgrade by virtue of digitalisation, and provide patients with "Internet + hospital + out-of-hospital services". Products and solutions will be extended to the closed-loop service of "treatment, medicine, insurance, and health management". New technologies, such as digital therapy, are combined with the Internet to provide patients with greater value. The "Notice of the General Office of the State Council on Issuing the Key Tasks for Deepening the Reform of the Medical and Health System in 2021", which was issued in May 2021, clearly and actively supports the development of social medical services. Medical institutions can take the lead in establishing or participating in county medical communities and urban medical groups and promote the balanced distribution of high-quality medical resources. In addition, the COVID-19 pandemic has promoted the rapid development of online medical care and the further implementation of intelligent payment models, all of which have put forward higher requirements for the construction of the informatisation of the medical services, especially for private medical institutions. With the continuously deepening of medical reform measures and the continuous implementation of supportive governmental policies, the operation of medical services has ushered in a new period of opportunities. The relevant letters issued by the National Health Commission of the People's Republic of China on appointments for diagnosis and treatment and the construction of online hospitals have pointed out the path for the upgrading and transforming the hospital services in the PRC. The Company has fully accelerated the construction of online hospitals in response to rising social needs. Since 2020, the Group has officially deployed online medical services, and established an online medical platform to contribute to the online and offline integration and development of Kanghua Hospital.

Deepening the Reform of the Pricing of the Medical Services

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

In the second half of 2021, the entire pharmaceutical industry will continue to face both challenges and opportunities. The Group will strive to optimise its medical services, improve the operational efficiency of its medical service business, accelerate the construction of disciplines over which the Group has competitive advantages, strengthen its quality management, accelerate the online transformation of the healthcare industry, promote breakthroughs in the consumer medical segment, and expand the scale of its operations. At the same time, the Group will continue to pay attention to the opportunities for carrying out mergers and acquisitions in the domestic market. In addition, the Group will continue to monitor the progress of the COVID-19 pandemic and adopt corresponding prevention and control measures to ensure the stability and orderliness of its business activities.

Future Plans for Material Investments and Capital Assets

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

FINANCIAL REVIEW

Segment Revenue

The Group generates revenue primarily from: (i) hospital services – providing healthcare services through its owned hospitals, namely Kanghua Hospital, Renkang Hospital and Kangxin Hospital (since August 2018), comprising inpatient healthcare services, outpatient healthcare services and physical examination services; (ii) rehabilitation and other healthcare services – providing rehabilitation services to patients with physical or mental disabilities and other healthcare-related services including elderly care and training service for the disabled; (iii) sale of pharmaceutical products and medical consumables to patients of the Group's hospitals and walk-in customers who may not be patients of the Group's hospitals; and (iv) elderly healthcare services – provision of elderly healthcare services, including assisted living, adult daycare, long-term care, residential care and hospice care to the aged patients.

The following tables set forth the revenue, costs of revenue, gross profit and gross profit margin of the Group by segment for the periods indicated:

For the six months ended 30 June 2021 (unaudited)

	Hospital services *RMB'000*	Rehabilitation and other healthcare services *RMB'000*	Sales of pharmaceutical products *RMB'000*	Elderly healthcare services *RMB'000*	Total *RMB'000*
Revenue	**821,346**	**44,247**	**726**	**5,166**	**871,485**
Cost of revenue	**(693,560)**	**(43,266)**	**(610)**	**(4,204)**	**(741,640)**
Gross profit	**127,786**	**981**	**116**	**962**	**129,845**
Gross profit margin	**15.6%**	**2.2%**	**16.0%**	**18.6%**	**14.9%**

For the six months ended 30 June 2020 (unaudited)

	Hospital services *RMB'000*	Rehabilitation and other healthcare services *RMB'000*	Sales of pharmaceutical products *RMB'000*	Elderly healthcare services *RMB'000*	Total *RMB'000*
Revenue	721,591	31,458	6,302	1,636	760,987
Cost of revenue	(652,347)	(27,865)	(4,930)	(2,671)	(687,813)
Gross profit (loss)	69,244	3,593	1,372	(1,035)	73,174
Gross profit margin	9.6%	11.4%	21.8%	-63.3%	9.6%

Revenue from the Group's hospital services amounted to RMB821.3 million for the Reporting Period (six months ended 30 June 2020: RMB721.6 million), representing a period-on-period increase of 13.8%, accounting for 94.2% (six months ended 30 June 2020: 94.8%) of the total revenue of the Group.

Revenue from hospital services comprised (i) revenue from inpatient healthcare services, which amounted to RMB487.4 million (six months ended 30 June 2020: RMB468.0 million), representing a period-on-period increase of 4.2% and accounting for 55.9% (six months ended 30 June 2020: 61.5%) of the total revenue of the Group; (ii) revenue from outpatient healthcare services, which amounted to RMB281.6 million (six months ended 30 June 2020: RMB226.5 million), representing a period-on-period increase of 24.4% and accounting for 32.3% (six months ended 30 June 2020: 29.8%) of the total revenue of the Group; and (iii) revenue from physical examination services, which amounted to RMB52.3 million (six months ended 30 June 2020: RMB27.2 million), representing a period-on-period increase of 92.6% and accounting for 6.0% (six months ended 30 June 2020: 3.6%) of the total revenue of the Group. The increase in revenue from hospital services is mainly due to (i) an increase in the number of inpatient, outpatient and physical examination visits during the period across all of our owned-hospitals due to recovery from the pandemic; (ii) the growth in revenue across all of our major medical disciplines and our VIP special services; and (iii) overall increase public health safety awareness since the pandemic and economic recovery in Guangdong region. Revenue from physical examination has significantly increased to RMB52.3 million (six months ended 30 June 2020: RMB27.2 million), which is primarily due to increase the number of physical examination visits and the number of COVID-19 tests performed at our hospital during the current interim period. During the Reporting Period, the revenue from our VIP special services accounted for approximately 9.8% of the Group's total revenue (six months ended 30 June 2020: 10.3%) and 10.4% of the Group's revenue from our hospital services segment (six months ended 30 June 2020: 10.8%). The growth in revenue from our hospital services has demonstrated that the demand for our service continued to remain strong and the overall recovery in both economic activities and hospital operations in the Guangdong region ever since the outbreak of the COVID-19 pandemic in year 2020.

Revenue from rehabilitation and other healthcare services amounted to RMB44.2 million (six months ended 30 June 2020: RMB31.5 million), representing a period-on-period increase of 40.7%, accounting for 5.1% (six months ended 30 June 2020: 4.1%) of the total revenue of the Group. Anhui Hualin Group is principally engaged in provision of rehabilitation services to the patients with physical or mental disabilities and other healthcare-related services, including care services for elderly and training service for the disabled. The increase in revenue is mainly attributable to the recovery of patient visits after the pandemic and the significant improvement in business operation of our rehabilitation services in the Anhui region, in particular, our children rehabilitation and other healthcare services during the period.

Revenue from sales of pharmaceutical products and medical consumables amounted to RMB0.7 million (six months ended 30 June 2020: RMB6.3 million), representing a period-on-period decrease of 88.5%, accounting for 0.1% (six months ended 30 June 2020: 0.8%) of the total revenue of the Group. The decrease in revenue is mainly attributable to the decrease in the demand for pharmaceutical and medical consumables inside our hospitals and effects of pharmaceutical market reforms since year 2020.

Revenue from elderly healthcare services represented the provision of elderly healthcare services at our Renkang Elderly Care Centre, which amounted to RMB5.2 million (six months ended 30 June 2020: RMB1.6 million), representing a period-on-period increase of 215.8% and accounting for 0.6% (six months ended 30 June 2020: 0.2%) of the total revenue of the Group. In August 2020, the centre became a designated medical institution covered by the social insurance system in Dongguan, the PRC. The increase in revenue is mainly attributable to the increase in intake of patients during the current interim period and rising demand for elderly healthcare service in the local district.

Cost of Revenue

Cost of revenue of the Group's hospital services segment (consisting of inpatient healthcare services, outpatient healthcare services and physical examination services) primarily consisted of 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 increased to RMB693.6 million (six months ended 30 June 2020: RMB652.3 million), representing a period-on-period increase of 6.3%. The increase in cost of revenue of our hospital services segment is mainly attributable to the increase in business operations of our hospitals and the increase in the number of patients across all medical disciplines during the Reporting Period. Our Kangxin Hospital is still at its stage of ramping up its operation, it is running at negative gross margin during the Reporting Period.

Cost of revenue of the Group's rehabilitation and other healthcare services segment amounted to RMB43.3 million (six months ended 30 June 2020: RMB27.9 million), representing a period-on-period increase of 55.3%, and primarily consisted of staff costs, medical consumables, depreciation, utilities and rental expenses. The increase in cost of revenue of our rehabilitation and other healthcare services segment is mainly attributable to the increase in operation of our rehabilitation centres, in particular in our number of direct staff headcounts during the Reporting Period.

Cost of revenue of the Group's sales of pharmaceutical products segment amounted to RMB0.6 million (six months ended 30 June 2020: RMB4.9 million), representing a period-on-period decrease of 87.6%. This is mainly attributable to the decreased cost of purchase of pharmaceutical and medical consumable products.

Cost of revenue of the Group's elderly healthcare services represented the cost of revenue at Renkang Elderly Care Centre, which amounted to RMB4.2 million (six months ended 30 June 2020: RMB2.7 million) and representing a period-on-period increase of 57.4%. This mainly represented the cost of services including direct staff cost and consumables incurred at the elderly care centre. The increase is due to the full operation of the centre with substantial increase in staff headcounts and full deployment of its services in 2020.

For the six months ended 30 June 2021, pharmaceuticals, medical consumables and staff cost accounted for approximately 25.7% (six months ended 30 June 2020: 28.0%), 27.9% (six months ended 30 June 2020: 26.1%) and 31.1% (six months ended 30 June 2020: 32.3%), respectively, of the total cost of revenue of the Group. The proportion of cost of pharmaceuticals and medical consumables as percentage of total cost of revenue has declined during the Reporting period, which is mainly attributable to the continuing adjustment on cost control and in line with medical reforms at the national level. Our total staff-related costs including salary, bonus and other benefits have increased by 3.7% as compared with the corresponding period last year, mainly attributable to an increase in general salary level with more competitive salary and bonus packages being offered to healthcare professionals.

Gross Profit and Gross Profit Margin

Total gross profit of the Group amounted to RMB129.8 million (six months ended 30 June 2020: RMB73.2 million), representing a period-on-period increase of 77.45%. The overall gross profit margin increased to 14.9% (six months ended 30 June 2020: 9.6%), primarily due to:

(i) our significant growth in medical aesthetic-related disciplines, paediatrics-related disciplines and physical examination during the current period. These medical disciplines usually require treatments that are typically least advanced and diagnostics support, and are capable of absorbing higher growth in patient visits without substantial adjustments to medical staff level or increase in costs than other medical services;

(ii) the growth in our VIP centres that targeted at high-end patients and typically command higher margin than basic healthcare services (VIP services-related revenue recorded a period-on-period growth of 9.8%);

(iii) the increase in the average spending of our outpatients and physical examination services and an increase healthcare consultation price leveraging the reputation of the "Kanghua" brand that is gaining wider recognition in the Guangdong region; and

(iv) however, the above impact has been considerably offset by the loss incurred at Kangxin Hospital, which is currently running at negative gross margin. Kangxin Hospital has incurred significant amount of fixed staff costs and other fixed costs at its initial stage of operation since its commencement. In addition, there is an increase in overall direct staff costs and depreciation expenses of 3.7% and 6.6%, respectively, mainly caused by the impact of purchase of various new medical equipment and rights-of-use assets relating to operating leases.

Key Operational Information of our Owned Hospitals

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

		For the six months ended 30 June	
	Change	**2021**	2020
Inpatient healthcare services			
Inpatient visits:			
Kanghua Hospital	+16.0%	**24,191**	20,862
Renkang Hospital	+39.7%	**6,285**	4,500
Kangxin Hospital	+24.6%	**832**	668
Total inpatient visits	+20.3%	**31,308**	26,030
Average spending per visit *(RMB)*			
Kanghua Hospital	-14.3%	**16,525.3**	19,292.8
Renkang Hospital	+4.9%	**11,492.4**	10,959.8
Kangxin Hospital	-23.5%	**18,507.2**	24,178.1
Outpatient healthcare services			
Outpatient visits:			
Kanghua Hospital	+18.9%	**512,460**	431,161
Renkang Hospital	+37.1%	**175,782**	128,248
Kangxin Hospital	+43.1%	**10,244**	7,159
Total outpatient visits	+23.3%	**698,486**	566,568
Average spending per visit *(RMB)*			
Kanghua Hospital	+3.3%	**447.3**	432.9
Renkang Hospital	-2.9%	**277.7**	286.1
Kangxin Hospital	-20.7%	**349.1**	440.3

		For the six months ended 30 June	
	Change	**2021**	2020
Physical examination services			
Physical examination visits:			
Kanghua Hospital	+31.5%	**28,388**	21,582
Renkang Hospital	+20.8%	**28,338**	23,453
Total physical examination visits	+26.0%	**56,726**	45,035
Average spending per visit *(RMB)*			
Kanghua Hospital	+37.3%	**1,522.9**	1,108.8
Renkang Hospital	+132.7%	**320.7**	137.8

Other Income

The other income of the Group primarily consisted of bank and other interest income, investment income, government subsidies, rental income and others. In the first half of 2021, other income amounted to RMB15.8 million (six months ended 30 June 2020: RMB15.8 million), representing a period-on-period decrease of approximately 0.3%, primarily attributable to (i) a decrease in bank and other interest income to RMB0.9 million (six months ended 30 June 2020: RMB2.6 million) mainly due to a decrease average bank balance and the lack of fixed deposits placed with banks with higher interest returns during the current interim period; (ii) an increase in investment income from financial assets at FVTPL to RMB4.7 million (six months ended 30 June 2020: RMB3.1 million) primarily due to higher return achieved with certain principal-protected structured deposit made during the current interim period; and (iii) a decrease in rental income to RMB1.8 million (six months ended 30 June 2020: RMB2.9 million) due to more rental concession given to staff during the current interim period.

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 is consistent with our cash management policy.

Other Expenses, Gains and Losses

The other expenses, gains and losses of the Group primarily consisted of fair value gain(loss) on financial assets at FVTPL, net exchange gain(loss), donations and loss on disposals of property, plant and equipment. In the first half of 2021, other expenses, gains and losses amounted to a net gain of RMB2.6 million (six months ended 30 June 2020: net loss of RMB2.9 million), primarily attributable to (i) a recorded fair value gain on financial assets at FVTPL of RMB3.7 million (six months ended 30 June 2020: fair value loss of RMB2.6 million) during the current interim period; (ii) a recorded net exchange loss of RMB1.0

million (six months ended 30 June 2020: net exchange gain of RMB1.3 million) mainly arising from our Hong Kong dollar denominated financial assets; and (iii) donations made during the Reporting Period of RMB0.1 million (six months ended 30 June 2020: RMB1.4 million).

Net Reversal 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 RMB1.3 million (six months ended 30 June 2020: nil). Over the past few years, the Group has increased its efforts to recover overdue debts, including recovering receivables from patients through legal actions, as well as tightening credit reviews given to corporate customers. The net reversal of provision is mainly attributable to an improved aging of the Group's accounts receivables and certain long outstanding debts which have been recovered by the Group during the current interim period.

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 available without undue costs or effort. At every reporting date, the historically observed default rates are reassessed and changes in the forward-looking information are considered.

The management of the Group closely monitors the credit quality of accounts 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 2021 (the Group's interim reporting date), the Board conducted a review of the carrying values of the aforementioned CGUs.

The recoverable amounts of the Anhui Hualin CGU and Kangxin Hospital CGU have been determined based on a value in use calculation with reference to valuation reports prepared by an independent professional valuer. The calculations use the respective cash flow projections of Anhui Hualin Group and Kangxin Hospital based on their financial budgets approved by the management of the Group. The key assumptions are growth rates and pre-tax discount rates, which are estimated based on past practices and expectations of future changes in the market. As at 30 June 2021, after taking into consideration of the historical performances and most recent actual performances of the Anhui Hualin CGU and Kangxin Hospital CGU, the Board believe that any reasonably possible changes in any of these assumptions would not cause the carrying amount of each cash generating unit to exceed its recoverable amount and considers that no further impairment is required in respect of the goodwill allocated to the Anhui Hualin CGU and Kangxin Hospital CGU.

As at 30 June 2021, the carrying amount of goodwill relating to the Anhui Hualin CGU is approximately RMB29.1 million (31 December 2020: RMB29.1 million) and the Kangxin Hospital CGU is approximately RMB15.5 million (31 December 2020: RMB15.5 million).

As disclosed in this announcement, the COVID-19 pandemic beginning in year 2020 and up to the present has affected almost all industries and sectors. The situation has caused some businesses to temporarily cease operations for a significant amount of time during the year of 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 that the operations and adverse financial conditions of the Group as a whole for the current interim period are largely temporary. The effects of the COVID-19 pandemic are less likely to be permanent, primarily because the majority of our revenue from healthcare services is not directly correlated to the economic cycles and the overall demand for the Group's healthcare services (particularly those that are essential to health and well-being) is likely to remain strong in the medium to long term.

Administrative Expenses

The administrative expenses of the Group primarily consisted of staff costs, repairs and maintenance expenses, office expenses, depreciation and amortisation, rental expenses, utilities expenses, entertainment and travelling expenses and other expenses. In the first half of 2021, administrative expenses amounted to RMB103.4 million (six months ended 30 June 2020: RMB123.2 million), representing a period-on-period decrease of approximately 16.1%, primarily due to (i) a significant decrease in administrative staff-related costs to RMB36.9 million (six months ended 30 June 2020: RMB54.9 million) as a result of the decline in number of administrative staff headcounts and deduction in bonus payment and related staff benefits expenditure during the current interim period following a more tightened cost control; (ii) a decrease in depreciation and amortisation to RMB18.0 million (six months ended 30 June 2020: RMB18.4 million); and (iii) an increase in overall repair and maintenance expenditure to RMB9.7 million (six months ended 30 June 2020: RMB6.4 million) as more upgrades and maintenance were carried out during the current interim period when business operation capacity remained low and anticipated a higher and faster recovery in later half of the year.

Finance Costs

Finance costs for Reporting Period amounted to RMB10.2 million (six months ended 30 June 2020: RMB11.3 million), representing a period-on-period decrease of 9.6%. Finance costs for the Reporting Period represented (i) interest on bank loans raised of RMB8.7 million (six months ended 30 June 2020: RMB7.2 million); (ii) the interest element relating to lease liabilities charged to profit or loss during the current interim period due to application of IFRS 16 relating to leases of RMB5.9 million (six months ended 30 June 2020: RMB6.4 million); and (iii) adjustment by amount of interest capitalised in the cost of qualifying assets of RMB4.4 million (six months ended 30 June 2020: RMB2.5 million).

Income Tax Expenses

The income tax expenses of the Group primarily consisted of PRC enterprise income tax and Hong Kong Profits Tax. In the first half of 2021, income tax expenses amounted to RMB21.0 million (six months ended 30 June 2020: RMB1.8 million), representing a period-on-period increase of approximately 1,086.9%. The subsidiaries of the Group in the PRC are generally subject to income tax rate of 25% of their respective taxable income. Our effective tax rate for the Reporting Period was 58.7% (six months ended 30 June 2020: -1.4%). The increase in income tax expenses was primarily due to the increase in profits generated at Kanghua Hospital and Renkang Hospital during the Reporting Period, as well as, the tax effect that tax losses are not recognised for losses incurred of Kangxin Hospital.

Profit (Loss) for the Period

In the first half of 2021, the Group recorded profit for the Reporting Period amounting to RMB14.8 million (six months ended 30 June 2020: loss for the period of RMB126.2 million), and profit attributable to the shareholders amounted to RMB30.9 million (six months ended 30 June 2020: loss attributable to the shareholders of RMB106.3 million).

FINANCIAL POSITION

Property, Plant and Equipment, Right-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 RMB32.7 million (six months ended 30 June 2020: RMB26.1 million) and RMB44.4 million (six months ended 30 June 2020: RMB35.1 million), respectively, mainly for the purpose of upgrading and expanding the service capacity of our hospital operations and construction cost incurred at Phase II medical facility at our Kangxin Hospital.

As at 30 June 2021, the Group had right-of-use assets of RMB371.7 million (31 December 2020: RMB382.8 million), which included leasehold lands of RMB229.0 million (31 December 2020: RMB231.5 million) and leasehold land and buildings relating to leases of RMB142.7 million (31 December 2020: RMB151.3 million) recognised in accordance with IFRS 16. During the Reporting Period, the Group entered into new lease agreements for the use of properties in the PRC ranging from 2 to 5 years. The Group is required to make fixed monthly payments. On the commencement of the lease, the Group recognised right-of-use assets and lease liabilities of RMB6.7 million (six months ended 30 June 2020: RMB1.0 million) each relating to those new leases.

As at 30 June 2021, the Group had deposits paid for acquisition of property, plant and equipment amounting to RMB94.5 million (31 December 2020: RMB91.2 million). The deposits mainly represented 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 continued to upgrade its medical facilities and expand its operation capacity.

Accounts and Other Receivables

The account receivables of the Group primarily consisted of balances due from social insurance funds, certain corporate customers and individual patients. As at 30 June 2021, accounts receivables increased to RMB230.4 million (31 December 2020: RMB204.7 million), of which 78.9% (31 December 2020: 76.9%) were aged within 90 days. Average accounts receivables turnover days for the current period is 45.2 days (31 December 2020: 49.0 days). The increase in accounts receivables and decrease in accounts receivable turnover days are primarily due to (i) the increase in revenue of our hospitals operations and rehabilitation and other healthcare services operations during the current interim period; and (ii) the accelerated settlement from Dongguan social insurance funds and other government authorities, and certain corporate customers as the overall economic environment and business environment recovered from the COVID-19 pandemic in year 2020.

The other receivables of the Group primarily consisted of prepayments to suppliers, interest receivables and others. As at 30 June 2021, other receivables increased to RMB47.8 million (31 December 2020: RMB44.0 million), primarily due to (i) a decrease in prepayments to suppliers to RMB13.1 million (31 December 2020: RMB16.4 million); and (ii) an increase in other receivables mainly due to improvement in the Group's overall business operation during the current interim period and expansion of the Group's operations of our rehabilitation and other healthcare services segment and elderly healthcare services.

Accounts and Other Payables and Provision

The accounts and other payables and provision of the Group primarily consisted of accounts payables, accrued expenses, receipts in advance, payables for acquisition of property, plant and equipment, provision for medical dispute claims, other tax payables and others. As at 30 June 2021, accounts and other payables and provision increased to RMB625.9 million (31 December 2020: RMB516.9 million) primarily attributable to: (i) an increase in accounts payable to RMB281.2 million (31 December 2020: RMB256.8 million) as a result of increases in our hospital services operations and purchases of supplies during the current interim period; (ii) a decrease of accrued expenses to RMB85.1 million (31 December 2020: RMB94.0 million) mainly because of decreases in operational and administrative costs such as staff costs; and (iii) an increase in receipt in advance to RMB182.9 million (31 December 2020: RMB100.7 million) due to an increase in temporary funds received from social security insurance fund.

Net Current Assets and Net Assets

As at 30 June 2021, the Group recorded net current assets of RMB298.6 million (31 December 2020: RMB294.4 million) and net assets position of RMB1,422.3 million (31 December 2020: RMB1,407.5 million).

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources

The Group continued to maintain a strong financial position with cash and cash equivalents of RMB213.4 million (31 December 2020: RMB179.7 million) as at 30 June 2021. 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 30 June 2021, as part of the Group's cash management activities, the Group had investments (classified as financial assets at FVTPL) in aggregate of RMB570.5 million (31 December 2020: RMB467.7 million), primarily consisting of (i) portfolio investment fund of RMB70.5 million (31 December 2020: RMB67.7 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 RMB500.0 million (31 December 2020: 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 scrutinising any decision of the Group to purchase investment products. The investment products should generally satisfy the following criteria, namely (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 with 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 condensed consolidated statement of cash flow of the Group for the periods indicated:

		For the six months ended 30 June	
	Change	**2021**	2020
		RMB'000	*RMB'000*
Net cash generated from operating activities	+492.2%	**155,770**	26,303
Net cash used in investing activities	+26.7%	**(163,611)**	(129,173)
Net cash generated from (used in) financing activities	N/A	**41,989**	(27,840)
Net increase (decrease) in cash and cash equivalents		**34,148**	(130,710)

Net cash generated from operating activities

During the Reporting Period, the net cash generated from operating activities amounted to RMB155.8 million (six months ended 30 June 2020: RMB26.3 million), representing a period-on-period increase of 492.2%, which is primarily attributable to our significantly improved adjusted EBITDA for the Reporting Period.

Net cash used in investing activities

During the Reporting Period, the net cash used in investing activities amounted to RMB163.6 million (six months ended 30 June 2020: RMB129.2 million), representing a period-on-period increase of 26.7%, which is primarily attributable to (i) an increase in purchase of financial assets at FVTPL during the current interim period for the purpose utilising idle cash balances for better investment returns; (ii) an increase investment income received financial assets at FVTPL and interest received as compared with same period last year; (iii) an increase in purchase of property, plant and equipment during the current interim period; and (iv) however, (i) to (iii) are partially offset by the decrease in deposits paid for acquisition of property, plant and equipment during the current interim period.

Net cash generated from (used in) financing activities

During the Reporting Period, the net cash generated from financing activities amounted to RMB42.0 million (six months ended 30 June 2020: net cash used in financing activities of RMB27.8 million), which is primarily attributable to the fact that (i) the Group raised new bank loans amounting to RMB30.0 million during the current interim period (six months ended 30 June 2020: nil); (ii) the Group has made net advances from the non-controlling shareholders of subsidiaries of RMB45.6 million (six months ended 30 June 2020: net advances of RMB2.0 million); and (iii) there was repayment of lease liabilities of RMB14.8 million (six months ended 30 June 2020: RMB13.4 million).

Significant Investment, Acquisition and Disposal

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

Cash Management Activities

As part of the Group's cash management, the Group has from time to time purchased investment products, such as structured deposits, issued by a reputable PRC commercial bank usually with terms of less than six months 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 are 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 scrutinising any decision of the Group to purchase investment products.

Capital Expenditure

The Group regularly makes capital expenditure to expand its operations, maintain its medical facilities and improve its operating efficiency. Capital expenditure primarily consist of purchases of property, plant and equipment. The capital expenditure of the Group during the Reporting Period was RMB77.1 million (six months ended 30 June 2020: RMB43.1 million). The Group has financed its capital expenditures mainly through cash flows generated from its operating activities and bank loans.

USE OF PROCEED FROM THE INITIAL PUBLIC OFFERING

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

Up to 30 June 2021, of the net proceeds from the initial public offering, (i) RMB73.6 million, representing approximately 9.4% 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 utilised 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 utilised and used for acquisition and potential acquisition of businesses. As at 30 June 2021, out of the balance of the unutilised net proceeds of RMB415.4 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 expenditure 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 30 June 2021, RMB315.4 million has been drawn down. As at 30 June 2021, the Group had secured bank loans of carrying amount of RMB283.6 million (31 December 2020: RMB257.8 million). The principal agreements underlying such bank loan facilities include the following:

(i) a RMB420.0 million fixed asset facility agreement (固定資產借款合同) with Industrial and Commercial Bank of China Limited, Chongqing Jiangbei Branch, pursuant to which RMB169.4 million has been drawn down in year 2019, RMB50.0 million has been drawn down in year 2020 and RMB30.0 million has been draw down during the Reporting Period. The bank loan carried an interest rate at the benchmark lending rate offered by the People's Bank of China (adjusted annually from the drawn down date) and is secured by shares pledged over the entire equity in Kangxin Hospital held by the Company and its non-controlling shareholder. As at 30 June 2021, the effective interest rate of the secured bank loan is 5.82% (31 December 2020: 5.84%) per annum. As at 30 June 2021, the carrying amount of the borrowing in respect of such arrangement amounted to RMB234.2 million (31 December 2020: RMB204.6 million); and

(ii) a RMB200.0 million financial leasing agreement (融資租賃合同) with Industrial and Commercial Bank of China Leasing Co., Ltd., pursuant to which RMB66.0 million has been drawn down in 2019 (six months ended 30 June 2021: 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% (31 December 2020: 6.74%) per annum and repayable in quarterly variable instalments until September 2027. In addition, such assets have been pledged to the lender as security throughout the loan period. As at 30 June 2021, the carrying amount of the borrowing in respect of such arrangement amounted to RMB49.4 million (31 December 2020: RMB53.2 million). As at 30 June 2021, the property, plant and equipment with net book value of RMB38.9 million (31 December 2020: RMB45.5 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") by virtue of Rule 14A.90 of the Listing Rules.

Contingent Liabilities

The Group is subject to legal proceedings and claims in the ordinary of business primarily arising from medical disputes brought by patients. Provision for medical disputes is made based on the status of potential and active claims outstanding as at the end of the relevant period, and primarily taking into account any judicial appraisal or court determination against the Group. As at 30 June 2021, the total stated claim amount of the Group's on-going medical disputes was approximately RMB5.5 million (31 December 2020: RMB6.8 million) and there were certain medical disputes without claim amount stated. Based on the Group's assessment, during the Reporting Period, approximately RMB3.0 million (six months ended 30 June 2020: RMB1.3 million) had been provided and included in accounts and other payables and provision of the Group.

As at 30 June 2021, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

Pledge of Assets

As at 30 June 2021, certain property, plant and equipment of the Group with net book value of RMB38.9 million (31 December 2020: RMB45.5 million) had been pledged to secure banking facilities granted to the Group.

Capital Commitments

The capital commitments of the Group were primarily attributable to construction costs relating to the expansion and renovation of the Group's medical facilities. As at 30 June 2021, the capital commitments in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements were RMB223.3 million (31 December 2020: RMB255.5 million).

Financial Instruments

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

Exposure to Fluctuation in Exchange Rates

The proceeds of raised by the Company in its initial public offering of its H Shares are 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 or 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 30 June 2021, the Group's gearing ratio (total interest-bearing bank loans divided by total equity and multiplied by 100%) was 19.9% (31 December 2020: 18.3%).

INTERIM DIVIDEND

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

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company complied with all 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.

REVIEW OF INTERIM RESULTS

The Company's audit committee has reviewed the Group's interim results for the six months ended 30 June 2021 and has opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

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

The auditor of the Company has also reviewed the Group's interim results for the six months ended 30 June 2021 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF THE 2021 CONDENSED CONSOLIDATED INTERIM RESULTS AND INTERIM REPORT

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

APPRECIATION

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

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

Hong Kong
31 August 2021

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

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

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

Non-executive Director:
Mr. Lv Yubo

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond control of the Group. These forward-looking statements may prove to be incorrect and may not be realised 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.*