Hospital Corporation of China Limited
弘和仁愛醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3869)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

The board (the "**Board**") of directors (the "**Directors**") of Hospital Corporation of China Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**" or "**we**") for the year ended December 31, 2021 (the "**year under review**"), together with the comparative figures in 2020.

FINANCIAL HIGHLIGHTS

	As at December 31, 2021 *RMB'000*	2020 *RMB'000*
Revenue	520,290	399,214
Gross profit margin	41.2%	48.7%
Adjusted gross profit margin(1)	45.5%	55.9%
Loss for the year	(362,396)	(421,069)
Adjusted profit for the year(2)	152,679	143,715
Basic loss per share	(2.031)	(2.926)
Adjusted items		
Expenses of share-based awards and other employee benefit expenses(2)(i)	44,269	2,662
Amortization of identifiable intangible assets identified in acquisitions(2)(iii)	22,281	28,774
(Gains)/losses on fair value change resulting from value change of convertible bonds and foreign exchange (gains)/losses and net gains resulting from convertible bonds extension(2)(ii)	501	(100,432)
Investing and financing related expenses(2)(iv)	538	6,500
Total amount of asset impairment losses on intangible assets and other assets and the reversal of deferred income tax liabilities caused by the impairment on intangible assets(2)(v)	447,486	627,280

Notes:

(1) Adjusted gross profit margin is calculated as the gross profit margin for the year, excluding the impact from the cost of amortization of identifiable intangible assets identified in acquisitions.

(2) The Group recorded a net loss of RMB362.4 million during the year ended December 31, 2021. The adjusted profit for the year (the "**Adjusted Profit for the Year**") is calculated as the profit for the year excluding the impact from certain items which are considered as non-operating by the management, including (i) the relevant expenses of share-based awards of RMB0.1 million and other employee benefit expenses of RMB44.2 million; (ii) the net gains on convertible bonds of RMB12.8 million and foreign exchange losses of RMB13.3 million mainly arising from cash and cash equivalents; (iii) amortization of identifiable intangible assets identified in acquisitions of RMB22.3 million; (iv) finance expenses in relation to other financial liability at an amortized cost of RMB0.5 million; and (v) impairment losses on intangible assets of RMB552.0 million, the reversal of deferred income tax liabilities caused by the impairment on intangible assets of RMB127.5 million and impairment loss on other assets of RMB23.0 million. For the calculation of the Adjusted Profit for the Year, tax impacts of the adjusted items were not considered.

(3) Our net loss recorded during the year ended December 31, 2021 was primarily attributable to the volatile Coronavirus Disease 2019 pandemic and the impacts arising from the policies of medical and healthcare service industry as well as payments for medical insurance such as DRGs and APG (as defined below), which have had negative impact on the financial performance of the Group and have led to impairment losses on relevant intangible assets and goodwill. Impairment losses are one-off non-cash items recorded during the Reporting Period, which have no direct impact on the cash flow of the Group.

CEO'S STATEMENT

Dear Shareholders,

In 2021, the Group continued to unswervingly implement the "Three-step" development strategy, continuously enhanced the quality of hospital assets, optimized the Group's capital structure, and made active exploration and innovation amidst steady business development. Pioneering breakthroughs were made in many aspects, laying a solid foundation for the Group's development towards a medical service group that is reliable, respectable and excellence-pursuing.

I. Review of Operations

This year, COVID-19 pandemic reoccurred frequently in the Yangtze River Delta region, bringing huge pressure on pandemic prevention of hospitals. In the context that external policy environment was further tightened, local governments strengthened the supervision and review of medical care institutions, and the medical reform policies in relation to (Disease) Diagnosis Related Groups ("**DRG**")/Diagnosis-Intervention Packet ("**DIP**") were comprehensively deepened, leading to further decline in the prices of medical service terminals. Faced with a more complex and severe external environment, the Group and the hospital management rose to the challenge, responded proactively, actively fulfilled their social responsibilities, and achieved excellent business results. After summarization and adding up, the hospitals owned, managed and founded by the Group (the "**Group Hospital(s)**") achieved growth in both aggregate revenue and operating profit, and completed the operating targets set at the beginning of the year.

II. Achievements of the Year

Under the guidance of the "Three-step" development strategy, the Group's annual work mainly focused on enhancing the quality of assets and optimizing the capital structure, etc.

(I) Enhancing the quality of assets: The talent team was enriched and talent incentives were implemented; the internal control management and cost control were further strengthened through means such as supply chain and informatization construction, etc.

1. **Further improving the management.** Senior executives such as Chief Financial Officer ("**CFO**") at the group level were introduced. Various Group Hospitals continued to promote the strategy of "hospital subsistence with talents", and realized the "getting younger and localization" of hospital managements.

2. **Construction of the Group's supply chain system.** At the end of 2020, the Group decided to build its own supply chain company. After less than half a year, the Group obtained the Good Supply Practice for Pharmaceutical Products ("**GSP**") certificate and efficiently completed the construction of the team and the procurement process system. At present, business operations have been carried out in the Group Hospitals, providing solid support for the strategic implementation.

3. **Construction of group information system.** Mobile office and information systems relating to group management and control were equipped quickly with a view of adapting to the office needs during pandemic outbreak. The upgrade and renewal of the Hospital Information System ("**HIS system**") for the Group Hospitals was consolidated; the information security protection and the upgrade and transformation of the data center of Zhejiang hospitals were promoted, the interface of "interconnection and mutual recognition" with the provincial medical care management platform was launched, and the DRGs intelligent coding system was imported.

4. **Employee incentives.** A trust platform for employee incentive plans was established, and an overall equity incentive plan was being planned and designed. Under the guidance of the Group, each Group Hospital established a performance-linked evaluation and incentive system for the hospital management.

5. **Functional improvement and cost control of the Group headquarters.** Apart from the Group's Beijing headquarters, the Group's Jinhua Office was established as the second headquarters to facilitate a better radiation management of the Group Hospitals, with Medical Care Management Department undertaking such task. In addition, the Group's Hong Kong Office was established. The cost control of listed companies' intermediary fees and other costs was further strengthened, achieving a substantial reduction compared to that in last year.

(II) Optimizing the capital structure: This year, under the compliance framework for listed companies, the Group made active innovation, further consolidated its listed companies' balance sheet, and optimized the Group's capital structure, through various measures such as impairment of intangible assets and early redemption of Legend Holdings' convertible bonds, etc. Listed companies will go into battle lightly, laying the foundation for future medium and long-term development.

III. Social Responsibility

The state has been actively encouraging and guiding social capital to develop medical care and health services. As an influential medical care group in the Yangtze River Delta, the Group not only provides safe, convenient and dignified medical care services for the common people, but also actively fulfills its social responsibilities, remaining true to its original aspiration.

This year, I emphasized on many occasions that the Group must complete all the tasks assigned by the government in terms of COVID-19 pandemic prevention and control, be "people-oriented" without refusing to accept critically ill patients with the excuse of pandemic prevention and control, and meanwhile ensure the personal protection of employees. By the end of the year, under the new normal of changing pandemic situation, the Group Hospitals responded in an orderly manner, took appropriate measures, and ensured safety of employees. There were no major accidents such as suspension of clinics or business due to the pandemic. The Group Hospitals completed the phased tasks of pandemic prevention and fight against the pandemic, and maintained normal medical care services and good prevention of hospital infection. Recently, Jinhua Guangfu Hospital was approved as a designated backup hospital for COVID-19 infected patients in Jinhua City, showing the Group's willingness to share the worries of the government and solve problems for the masses, and demonstrating the Group's high sense of social responsibility.

In the meantime, the Group also attaches great importance to the benefits and long-term development of employees. Jinhua Guangfu Hospital unanimously approved the Implementation Plan for the Reform of the Supplementary Pension System for Hospital Staff (《醫院職工補充養老制度改革實施方案》) after review, which was a major move in the hospital's implementation of development strategy of "hospital subsistence with talents", and also reflected the Group's "people-oriented" caring culture. The Group also provided assistance for the long-term career development of hospital management and employees through practical actions, e.g. holding the first hospital administrators' management salon and establishing the Group's training center, etc.

IV. Outlook

In 2021, the state successively issued policies for many industries of strong public service attributes. In November, the National Healthcare Security Administration issued the Three-Year Action Plan for the Reform of DRG/DIP Payment Methods (《DRG/DIP 支付方式改革三年行動計畫》), reflecting the state's determination to continuously promote the reform of medical insurance and medical care system to critical stage. Although we are facing a more uncertain external environment, we also firmly believe that the general policy of the state to support, encourage and guide social capital to run medical care services will not change. The Group will ensure legal and compliant operations by persistently abiding by medical care supervision policy and keeping the bottom-line in mind, actively fulfill social responsibilities and provide good services to the masses. The Group has made breakthroughs in many aspects, and the quality of the Group Hospitals has become increasingly solid. In the future, we will continue to follow the established "Three-step" development strategy and take multiple measures to increase the value of the Group in the capital market.

Acknowledgment

I would like to take this opportunity to express my sincere gratitude to our Board, management and all employees of our Group for their dedication during the past year. I would also like to express my appreciation of the enduring support from our shareholders, as well as business partners and friends from the investment sector.

Chen Shuai
Chairman and Acting Chief Executive Officer

Beijing, China
March 29, 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended December 31, 2021 *RMB'000*	2020 *RMB'000*
Revenue	3	520,290	399,214
Cost of revenue		(306,063)	(204,885)
Gross profit		214,227	194,329
Selling expenses		(2,006)	(4)
Administrative expenses		(95,872)	(51,899)
Net impairment losses on financial assets		(26,477)	(15,077)
Impairment losses on intangible assets		(551,981)	(668,219)
Other income – net		7,181	4,803
Other gains – net	4	19,854	136,226
Operating loss		(435,074)	(399,841)
Finance income		6,733	18,420
Finance costs		(20,761)	(54,402)
Loss before income tax		(449,102)	(435,823)
Income tax credit	5	86,706	14,754
Loss for the year		(362,396)	(421,069)
Other comprehensive income		–	–
Total comprehensive loss for the year		(362,396)	(421,069)
Attributable to:			
Owners of the Company		(280,709)	(404,342)
Non-controlling interests		(81,687)	(16,727)
		(362,396)	(421,069)
Loss per share for loss attributable to owners of the Company:			
– Basic loss per share (in RMB)	6(i)	(2.031)	(2.926)
– Diluted loss per share (in RMB)	6(ii)	(2.031)	(2.926)

CONSOLIDATED BALANCE SHEET

	Notes	Year ended December 31, 2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		250,715	145,125
Right-of-use assets		48,458	38,875
Intangible assets		1,637,308	2,208,557
Deferred income tax assets		9,284	3,835
Other receivables, deposits and prepayments		2,374	1,897
Amount due from a related party		–	80,000
Total non-current assets		1,948,139	2,478,289
Current assets			
Inventories		48,033	6,560
Trade receivables	7	114,794	33,945
Other receivables, deposits and prepayments		9,975	2,827
Amounts due from related parties		222,802	271,120
Financial assets at fair value through profit or loss		338,905	90,737
Term deposits		638	–
Cash and cash equivalents		440,428	860,726
Total current assets		1,175,575	1,265,915
Total assets		3,123,714	3,744,204
EQUITY			
Equity attributable to owners of the Company			
Share capital		123	123
Share premium		435,304	435,304
Other reserves		929,345	928,111
Accumulated losses		(566,799)	(283,382)
		797,973	1,080,156
Non-controlling interests		337,854	287,084
Total equity		1,135,827	1,367,240

CONSOLIDATED BALANCE SHEET (Continued)

	Notes	Year ended December 31, 2021 *RMB'000*	2020 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	11	–	34,386
Convertible bonds	9	906,916	1,558,245
Lease liabilities		7,607	692
Employment benefit obligations		42,798	–
Deferred income tax liabilities		178,741	302,301
Accruals, other payables and provisions		325,804	196
Total non-current liabilities		1,461,866	1,895,820
Current liabilities			
Trade payables	8	124,300	16,762
Accruals, other payables and provisions		287,419	85,711
Amounts due to related parties		13,246	22,843
Contract liabilities		1,494	872
Current income tax liabilities		27,030	20,281
Borrowings		71,018	97,309
Lease liabilities		1,514	266
Other financial liability at amortised cost		–	237,100
Total current liabilities		526,021	481,144
Total liabilities		1,987,887	2,376,964
Total equity and liabilities		3,123,714	3,744,204

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Hospital Corporation of China Limited ("the Company") was incorporated in the Cayman Islands on February 21, 2014 as an exempted company with limited liability under the Companies Law (Cap.22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company, together with its subsidiaries (collectively referred to as "the Group"), are principally engaged in (i) operation and management of its privately owned hospital; (ii) provision of management and consultation services to certain not-for-profit hospitals; and (iii) sale of pharmaceutical products in the People's Republic of China (the "PRC").

The Company is controlled by Vanguard Glory Limited ("Vanguard Glory"), a subsidiary of Hony Capital Fund V, L.P., which is considered as the ultimate holding company of the Company.

The ordinary shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited ("the Listing") on March 16, 2017.

The consolidated financial statements is presented in Renminbi ("RMB") and rounded to nearest thousand yuan, unless otherwise stated.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with IFRS and Hong Kong Companies Ordinance

The consolidated financial statements of Hospital Corporation of China Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments) – measured at fair value, and
- Convertible bonds – measured at fair value.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2021:

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

The amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

3 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company that make strategic decisions.

The CODM considers the business from both the service and product perspective. When the Group companies have similar economic characteristics, and the segments are similar in each of the following respects: (i) the nature of the products and services; (ii) the nature of the production processes; (iii) the type or class of customer for their products and services; (iv) the methods used to distribute their products or provide their services; and (v) if applicable, the nature of the regulatory environment, the Group's operating segments are aggregated. In the view of CODM, the Group is principally engaged in three different segments which are subject to different business risks and different economic characteristics.

The Group assesses the performance of the operating segments based on a measure of earnings before interests, income tax, depreciation and amortisation ("EBITDA"). The Group's operating and reportable segments for segment reporting purpose are as follows:

(i) General hospital services

Revenue from this segment is generated in the PRC and derived from hospital services provided by Jiande Hospital of Traditional Chinese Medicine Co., Ltd. ("Jiande Hospital"), Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. ("DJ Pharmaceutical Technology"), Jiande Xinlin Pharmacy Co., Ltd. ("Xinlin Pharmacy") and Shanghai Yangsi Hospital ("Yangsi Hospital").

For general hospital services, revenue primarily derives from highly diversified individual patients and no single patient contributed 1% or more of the Group's respective revenue for the years ended December 31, 2021 and 2020, respectively.

(ii) Hospital management services

Revenue from this segment is generated in the PRC and derived from providing comprehensive management services and receiving management service fee by the relevant not-for-profit hospitals in accordance with relevant hospital management agreements.

(iii) Sale of pharmaceutical products

Revenue from this segment is generated in the PRC and is mainly derived from sale of pharmaceutical products by Zhejiang Dajia Medicines Co., Ltd. ("DJ Medicines") and it's subsidiary Honghe (Jinhua) Pharmaceutical Co., Ltd. ("Jinhua Pharmacy").

(iv) *Unallocated*

The "Unallocated" category mainly represents the headquarter income and expenses.

Segment information about the Group's reportable segment is presented below:

	General hospital services *RMB'000*	**Hospital management services** *RMB'000*	**Sale of pharmaceutical products** *RMB'000*	**Elimination** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Year ended December 31, 2021						
Segment revenue	302,447	232,223	4,375	(18,755)	–	520,290
Inter-segment revenue	(4,011)	(14,744)	–	18,755	–	–
Revenue from external customers	298,436	217,479	4,375	–	–	520,290
Timing of revenue recognition						
– At a point in time	155,526	21,045	4,375	–	–	180,946
– Over time	142,910	196,434	–	–	–	339,344
	298,436	217,479	4,375	–	–	520,290
EBITDA	16,707	(395,772)	(8,678)	–	–	(387,743)
Depreciation	(13,137)	(2,069)	(225)	–	(40)	(15,471)
Amortization	(7,726)	(16,623)	(38)	–	(1,287)	(25,674)
Finance (costs)/income	(4,109)	(110)	(26)	–	(9,783)	(14,028)
Unallocated income – net					(6,186)	(6,186)
Loss before income tax	(8,265)	(414,574)	(8,967)	–	(17,296)	(449,102)
As at December 31, 2021						
Segment assets	847,666	835,467	4,447	(100,322)	427,766	2,015,024
Goodwill	58,495	1,050,195	–	–	–	1,108,690
Total assets	906,161	1,885,662	4,447	(100,322)	427,766	3,123,714
Total liabilities	465,676	178,956	2,616	(100,322)	1,440,961	1,987,887

	General hospital services *RMB'000*	Hospital management services *RMB'000*	Sale of pharmaceutical products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Year ended December 31, 2020					
Segment revenue	171,267	226,888	1,059	–	399,214
Revenue from external customers	171,267	226,888	1,059	–	399,214
Timing of revenue recognition					
– At a point in time	94,601	–	1,059	–	95,660
– Over time	76,666	226,888	–	–	303,554
	171,267	226,888	1,059	–	399,214
EBITDA	(229,402)	(240,312)	(135)	–	(469,849)
Depreciation	(8,578)	(1,868)	(273)	(48)	(10,767)
Amortization	(7,784)	(21,973)	(691)	(1,687)	(32,135)
Finance (costs)/income	(1,854)	498	(25)	(34,601)	(35,982)
Unallocated income-net				112,910	112,910
(Loss)/profit before income tax	(247,618)	(263,655)	(1,124)	76,574	(435,823)
As at December 31, 2020					
Segment assets	401,551	1,290,858	3,290	897,821	2,593,520
Goodwill	58,495	1,082,923	9,266	–	1,150,684
Total assets	460,046	2,373,781	12,556	897,821	3,744,204
Total liabilities	150,854	280,372	1,826	1,943,912	2,376,964

4 Other gains – net

	Year ended December 31, 2021 *RMB'000*	2020 *RMB'000*
Net gains on convertible bonds	12,843	135,185
Net fair value gains on financial assets at FVPL	5,763	1,953
Net losses on disposal of property, plant and equipment	(142)	(2,226)
Others	1,390	1,314
	19,854	136,226

5 Income tax credit

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 25% or 15% for the year ended December 31, 2021 (2020: 25% or 15%).

	Year ended December 31, 2021 *RMB'000*	2020 *RMB'000*
Current income tax:		
– PRC corporate income tax	42,303	35,454
Deferred income tax credit	(129,009)	(50,208)
	(86,706)	(14,754)

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the PRC, the principal place of the Group's operations, as follows:

	Year ended December 31, 2021 *RMB'000*	2020 *RMB'000*
Loss before income tax	(449,102)	(435,823)
Calculated at taxation rate of 25%	(112,276)	(108,956)
Effect of different tax rates and income tax exemption available to different entities of the Group	(3,049)	(34,981)
Expenses not tax deductible	35,436	117,592
Tax effect of unrecognised tax losses	3,330	1,754
Utilization of tax losses in previous years	(2,366)	(3,147)
Withholding tax	8,888	8,998
Others	(16,669)	3,986
Income tax credit	(86,706)	(14,754)

(i) Cayman Islands Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(ii) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% for the year ended December 31, 2021 (2020: 16.5%). No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the years ended December 31, 2021 and 2020.

(iii) PRC Corporate Income Tax ("CIT")

The income tax rate of Tibet Honghe Zhiyuan Business Management Co., Ltd. ("Honghe Zhiyuan"), Honghe Ruixin and Tibet Hongai Business Management Co., Ltd. was 15% for the year ended December 31, 2021 (2020: 15%). Yangsi Hospital was exempted from income tax due to the nature of not-for-profit hospital. The income tax rate of other subsidiaries was 25% for the year ended December 31, 2021 (2020: 25%).

(iv) Withholding Tax

The withholding tax rate of New Pride Holdings limited, Bliss Success Holdings limited and Impeccable Success Limited ("Impeccable Success") was 10% pursuant to PRC Enterprise Income Tax based on the remittance of dividends from subsidiaries in the PRC in the foreseeable future.

6 Loss per share

(i) Basic loss per share

Basic loss per share is calculated by dividing:

- The loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year excluding shares held for employee share scheme.

	Year ended December 31,	
	2021	**2020**
Total loss attributable to owners of the Company (RMB'000)	(280,709)	(404,342)
Weighted average number of ordinary shares in issue (in thousands)	138,194	138,194
Basic loss per share (in RMB)	(2.031)	(2.926)

(ii) Diluted loss per share

The Group had potential dilutive shares during the year ended December 31, 2021 and 2020 related to the convertible bonds. Mainly due to the Group's negative financial results during the year ended December 31, 2021 and 2020, relative convertible bonds have anti-dilutive effect on the Group's loss per share. Thus, diluted loss per share is equivalent to the basic loss per share for the year ended December 31, 2021 and 2020.

7 Trade receivables

	As at December 31,	
	2021	**2020**
	RMB'000	*RMB'000*
Trade receivables	121,533	36,945
Less: provision for impairment of trade receivables	(6,739)	(3,000)
Trade receivables – net	114,794	33,945

The carrying amounts of the Group's trade receivables are denominated in RMB and approximate their fair values.

As at December 31, 2021 and 2020, the aging analysis based on invoice date of the trade receivables was as follows:

	As at December 31,	
	2021	**2020**
	RMB'000	*RMB'000*
1 – 90 days	114,536	33,058
91 – 180 days	4,033	1,465
181 days – 1 year	2,697	2,338
Over 1 year	267	84
	121,533	36,945

8 Trade payables

An aging analysis, based on invoice date, of trade payables as at the consolidated balance sheet dates are as follows:

	As at December 31, 2021 *RMB'000*	2020 *RMB'000*
Within 90 days	112,350	12,729
91 to 180 days	6,203	1,570
181 days to 1 year	2,581	1,219
Over 1 year	3,166	1,244
	124,300	16,762

9 Convertible bonds

The movement of the convertible bonds is as follows:

	Convertible bonds *RMB'000*
As at January 1, 2020	1,693,430
Amortization of premium/(discount) with principal amount at initial recognition	(602)
Fair value change	(71,480)
Other gain/loss on extension of the convertible bonds	(63,103)
As at December 31, 2020	1,558,245
As at January 1, 2021	1,558,245
Amortization of premium/(discount) with principal amount at initial recognition	(1,527)
Fair value change	39,842
Redemption of convertible bonds during the year	(689,644)
As at December 31, 2021	906,916

10 Dividends

No dividend has been declared by the Company for the year ended December 31, 2021 (2020: nil).

11 Borrowings

	As at December 31, 2021			As at December 31, 2020		
	Current *RMB'000*	Non-current *RMB'000*	Total *RMB'000*	Current *RMB'000*	Non-current *RMB'000*	Total *RMB'000*
Bank borrowing						
Secured but unguaranteed (a)	31,018	–	31,018	57,309	34,386	91,695
Unsecured and unguaranteed (b)	40,000	–	40,000	40,000	–	40,000
Total borrowings	71,018	–	71,018	97,309	34,386	131,695

As at December 31, 2021, the Group's borrowings were repayable as follows:

	Bank borrowings	
	2021	**2020**
	RMB'000	*RMB'000*
Within 1 year	71,018	97,309
Between 1 and 2 years	–	34,386
	71,018	131,695

The fair value of the bank loans approximated the carrying amounts since the interest rates of the loans are close to current market rate.

12 Business combination

During the year, the Group had the following event which constituted business combination in accordance with IFRS 3 (Revised) "Business Combinations" ("IFRS 3 (Revised)").

On December 6, 2021, the voting procedure for Yangsi Hospital's executive committee, which has the right to decide material matters and direct the relevant activities of Yangsi Hospital, were amended. Having considered the power of the Group based on the amended rules of procedure for the executive committee, the Group's right to variable returns through management contract and the Group's ability to use the power to influence the returns, in the opinion of the directors, the Group has obtained the practical ability to direct the relevant activities of Yangsi Hospital and control over Yangsi Hospital since the effective date of the amended rules of procedure for the executive committee on December 6, 2021. Accordingly, the assets, liabilities and the operating result of Yangsi Hospital was consolidated in the Group's financial statements thereafter.

Prior to the business combination, the Group recognised an intangible assets amounting to RMB99,280,000, which represented the contractual rights to provide management services to Yangsi hospital. Upon obtaining control and consolidation of Yangsi hospital, the management contract is still effective, while the relevant intangible assets were effectively settled in the consolidated financial statements of the Group.

The major assets acquired through these business combination include, amongst others, inventories, property, plant and equipment, financial assets at FVPL, trade receivables, and cash and cash equivalents.

All net identifiable assets of Yangsi Hospital as of December 6, 2021 is considered as not attributable to the shareholders of the Group and thus presented as non-controlling interests, considering the nature of not-for-profit hospital, which is defined under relevant Chinese law that no part of the earnings of a not-for-profit hospital registered in China constitutes "distributable profits" and no entity or individual may occupy, privately share or misappropriate the assets of not-for-profit hospital.

BUSINESS OVERVIEW

Business positioning

The Group adheres to the "Three-step" development strategy that centers on "strengthening the management and control system, enhancing the quality of assets and exploring new business models". It aims to gradually transform itself from a medical group that principally engaged in merger, acquisition and operation of hospitals into a large medical service technology group. The Group will adopt the following path of business development and management optimization measures to achieve its strategic goals:

- **Strengthening the management and control system.** The Group's objectives were to further establish standards and rules, refine its management and control system, improve the corporate culture, set up a scientific training system and optimize the incentive and binding mechanism for hospital administrators of all Group Hospitals;

- **Enhancing the quality of assets.** Apart from further upgrading the medical service quality of all hospitals, the Group also built the supply chain system, developed the management framework with the informatization system as the fundamental structure to support management, and established the regional medical service network; and

- **Exploring new business models.** In the future, the Group will further enrich its business mix by expanding upstream and downstream services in the industry chain, such as ancillary services of the supply chain and medical waste treatment. With a focus on integrated medical services, it will also explore new business models such as Contract Research Organization ("**CRO**"), biotechnology, intelligent healthcare and big data in healthcare. Meanwhile, it will seek strategic cooperation with major online medical platforms for the joint development of the offline medical industry.

Business layout

Through new construction or investment and M&A, the Group has a number of medical institutions of different classes in densely populated and economically developed regions in China, which form Class III hospitals with comprehensive strength as regional medical centers, and radiate and drive a number of Class II or Class I hospitals, and each regional medical network further forms a group medical system;

Through the establishment of pharmaceutical distribution and medical device sales companies, the Group's "centralized procurement center (集中採購中心)" has been using informatization technology to continuously improve procurement efficiency, reduce procurement costs, boost inventory turnover and increase the efficiency of fund utilization, thereby fully realizing the intensive and large-scale advantages of the Group; and

With its self-developed informatization system as the fundamental structure to support management, the Group carried out an in-depth study of the increasingly abundant data on its healthcare operations to analyze and explore clinical data, operational data and material data in order to continuously enhance the quality of diagnosis and treatment at hospitals, improve operating efficiency, reduce hospital operating costs and explore the application of big data in healthcare. Based on the advantageous brand disciplines of each Group Hospital, the Group built the "internet hospital (互聯網醫院)" in collaboration with major internet medical platforms for the joint development of offline medical assets. It integrated its internal and external medical resources, established a new online and offline integration model of inter-hospital collaboration, collaboration between doctors and doctor-patient communication, so as to continuously increase the service offering and extend the reach of services of the Group and the Group Hospitals, thereby enriching the business development paths.

INDUSTRY OVERVIEW

2021 marked a new start of the medical care and health industry. According to the 14th Five-Year Plan for National Economic and Social Development, the Outline of Vision 2035, and the 14th Five-Year Plan for the medical care and health service system, relevant government departments issued a series of documents relating to regional planning, specialty development, medical insurance management, and supply chain management, which were centered on people's health and themed as high-quality development, in order to accelerate the supply-side structural reform of the medical system. Opportunities and challenges were brought to the development of various medical care institutions. Looking back to 2021, changes and trends of the medical services industry were as follows:

The environment for socially-run medical care institutions became more open. According to the spirit of the Law of the People's Republic of China on Promotion of Basic Medical Care and Health (《中華人民共和國基本醫療衛生與健康促進法》) and the Guiding Principles of the National Health Commission on Printing and Distributing the Planning for the Establishment of Medical Care Institutions (2021-2025) (《國家衛生健康委關於印發醫療機構設置規劃指導原則(2021-2025年)》), the government encouraged and guided social forces to establish medical care and health institutions in accordance with the law, supported and regulated the various types of cooperation in medical services, specialty construction, and personnel training between socially-run medical care institutions and public medical care institutions. Socially-run medical care institutions shall have the same rights as public medical care institutions in the qualification for basic medical insurance designation, key specialty development, research and teaching, grade assessment, approval of special medical technology and titles evaluation of medical care and healthcare staff". There are no planning restrictions on the total regional amount and space of socially-run medical care institutions. The documents gave more space for the development of socially-run medical care institutions, making it conducive for standardized and powerful socially-run medical care institutions to participate in medical services in a fair environment.

The supply-side reform of the medical care industry was further deepened. People's demand for health and well-being was growing, and the problem of unbalanced and insufficient development in the field of medical protection was gradually emerging. According to the requirements of the Outline of Healthy China 2030 Plan (《「健康中國2030」規劃綱要》), the supply-side reform of the medical care industry was further deepened. The National Healthcare Security Administration issued the Three-Year Action Plan for the Reform of DRG/DIP Payment Methods (《DRG/DIP支付方式改革三年行動計劃》); the National Healthcare Security Administration and the Ministry of Finance issued the Notice on Accelerating the Promotion of Cross-provincial Direct Settlement of Outpatient Expenses (《關於加快推進門診費用跨省直接結算工作的通知》) in May; the National Healthcare Security Administration and the National Health Commission issued the Guiding Opinions on Establishing and Improving the "Dual-Channel" Management Mechanism for Reimbursement Negotiation Drugs (《關於建立完善國家醫保談判藥品"雙通道"管理機制》); in June, eight ministries and commissions including the National Healthcare Security Administration jointly issued the Guiding Opinions on Carrying out the Centralized Procurement and Use of High-value Medical Consumables Organized by the State (《關於開展國家組織高值醫用耗材集中帶量採購和使用的指導意見》); in August, eight ministries and commissions including the National Healthcare Security Administration jointly issued the notice on the Pilot Program for Deepening the Reform of Medical Service Prices (《深化醫療服務價格改革試點方案》), and the National Health Commission issued a series of documents such as the 14th Five-Year Plan for National Clinical Specialty Capacity Building (《"十四五"國家臨床專科能力建設規劃》), putting forward new requirements in such aspects as medical insurance reimbursement, settlement methods, supply chain reform, hospital management, etc. The new policies and regulations accelerated the promotion of the DRG/DIP reform. The coverage of reimbursement negotiation drugs expanded from hospitals to pharmacies, and the centralized procurement of high-value consumables was increased. In the future, the prices of medical services will become more reasonable, and the difficulty of inter-provincial settlement is being gradually solved. Facing the challenges and opportunities presented by the deepening of supply-side reform of the medical care industry, medical care institutions must gradually establish a modern hospital management system featuring clearly defined rights and responsibilities, scientific management, perfect governance, efficient operation and powerful supervision, with value-medical care orientation, centering on improving health service quality and level, in accordance with laws, regulations and policy requirements, with a view of adapting to the new situation of medical care reform.

Pandemic prevention work was normalized. With the continuous impact of COVID-19 and its variants Delta and Omicron, etc., domestic medical care institutions endured tests to varying degrees. After two years of anti-pandemic efforts, the government increased investment in public health, and established a scientific and systematic management system in terms of anti-pandemic organization, material reserves, program implementation, and personnel deployment. The anti-pandemic work was more efficient, the prevention and control measures were more precise, and the efficiency was greatly improved. In accordance with the government's requirements of "integration of medical treatment and pandemic prevention, and combination of normal use and emergency", medical care institutions actively prevented and fight against the pandemic, and minimized the impact of the pandemic.

To sum up, with the support of the new medical care reform policy, private medical care groups can take advantage of flexible mechanisms and efficient decision-making to strengthen the construction of talent echelons, integrate specialty resources, and focus on the creation of value specialties and promotion of supply chain through scientific and standardized management, with a view of adapting to the new situation of deepened medical care reform.

RECENT DEVELOPMENTS

Time	**Event**
January 15, 2021	Ms. Kwong Yin Ping Yvonne has tendered her resignation as (i) the company secretary of the Company (the "**Company Secretary**"), (ii) an Authorised Representative; and (iii) a process agent of the Company for accepting on its behalf service of process or notices to be served on the Company in Hong Kong under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and Rule 19.05(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") (the "**Process Agent**") with effect from January 15, 2021. Ms. Ho Wing Yan has been appointed as the Company Secretary, the Authorised Representative and the Process Agent with effect from January 15, 2021.

Time	Event
January 18, 2021	The Board has approved the adoption of the share award scheme (the "**Share Award Scheme**") on January 18, 2021. The purposes of the Share Award Scheme are (i) to encourage or facilitate the holding of shares of the Company by the selected eligible participants of the Share Award Scheme (the "**SAS Eligible Participants**"); (ii) to encourage and retain the SAS Eligible Participants to work with the Group; and (iii) to provide additional incentive for the SAS Eligible Participants to achieve performance goals, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the SAS Eligible Participants with the Company's shareholders through ownership of shares of the Company. Please refer to the announcement of the Company dated January 18, 2021 for further details.
May 2021	The management has streamlined and reviewed the planning and phased progress of the informatization construction of the Group and Group Hospitals since 2019, and confirmed the general strategy of "overall planning, step-by-step implementation" and "promoting construction through evaluation, and investing in batches". Experience summarization and problem analysis were carried out on the core business system upgrade and business process standardization and optimization conducted previously with Jinhua Guangfu Oncological Hospital as the pilot. Based on the aforementioned review, the management of the Group has updated the informatization construction plan and strategy, with more emphasis on starting from the actual business needs and informatization construction level of Group Hospitals, and promoting the improvement of hospital management through more optimized investment in information resources, with leverage on combination of old resource utilization and innovation, in accordance with the supervision and compliance requirements of the local health authorities, and the requirements of medical insurance reform in recent years (such as DRGs/DIP management and control). To this end, while basically maintaining the original informatization construction budget and slightly compressing it, the Group and Group Hospitals carried out structural optimization and invested more resources to improve medical insurance compliance control, medical quality control, as well as business and financial integration.

Time	Event
June 2021	In June 2021, the Group established a wholly-owned supply chain company according to the strategic positioning of the supply chain, obtained the GSP certificate, and efficiently completed the construction of the team and the procurement process system. On the premise of strictly abiding by relevant laws, regulations and regulatory requirements, the Group established a Procurement Management Committee and formulated the Regulated Management System for the Procurement of Drugs and Equipment within the Group (《關於規範集團體系內藥品及設備採購管理制度》) and the Management Specification and Procedures for Procurement Services of Hospital Corporation of China Limited (《弘和仁愛醫療集團採購服務管理規範和流程》) that meet the requirements of the Group's strategic development, to clarify the review and approval procedures related to bidding and procurement, maximize management efficiency and reduce procurement costs and risks. By optimizing and improving the supply chain management system, the Group will be committed to establishing close cooperative relations with the best quality suppliers, and providing the Group with high-quality and low-cost supply chain services, so as to continuously improve the overall medical services and product quality of the Group.
June 22, 2021	Mr. Su Zhiqiang retired from office as a non-executive Director and ceased to be a member of the remuneration committee of the Company (the "**Remuneration Committee**") upon conclusion of the annual general meeting of the Company held on June 22, 2021 due to his other business commitments. Mr. Pu Chengchuan has been elected as an executive Director at the annual general meeting of the Company held on June 22, 2021 and appointed as a member of the Remuneration Committee, effective from the conclusion of the annual general meeting of the Company held on June 22, 2021.

Time	**Event**
July 12, 2021	In view of its anticipated business development, Jiande Hospital (which is owned as to 70% by the Company indirectly and 30% by Hangzhou Jinhoubo Enterprise Management Co., Ltd.* (杭州金厚樸企業管理有限公司, "**Hangzhou Jinhoubo**") directly, and Hangzhou Jinhoubo is in turn held as to 90% by Mr. Hong Jiangxin (洪江鑫) and 10% by Mr. Hong Yang (洪楊)) would include some of the medical consumables and equipment originally purchased from other third parties into the scope of procurement from Zhejiang Dajia Medical Instruments Co., Ltd.* (浙江大佳醫療器械有限公司, "**Zhejiang Dajia**"), and taking into consideration the historical transaction amounts of such medical consumables and equipment purchased from third parties, the Board envisages that the existing annual cap for the transactions contemplated under the Medical Consumables and Equipment Procurement Agreement entered into on 3 June 2019 between Jiande Hospital and Zhejiang Dajia (the "**Medical Consumables and Equipment Procurement Agreement**") for the financial year ending December 31, 2021 will not be sufficient. On July 12, 2021, Jiande Hospital and Zhejiang Dajia entered into a supplemental agreement to revise the annual cap for the continuing connected transactions under the Medical Consumables and Equipment Procurement Agreement for the financial year ending December 31, 2021 from RMB9.0 million to RMB12.0 million. As the agreement entered into on 3 June 2019 between Jiande Hospital and Zhejiang Zhongyouli Medicines Co., Ltd.* (浙江中友力醫藥有限公司, which is directly held as to 49% by Mr. Hong Jiangxin (洪江鑫) and 51% by Mr. Hong Yang (洪楊), "**Zhejiang Zhongyouli**"), pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Zhongyouli agreed to sell, certain types of medicines (the "**Medicine Procurement Agreement**") and the Medical Consumables and Equipment Procurement Agreement would expire on 31 December 2021, on 12 July 2021, the Company entered into a new medicine procurement agreement with Zhejiang Zhongyouli and a new medical consumables and equipment procurement agreement with Zhejiang Dajia for the purpose of renewing the continuing connected transactions contemplated under the Medicine Procurement Agreement and the Medical Consumables and Equipment Procurement Agreement for the three years ending 31 December 2024. Please refer to the announcements of the Company dated July 12, 2021 and June 3, 2019 for details.

Time	Event
August 5, 2021	As one of the conditions to the completion of the acquisition of Oriental Ally Holdings Limited contemplated under the Share Purchase Agreement dated May 29, 2018 (the "**Acquisition of Oriental Ally**"), the Company granted a put option (the "**Put Option**") to Hony 2015 (Shenzhen) Equity Investment Funds Center (Limited Partnership)* (弘毅貳零壹伍(深圳)股權投資基金中心(有限合夥), "**Hony 2015**"), Hony Capital Management (Tianjin) (Limited Partnership)* (弘毅投資管理(天津)(有限合夥), "**Hony Tianjin**") and Hony Kangshou Management Consulting (Shanghai) Co., Ltd.* (弘毅康壽管理諮詢(上海)有限公司, "**Kangshou**", a limited liability company established under the laws of the PRC and held as to 99.9% by Hony 2015 and 0.1% by Hony Tianjin (collectively, the "**Guangsha Minority Shareholders**") under a undertaking letter (the "**Undertaking Letter**"), pursuant to which the Company undertook to acquire the remaining 25% equity interests in Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd.* (浙江弘和致遠醫療科技有限公司, "**Zhejiang Honghe Zhiyuan**", formerly known as Zhejiang Guangsha Medical Technology Co., Ltd* 浙江廣廈醫療科技有限公司) held by Kangshou (the "**Remaining Interests**") (the "**Subsequent Acquisition**"), no later than the date falling on the third anniversary of the date of completion of the Acquisition of Oriental Ally (i.e. on or before August 7, 2021) at the purchase price of not less than RMB210 million plus other reasonable expenses incurred by the Guangsha Minority Shareholders in connection with their investment in Zhejiang Honghe Zhiyuan. The Guangsha Minority Shareholders had informed the Company on August 5, 2021 that they intended to exercise the Put Option to require the Company to acquire the Remaining Interests in accordance with the terms and conditions of the Undertaking Letter. After receipt of the exercise notice, the Company shall enter into definitive agreement(s) in respect of the Subsequent Acquisition with Kangshou, and the Subsequent Acquisition is expected to be effected by way of equity transfer or through alternative transaction structure permitted under the PRC laws and regulations. As at the date of this announcement, the parties are in the process of negotiating the specific terms of the Subsequent Acquisition, including but not limited to, the actual purchase price for the Remaining Interests which shall be determined with reference to a valuation of the Remaining Interest to be conducted by an independent professional valuer appointed by the parties.

Time	Event
	As the board of Directors deems Kangshou as a connected person of the Company for the purpose of the Subsequent Acquisition, the Subsequent Acquisition will constitute a connected transaction of the Company. The Company will comply with the relevant requirements under the Listing Rules with respect to the Subsequent Acquisition in due course, including but not limited to the announcement, circular, appointment of independent financial adviser and shareholders' approval requirements (as applicable). Please refer to the announcements of the Company dated August 5, 2021 and May 29, 2018 and the circular of the Company dated June 24, 2018 for details.
August 12, 2021	In accordance with the terms and conditions of the convertible bonds in the aggregate principal amount of HK$800,000,000 held by Leap Wave Limited ("**Leap Wave**") (the "**LW Convertible Bonds**"), the Company and Leap Wave entered into a deed of amendment to amend certain terms of the LW Convertible Bonds in relation to early redemption, subject to and effective from the fulfilment of certain conditions precedent (the "**Alteration of Terms of LW Convertible Bonds**"). The Alteration of Terms of LW Convertible Bonds was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on October 8, 2021 and was approved by the Stock Exchange subsequently. Please refer to the announcements of the Company dated December 21, 2018, January 16, 2019, February 27, 2019, August 12, 2021 and October 8, 2021 and the circulars of the Company dated January 16, 2019 and September 15, 2021 for details.
October 15, 2021	The Company has served a redemption notice to the Leap Wave to request for early redemption on all outstanding LW Convertible Bonds in the principal amount of HK$800,000,000, pursuant to which, the Company will pay the early redemption amount, being HKD784,000,000, to Leap Wave in accordance with a payment schedule. Following the early redemption of the LW Convertible Bonds, there will be no principal amount of the LW Convertible Bonds outstanding and no LW Convertible Bonds have been or will be converted into shares of the Company. Upon the payment of the early redemption amount in full, the LW Convertible Bonds will be cancelled in whole and the Company will be discharged from all of the obligations under and in respect of the LW Convertible Bonds. Please refer to the announcement of the Company dated October 15, 2021 for details.

Time	Event
December 2021	This year, the Group completed the consolidation of Shanghai Yangsi Hospital, and its financial statements have been included in the Group's consolidated financial statements since December 2021. On July 25, 2017, the General Office of the State Council issued the Guiding Opinions of the General Office of the State Council on Establishing a Modern Hospital Management System (General Office of State Council Circular [2017] No. 67) (《國務院辦公廳關於建立現代醫院管理制度的指導意見》(國辦發[2017]67號)). On December 5, 2019, the National Health Commission issued a model constitution for public hospitals. On February 22, 2021, Shanghai Municipal Government issued the Key Points of Social Organization Work in Shanghai in 2021 (Shanghai Minshe Publication [2021] No. 3) (《2021 年上海市社會組織工作要點》(滬民社登發[2021]3 號)) that mentioned again the revision of the model text of internal management system for social groups and social service organizations, and subsequently issued the Model Text of the Internal Management System for Shanghai Social Service Organizations (《上海市社會服務機構內部管理制度示範文本》). Yangsi Hospital initiatively revised its internal management rules such as the rules of procedure for the council according to the policy theme and based on the business scale, organizational nature and management practice experience of the hospital. After completing the revisions of relevant rules, Shanghai Yangsi Hospital has met the relevant consolidation conditions for the use of accounting standards, so its financial statements have been included in the Group's consolidated financial statements since December 2021.

* *For identification purposes only*

REVIEW OF 2021 ANNUAL PERFORMANCE

Results of Operations

Revenue

Our revenue increased by approximately 30.3% from approximately RMB399.2 million in 2020 to approximately RMB520.3 million in 2021. The table below sets forth the Group's revenue by segment and by services category for the years indicated:

	For the year ended December 31,	
	2021	2020
	RMB'000	*RMB'000*
Revenue	520,290	399,214
– Hospital management services	217,479	226,888
– General hospital services	298,436	171,267
– Sale of pharmaceutical products	4,375	1,059

Hospital management services

Revenue from our hospital management services segment, which consists of the provision of hospital management services to Yangsi Hospital for the period for January 1, 2021 to December 6, 2021, Cixi Union Hospital ("**Cixi Hospital**") and Zhejiang Jinhua Guangfu Oncological Hospital* (浙江金華廣福腫瘤醫院) ("**Jinhua Hospital**"), decreased by approximately 4.1% from approximately RMB226.9 million in 2020 to approximately RMB217.5 million in 2021. The decrease in revenue was mainly attributable to a decrease of RMB11.2 million in management service fee income recognised for providing services to Yangsi Hospital.

General hospital services

Revenue from our general hospital services segment increased by approximately 74.3% from RMB171.3 million in 2020 to approximately RMB298.4 million in 2021. Revenue from this segment increased mainly due to an increase of RMB19.2 million in the revenue from the provision of general hospital services by Jiande Hospital to individual patients as a result of the increase in the number of out-patient and in-patient visits of Jiande Hospital in 2021, and an increase of RMB107.9 million in the revenue from the general hospital services of Yangsi Hospital incorporated into the consolidation starting from December 6, 2021.

Sale of pharmaceutical products

Revenue from sale of pharmaceutical products was derived from the business of Zhejiang Dajia Medicines Co., Ltd. ("**Dajia Medicines**") and its subsidiary, Honghe (Jinhua) Pharmaceutical Co., Ltd. ("**Honghe Jinhua**") , which are indirectly owned as to 70% by Jiande Hexu Enterprise Management Co., Ltd. and are principally engaged in the supply of pharmaceutical products to customers. Revenue from sale of pharmaceutical products increased by RMB3.3 million from approximately RMB1.1 million in 2020 to approximately RMB4.4 million in 2021, mainly due to an increase in Honghe Jinhua's income from the supply of pharmaceutical products to customers.

Cost of revenue

Our cost of revenue increased by approximately 49.4% from approximately RMB204.9 million in 2020 to approximately RMB306.1 million in 2021. The increase in costs was mainly attributable to (i) an increase of approximately RMB64.1 million in cost of inventories; and (ii) an increase of approximately RMB34.4 million in employee benefit expenses.

Administrative expenses

Our administrative expenses increased by approximately 84.7% from approximately RMB51.9 million in 2020 to approximately RMB95.9 million in 2021. The increase in administrative expenses was mainly attributable to an increase of approximately RMB40.5 million in employee benefit expenses.

Impairment losses on intangible assets

For the year ended December 31, 2021, we recorded impairment losses on contractual rights to provide management services and goodwill of approximately RMB410.7 million and RMB141.3 million (2020: approximately RMB201.1 million and RMB467.1 million), which was mainly attributable to impairment losses on relevant intangible assets and goodwill.

Other gains – net

Our other gains – net decreased by approximately RMB116.4 million from approximately RMB136.2 million in 2020 to approximately RMB19.9 million in 2021. The decrease in other gains – net was mainly attributable to the decrease in net gains on changes of fair value of convertible bonds in 2021 of approximately RMB122.3 million.

Other income

We recorded other income of approximately RMB4.8 million and approximately RMB7.2 million for the years ended December 31, 2020 and 2021, respectively, representing a year-on-year increase of approximately 49.5%. The increase was mainly attributable to the increase in government grant received of approximately RMB0.7 million.

Finance income and finance costs

Our finance income decreased by approximately RMB11.7 million from approximately RMB18.4 million in 2020 to approximately RMB6.7 million in 2021, and such decrease was mainly attributable to the decrease of approximately RMB11.7 million in interest income from demand deposit, term deposit, deposit held at call and loan to a related party.

Our finance costs decreased by approximately RMB33.6 million from approximately RMB54.4 million in 2020 to approximately RMB20.8 million in 2021, mainly due to (i) a decrease of approximately RMB21.4 million in foreign exchange losses in relation to cash and cash equivalents, (ii) a decrease in finance expenses in relation to other financial liability at amortized cost of approximately RMB5.3 million and (iii) a decrease of approximately RMB7.3 million in interest expenses on bank borrowings.

Income tax credit

We recorded income tax credit of approximately RMB86.8 million for the year ended December 31, 2021, and income tax credit of approximately RMB14.8 million for the year ended December 31, 2020. The changes of approximately RMB72.0 million was mainly attributable to the decrease of approximately RMB78.8 million in deferred income tax expenses, which was offset by the increase in current income tax expenses of approximately RMB6.8 million.

Loss for the year

We recorded a net loss of approximately RMB362.4 million for the year ended December 31, 2021, representing a decrease of approximately RMB58.7 million from the net loss of approximately RMB421.1 million for the corresponding period. Such decrease was mainly due to the decrease in impairment losses on goodwill and relevant intangible assets of approximately RMB116.2 million, which was offset by (i) the increase in administrative expenses of RMB44.0 million, and (ii) the increase in net impairment losses on financial assets of RMB11.4 million.

Discussion of certain items from the consolidated balance sheet

Cash and cash equivalents

We had cash and cash equivalents of approximately RMB860.7 million and approximately RMB440.4 million as at December 31, 2020 and 2021, respectively. Other than cash flows from operating activities, the decrease of approximately RMB420.3 million in 2021 was primarily attributable to the payment for the convertible bonds of HKD550 million in 2021.

Other receivables, deposits and prepayments

Our other receivables, deposits and prepayments increased by approximately RMB7.6 million from approximately RMB4.7 million as at December 31, 2020 to approximately RMB12.3 million as at December 31, 2021, primarily due to an increase of RMB5.3 million for the prepaid service fees.

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss as at December 31, 2021 amounted to approximately RMB338.9 million, mainly representing monetary funds with floating rates. The monetary funds held by us are low-risk products.

The following table sets out the changes in the monetary funds with floating rates for the year ended December 31, 2021.

	Year ended December 31, 2021
	RMB'000
Opening balance	90,737
Changes as a result of business combination	221,000
Additions	405,850
Settlements	384,445
Gains recognised in other gains – net	5,763
Closing balance	338,905

During the year under review, we bought monetary funds from three financial institutions, which are independent third parties. The purchases of monetary funds do not constitute connected transactions of the Company under the Listing Rules. As all applicable percentage ratios in respect of the purchases of monetary funds from each of the three financial institutions are less than 5% under Rule 14.07 of the Listing Rules, the purchases of monetary funds do not constitute notifiable transactions of the Company under the Listing Rules.

The details of monetary funds that we acquired from 10 financial institutions during the year under review are set out below:

Financial assets at fair value through profit or loss	**Name of monetary funds**	**Balance as at December 31, 2021 (including dividend income)** *RMB*
Monetary Fund	E Fund Longbao Money Market A and B (易方達基金(龍寶貨幣A+B))	4,987,608
Monetary Fund	Gf Fund (廣發基金)	20,314,103
Monetary Fund	Yinhua Duolibao Money Market Fund B (銀華多利寶B)	14,986,018
Monetary Fund	Da Cheng Fund (大成基金)	29,705,298
Monetary Fund	Franklin Templeton Sealand Daily Income Money Market Fund B (國富日日收益貨幣B)	324,470
Monetary Fund	MANULIFE TEDA Money Market Fund (泰達宏利貨幣市場基金)	5,027,068
Monetary Fund	Aegon-Industrial Monetary Market Securities Investment Fund (興全貨幣市場證券投資基金)	22,352,846
Monetary Fund	Huaan Daily Xin Fund (華安日日鑫基金)	17,026,155
Monetary Fund	E Fund Longbao (易方達龍寶)	15,293,822
Monetary Fund	Lion Fund (諾安基金)	13,203,640
Monetary Fund	MANULIFE TEDA Money Market Fund (泰達宏利貨幣市場基金)	9,348,313
Monetary Fund	Agricultural Bank of China Cash Fund B (農業銀行現金寶B)	149,004
Monetary Fund	Gf Fund (廣發基金)	16,085,893
Monetary Fund	Great Wall Fund (長城基金)	101,200

Financial assets at fair value through profit or loss	Name of monetary funds	Balance as at December 31, 2021 (including dividend income) *RMB*
Monetary Fund	ABC Anxin Half-yearly Interval Open-end RMB Wealth Management Product (Sixth Tranche) (Premium) (農銀安心半年開放第六期人民幣理財產品(尊享版))	20,000,000
Monetary Fund	ABC Jiangxin Lingdong 75-day RMB Wealth Management Product (農銀匠心靈動75 天人民幣理財產品)	20,000,000
Monetary Fund	Agricultural Bank Pay at All Time Open-ended RMB Wealth Management Product (農銀時時付開放式人民幣理財產品)	20,000,000
Monetary Fund	"Qianyuan-Huizhong" (Ri Sheng Ji Shu) Open-ended Net Value Wealth Management Product (乾元－惠眾(日申季贖)開放式淨值型理財產品)	20,000,000
Monetary Fund	"Qianyuan-Huizhong" (Ri Sheng Yue Shu) Open-ended Net Value Wealth Management Product (乾元－惠眾(日申月贖)開放式淨值型理財產品)	40,000,000
Monetary Fund	"Qianyuan-Huizhong" (Ri Sheng Zhou Shu) Open-ended Net Value Wealth Management Product (乾元－惠眾(日申周贖)開放式淨值型理財產品)	50,000,000

The financial assets that the Company invested in during the year ended December 31, 2021 are monetary funds with floating rates, which carry lower expected return of principal and risk as compared to stocks or corporate debt issues. These monetary funds focus on short-term securities in the capital markets, and invest in financial instruments such as certificates of deposit and short-term commercial papers with maturities not exceeding one year.

The fundamental objectives of our financial management are safety, liquidity and profitability. In particular, we endeavor to maintain appropriate levels of risk and liquidity while satisfying the capital needs of the Group's operations and strategic developments, with the goal of enhancing the efficiency and profitability on the use of capital. These monetary funds offer liquidity, stable returns and low cost and fees, which allow the Company to meet the redemption needs from time to time in compliance with our financial management principles in managing the Company's idle funds.

Going forward, the Directors consider that it is in the Company's best interest to continue to invest in monetary funds based on our business and operational needs. The Company may deposit the unutilized amount of the net proceeds from the Listing and full exercise of the over-allotment option into short-term demand deposits and money market instruments, as disclosed in the prospectus of the Company dated February 28, 2017 (the "**Prospectus**").

Accruals, other payables and provisions

Our accruals, other payables and provisions were approximately RMB85.9 million and approximately RMB613.2 million as at December 31, 2020 and 2021, respectively. The accruals, other payables and provisions increased by approximately RMB527.3 million, mainly due to (i) the increase of RMB184.6 million in early redemption payables for convertible bonds, (ii) the increase of RMB239.8 million in put option payables and (iii) the increase of RMB61.6 million in employee benefit payables.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2021, our total equity was approximately RMB1,135.8 million (2020: approximately RMB1,367.2 million). As at December 31, 2021, we had current assets of approximately RMB1,175.6 million (2020: approximately RMB1,265.9 million) and current liabilities of approximately RMB526.0 million (2020: approximately RMB481.1 million). As at December 31, 2021, our current ratio was approximately 2.23, as compared with approximately 2.63 as at December 31, 2020.

Our current assets decreased by approximately RMB90.3 million from approximately RMB1,265.9 million as at December 31, 2020 to approximately RMB1,175.6 million as at December 31, 2021, primarily due to the decrease of RMB420.3 million in cash and cash equivalents, which were offset by the increase in the financial assets at fair value through profit or loss of RMB248.2 million. Our current liabilities increased by approximately RMB44.9 million from approximately RMB481.1 million as at December 31, 2020 to approximately RMB526.0 million as at December 31, 2021, primarily due to (i) the increase of RMB107.5 million in trade payables, (ii) the increase of RMB201.7 million in accruals, other payables and provisions, which were offset by the decrease in other financial liability at amortised cost of RMB237.1 million.

Our primary uses of cash in 2021 were for working capital, payment for convertible bonds and payment for financial assets at fair value through profit or loss. We financed our liquidity requirements mainly with cash flows generated from our operating activities. In the year under review, we had net cash generated from operating activities of approximately RMB133.0 million, consisting of approximately RMB167.4 million in net cash inflows generated from our operations before changes in working capital, net cash outflows of approximately RMB0.4 million relating to changes in working capital, cash outflows on income tax paid of approximately RMB35.6 million and interests received of approximately RMB1.6 million. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our loss before income tax of approximately RMB449.1 million, adjusted for non-cash and non-operating items, mainly including impairment losses on intangible assets of approximately RMB552.0 million, gains on fair value change arising from the change in value of convertible bonds of approximately RMB12.8 million, foreign exchange losses of approximately RMB13.3 million arising from cash and cash equivalents, impairment losses on financial assets of approximately RMB26.5 million and depreciation of property, plant and equipment and amortization of intangible assets of approximately RMB41.4 million. Our net cash outflows relating to changes in working capital were primarily attributable to the increase in trade payable of approximately RMB23.3 million and the increase in accruals, other payables and provisions of approximately RMB41.9 million, which were offset by the increase in inventories of approximately RMB14.9 million, the increase in trade receivable of approximately RMB13.4 million and the increase in receivables from related parties of approximately RMB26.4 million.

In the year under review, we had net cash inflows from investing activities of approximately RMB14.0 million, which primarily comprised proceeds from the redemption of financial assets at fair value through profit or loss of approximately RMB381.7 million and the cash received from the acquisition of company of approximately RMB44.4 million, which were offset by payments for financial assets at fair value through profit or loss of approximately RMB405.9 million and payment for property, plant and equipment of approximately RMB12.4 million.

Cash and Borrowings

We had cash and cash equivalents of approximately RMB860.7 million and approximately RMB440.4 million as at December 31, 2020 and 2021, respectively. Our borrowings amounted to approximately RMB71.0 million as at December 31, 2021 (as at December 31, 2020: approximately RMB131.7 million). Of our borrowings, approximately RMB31.0 million bear interest at a floating rate with reference to HIBOR plus 360 basic points and approximately RMB40.0 million bear interest at a fixed rate of 4.30%. The table below sets forth the maturity profile of our borrowings in the years indicated:

	Bank borrowings	
	2021	**2020**
	RMB'000	*RMB'000*
Within 1 year	**71,018**	97,309
Between 1 and 2 years	**–**	34,386
	71,018	131,695

As at December 31, 2021, the net gearing ratio of the Company was approximately 2.3% (net gearing ratio equals borrowing balance divided by total assets). Our Directors believe that, after taking into account the financial resources available to us, including internally generated funds and the net proceeds from the Listing, we have sufficient working capital for our requirements. As at December 31, 2021, the Group did not have any material contingent liabilities or guarantees.

FUTURE PROSPECTS

In 2022, the top priority of the Group remains to be sustaining the recovery and the steady growth of the businesses of the Group Hospitals while maintaining the management of pandemic prevention and control measures. For the Group, this year is the final year of the second step in the "Three-step" development strategy, i.e. "Enhancing the quality of assets". The Group will fully support the talent recruitment and academic development at its Group Hospitals, push forward the establishment of informatization system and group supply chain system, promote synergy of resources within the systems, and build a preliminary medical service network with Jinhua Hospital as the regional center.

In view of the changes in the medical service industry and the increasingly in-depth medical reform policies on DRGs and healthcare associations (醫聯體), the Group will continue its thorough and systematic research and propose effective response plans to identify the right development pattern and path.

The Group will implement operational management and control based on the characteristics of the medical industry. It will enhance the quality of assets and the comprehensive value of the Group Hospitals while providing safe, convenient and dignified medical services to the public, so as to meet their healthcare needs at different stages and levels. By exploring innovative business models and enriching the business mix, the Group aims to transform from a medical group that principally engaged in merger, acquisition and operation of hospitals into a large technological medical service group that is reliable, respectable and excellence-pursuing.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Except for disclosed above, the Group did not undertake any material acquisitions and disposals of subsidiaries, associates and joint ventures from January 1, 2021 until December 31, 2021.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of December 31, 2021, the Group did not have any significant investments or future plans for material investments or capital assets.

EXPOSURE TO FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group mainly operates in the PRC with most of its transactions settled in RMB. Foreign exchange rate risk arises when recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

As at December 31, 2021, the Group was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to USD and HKD.

The Group did not use any derivative financial instruments to hedge foreign exchange risk. The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

PLEDGE OF ASSETS

As at December 31, 2021 and 2020, Impeccable Success has pledged its paid-up equity interests in Zhejiang Honghe Zhiyuan to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch to secure certain loans granted to Jinhua Hospital with a maximum amount of RMB412.5 million.

As at December 31, 2021 and 2020, Zhejiang Honghe Zhiyuan has provided a joint liability to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch in respect of the same loans granted to Jinhua Hospital with a maximum amount of RMB550 million.

Save as disclosed above, as at December 31, 2021, the Group has pledged its assets as security for the Group's and a related party's bank borrowings, details of which are set out in Note 11 to the consolidated financial statements.

FINAL DIVIDEND

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

HUMAN RESOURCES

As at December 31, 2021, we had a total of 1,422 employees (December 31, 2020: 473). We provide wages, employee-related insurance and employee benefits to our employees. Remuneration packages for our employees mainly consist of base salary, welfare and bonus. For the year ended December 31, 2021, the total employee benefits expenses (including Directors' remuneration) were approximately RMB187.2 million (2020: approximately RMB110.4 million).

We set performance targets for our employees based on their position and department, and regularly review their performance. The results of these reviews are used in their salary determinations, bonus awards and promotion appraisals. Our employee-related insurance consists of employee pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance and housing accumulation funds as required by Chinese laws and regulations. The Company has adopted certain share-based payment schemes for the purpose of, among others, providing incentive and rewards to eligible persons with outstanding performance and contributions to the Group.

We provide ongoing training for our employees. Our doctors and other medical professionals regularly receive technical training in their relevant fields. Our administrative and management staff also receive systematic training on management skills and business operations.

USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on March 16, 2017 (the "**Listing Date**"). The net proceeds received by the Company from the global offering and the exercise of the over-allotment option after deducting underwriting commissions and all related expenses was approximately HK$465.6 million. The net proceeds received from the global offering has been and will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated February 28, 2017. All of the unutilized amount has been placed with licensed banks in Hong Kong, and will be utilized in the manner as described in the Prospectus and in accordance with the Company's needs from time to time. An analysis of the utilization of the net proceeds from the Listing Date up to December 31, 2021 is set out below:

	Percentage of the total amount	Net proceeds	Utilized amount up to December 31, 2020	Utilized amount subsequent to December 31, 2020 and up to December 31, 2021	Unutilized amount as at December 31, 2021	Expected time period
		HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	
Strategic acquisition of hospitals in China	50%	232.80	232.80	–	–	–
Further investment in the hospitals we own or manage from time to time (except for not-for-profit hospitals)						
– Purchase of medical and other equipment	11%	51.22	51.22	–	–	–
– Upgrading and improvement of medical facilities	7%	32.59	32.59	–	–	–
Employee training programs at the hospitals we own or manage from time to time, efforts to recruit talents and academic research activities						
– Human resources expenses	6%	27.94	27.94	–	–	–
– Employing medical professionals and experts in business management	5%	23.28	23.28	–	–	–
– Conducting academic research activities and developing employee training programs with a focus on management training and professional training	4%	18.62	12.23	4.20	2.19	The balance is expected to be fully utilized by the end of 2023
Upgrading and improving our information technology system	7%	32.59	28.32	4.27	–	–
Provide funding for our working capital, rental and property related expenses and other general corporate purposes	10%	46.56	46.56	–	–	–
	100%	465.60	454.94	8.47	2.19	

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. Saved as disclosed below, the Board considers that, during the year under review, the Company has complied with the applicable code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

Provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Shan Guoxin has resigned as the Chief Executive Officer and Mr. Zhao John Huan has resigned as the chairman of the Board with effect from June 23, 2020. On the same date, Mr. Chen Shuai ("**Mr. Chen**") has been appointed as the chairman of the Board and the acting Chief Executive Officer. Mr. Chen will only serve as the acting Chief Executive Officer until the Board appoints a new Chief Executive Officer. The Board is in the course of identifying suitable candidate to fill the position of Chief Executive Officer in order to comply with provision C.2.1 of the CG Code again, and believes that the appointment of Mr. Chen as the acting Chief Executive Officer will ensure the normal operation of the Company in the meantime and is in the interests of the Company and its shareholders as a whole.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and relevant employees (who likely possess inside information of the Company) on terms no less stringent than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiries with all Directors, the Company confirms that all Directors have complied with the Model Code throughout the year ended December 31, 2021.

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference. The Audit Committee consists of two independent non-executive Directors, namely Mr. Zhou Xiangliang (Chairman) and Mr. Shi Luwen, and a non-executive Director, Ms. Shi Wenting. The final results of the Group for the year ended December 31, 2021, including the accounting principles and practices adopted by the Group, have been reviewed by all the members of the Audit Committee. The Audit Committee is of the opinion that such financial statements comply with applicable accounting standards, the Listing Rules and all other applicable legal requirements.

EVENTS AFTER THE YEAR UNDER REVIEW

On February 16, 2022, the Group acquired the entire equity interests of Hangzhou Jingyouzhi Enterprise Management Company Limited (杭州靜有智企業管理有限公司) ("**Hangzhou Jingyouzhi**") (holding 30% of the equity interests in Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. (建德大家中醫藥科技有限公司) ("**DJ Pharmaceutical Technology**") and DJ Medicines and controlling 30% of the equity interests in Jiande Hospital). The Group, through Hangzhou Jingyouzhi, indirectly holds 30% equity interests in DJ Medicines and DJ Pharmaceutical Technology, and indirectly controls 30% of the equity interests in Jiande Hospital through a series of structured contracts. This acquisition contributed to revenue for the sale of pharmaceutical products and general hospital services businesses that the Group engaged in.

Please refer to the announcement of the Company dated February 16, 2022 and the 2017 announcements of the Company for details.

Save as disclosed above, the Group had no significant events after December 31, 2021 and up to the date of this announcement.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income, and the related notes thereto for the year ended December 31, 2021 as set out in this preliminary announcement have been agreed by the Company's auditor, PricewaterhouseCoopers (the "**Auditor**"), as to the amounts set out in the Group's audited consolidated financial statements for the year ended December 31, 2021. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor on the preliminary announcement.

* *For identification purposes only*

By Order of the Board
Hospital Corporation of China Limited
Chen Shuai
Chairman

Beijing, China, March 29, 2022

As at the date of this announcement, the Directors of the Company are Mr. CHEN Shuai, Mr. LU Wenzuo, Mr. PU Chengchuan and Ms. PAN Jianli being the executive Directors; Ms. LIU Lu and Ms. WANG Nan being the non-executive Directors; Mr. DANG Jinxue, Mr. SHI Luwen and Mr. ZHOU Xiangliang being the independent non-executive Directors.