弘和仁愛
HOSPITAL CORPORATION

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

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 3869

2021
Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Shuai (陳帥) *(Chairman and Acting Chief Executive Officer)*
Mr. Lu Wenzuo (陸文佐)
Mr. Pu Chengchuan (蒲成川) *(appointed on June 22, 2021)*
Ms. Pan Jianli (潘建麗) *(appointed on March 29, 2022)*

Non-executive Directors

Mr. Su Zhiqiang (蘇志強) *(resigned on June 22, 2021)*
Ms. Liu Lu (劉路)
Ms. Wang Nan (王楠)
Ms. Shi Wenting (石文婷) *(resigned on March 29, 2022)*

Independent Non-executive Directors

Mr. Dang Jinxue (党金雪)
Mr. Shi Luwen (史錄文)
Mr. Zhou Xiangliang (周向亮)

AUDIT COMMITTEE

Mr. Zhou Xiangliang (周向亮) *(Chairman)*
Mr. Shi Luwen (史錄文)
Ms. Shi Wenting (石文婷) *(resigned on March 29, 2022)*
Mr. Dang Jinxue (党金雪) *(appointed on March 29, 2022)*

REMUNERATION COMMITTEE

Mr. Dang Jinxue (党金雪) *(Chairman)*
Mr. Pu Chengchuan (蒲成川) *(appointed on June 22, 2021)*
Mr. Zhou Xiangliang (周向亮)
Mr. Su Zhiqiang (蘇志強) *(resigned on June 22, 2021)*

NOMINATION COMMITTEE

Mr. Chen Shuai (陳帥) *(Chairman)*
Mr. Shi Luwen (史錄文)
Mr. Dang Jinxue (党金雪)

COMPANY SECRETARY

Ms. Ho Wing Yan (何詠欣) *(ACG, HKACG(PE))*

AUTHORISED REPRESENTATIVES

Mr. Chen Shuai (陳帥)
Ms. Ho Wing Yan (何詠欣) *(ACG, HKACG(PE))*

LISTING INFORMATION AND STOCK CODE

The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")
Stock Code: 3869

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Hospital Corporation of China Limited (the "**Company**" and together with its subsidiaries, the "**Group**", "**we**", "**our**" and "**us**")
4th Floor, Air China Century Plaza,
No.40, Xiaoyun Road, Chaoyang District, Beijing,
The People's Republic of China ("**PRC**")

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 10, 70/F, Two International Finance Centre,
No. 8 Finance Street, Central,
Hong Kong

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

COMPANY'S WEBSITE

www.hcclhealthcare.com

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and Registered PIE Auditor

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	The year ended December 31, 2021		The year ended December 31, 2020		The year ended December 31, 2019		The year ended December 31, 2018		The year ended December 31, 2017	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Revenue	520,290	100.0	399,214	100.0	410,883	100.0	383,610	100.0	149,158	100.0
Cost of revenue	(306,063)	(58.8)	(204,885)	(51.3)	(237,017)	(57.7)	(231,478)	(60.3)	(61,320)	(41.1)
Gross profit	214,227	41.2	194,329	48.7	173,866	42.3	152,132	39.7	87,838	58.9
Selling expenses	(2,006)	(0.4)	(4)	(0.0)	(9)	(0.0)	(204)	(0.1)	–	–
Administrative expenses	(95,872)	(18.4)	(51,899)	(13.0)	(64,535)	(15.7)	(63,322)	(16.5)	(53,706)	(36.0)
Net impairment losses on financial assets	(26,477)	(5.1)	(15,007)	(3.8)	(1,581)	(0.4)	–	–	–	–
Impairment losses on intangible assets	(551,981)	(106.1)	(668,219)	(167.4)	–	–	–	–	–	–
Other gains/(losses) – net	19,854	3.8	136,226	34.1	65,838	16.0	(57,635)	(15.0)	(120)	(0.1)
Other income – net	7,181	1.4	4,803	1.2	3,453	0.8	2,874	0.7	3,742	2.5
Operating (loss)/profit	(435,074)	(83.6)	(399,841)	(100.2)	177,032	43.1	33,845	8.8	37,754	25.3
Finance (costs)/income – net	(14,028)	(2.7)	(35,982)	(9.0)	18,534	4.5	(15,962)	(4.1)	(18,526)	(12.4)
(Loss)/profit before income tax	(449,102)	(86.3)	(435,823)	(109.2)	195,566	47.6	17,883	4.7	19,228	12.9
Income tax credit/(expense)	86,706	16.7	14,754	3.7	(26,120)	(6.4)	(41,304)	(10.8)	(22,912)	(15.4)
(Loss)/profit for the year	(362,396)	(69.7)	(421,069)	(105.5)	169,446	41.2	(23,421)	(6.1)	(3,684)	(2.5)
Profit from discontinued operation	–	–	–	–	–	–	–	–	12,882	8.6
(Loss)/profit for the year	(362,396)	(69.7)	(421,069)	(105.5)	169,446	41.2	(23,421)	(6.1)	9,198	6.2
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Total comprehensive (loss)/income for the year	(362,396)	(69.7)	(421,069)	(105.5)	169,446	41.2	(23,421)	(6.1)	9,198	6.2

CONSOLIDATED ASSETS AND LIABILITIES

	As of December 31,				
	2021	2020	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**3,123,714**	3,744,204	4,454,969	3,805,851	1,965,516
Total liabilities	**1,987,887**	2,376,964	2,637,129	2,137,867	403,391
Total equity	**1,135,827**	1,367,240	1,817,840	1,667,984	1,562,125

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 Group's 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 the Company's 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. The Company 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, the Group emphasized on many occasions that it 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, Zhejiang Jinhua Guangfu Oncological Hospital ("**Jinhua 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 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劃》), 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 the board (the "**Board**") of directors ("**Directors**"), management and all employees of the 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

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 Group 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 medical system of the Group;

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 (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.
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.

Time	Event
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 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.
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.

Time	Event
	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 of Traditional Chinese Medicine Co., Ltd. ("**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 medical procurement agreement (the "**Medical Procurement 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**"), and the Medical Consumables and Equipment Procurement Agreement between Jiande Hospital and Zhejiang Dajia both 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.

* *For identification purposes only*

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.

* *For identification purposes only*

Time	Event
	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 report, 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. 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.

Time	Event
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	The Group completed the consolidation of Shanghai Yangsi Hospital ("**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, 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.

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 report.

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 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 the impairment losses on relevant intangible assets and goodwill.

As the business was further affected by the Coronavirus Disease 2019 during 2021 and in view of the impacts arising from the policies of medical and healthcare service industry as well as payments for medical insurance such as DRGs and APG since April 2021, and a change in business relationship of a pharmaceutical products sales company of the Group in the second half of 2021, the management of the Group estimated that such factors would have an adverse effect on the Group's financial results, and the Group had conducted interim and annual reviews on intangible assets and goodwill in 2021 to assess the expected recoverable amount of the above-mentioned intangible assets and goodwill. Such assessment requires the use of estimates and professional judgements, and the Group involved an external valuer to perform assessment on the expected recoverable amount of intangible assets and goodwill based on fair value less costs of disposal and value in use calculation. As the above intangible assets and goodwill had no stand-alone selling price and active market, the valuers adopted the cash flow estimates covering an eight-year period based on reasonable and supportable assumptions set up by the management of the Group, and assessed the expected recoverable amounts through income approach, which was the same assessment method used in the previous period. During the interim and final assessments in 2021, changes in the inputs and key assumptions were attributable to the change in cash flow estimates caused by the change in financial performance and business relationship adjustment of the relevant CGUs. Pursuant to the assessment results, the Group recorded impairment losses on intangible assets and goodwill, details of which are set out in Note 16 to the consolidated financial statements. In response to the effect of relevant policies, we will perform business structural adjustment to ensure the result performance of the Group in the future.

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
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 RMB41.1 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 30 and 40 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). The increase of employee was mainly due to the fact that Yangsi Hospital was included in the consolidation scope from December 6, 2021, and the employee of Yangsi Hospital was included in the statistic. 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.

The Board is pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended December 31, 2021.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is a hospital operation and management company in China, led by a professional team with extensive hospital management experience. The Group is principally engaged in (i) the operation and management of its privately owned hospitals; (ii) the provision of management and consultancy services to certain not-for-profit hospitals; and (iii) the sale of pharmaceutical products in China.

Segment analysis of the Company for the year ended December 31, 2021 is set out in Note 5 to the consolidated financial statements. A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/registered share capital, is set out in Note 11 to the consolidated financial statements.

A discussion and analysis of the activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a fair review of the business, particulars of important events affecting the Group that have occurred since the end of the year ended December 31, 2021, and an indication of likely future developments in the Group's business, can be found in the "CEO's Statement", "Management Discussion and Analysis" and "Environmental, Social and Governance Report" sections in this annual report. These discussions form part of this report of the Directors. Further discussions on the principal risks and uncertainties facing the Company, the Company's environmental policies and performance and compliance with relevant laws and regulation are set out on pages 64 to 66 of this report.

Save as disclosed on page 22 of this annual report, there is no significant subsequent event undertaken by the Company or by the Group from January 1, 2022 to the date of this report.

FINANCIAL RESULTS

The results of the Group for the year ended December 31, 2021 are set out in the consolidated statement of comprehensive income on page 101 of this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the years ended December 31, 2017, 2018, 2019, 2020 and 2021, as set out on page 4 of this annual report, is extracted from the audited consolidated financial statements.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year ended December 31, 2021 are set out in Note 25 to the consolidated financial statements. As of the date of this report, the total share capital of the Company was HK$138,194 divided into 138,194,000 Shares of HK$0.001 each.

FINAL DIVIDEND

As a Cayman Islands company, any dividend recommendation will be at the absolute discretion of the Directors. The Company may declare dividends after taking into account its results of operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, and other factors as the Directors may deem relevant at such time.

PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which may differ from generally accepted accounting principles in other jurisdictions, including IFRS. Some of the Company's subsidiaries in China that are foreign-invested enterprises have set aside part of their net profit as statutory reserves, in accordance with the requirements of relevant PRC laws and the provisions of their respective articles of association. These portions of net profit of the Company's subsidiaries are not available for distribution as cash dividends. Distributions from the Company's subsidiaries may also be restricted if they incur debt or losses, or are subject to any restrictive covenants in bank credit facilities or other agreements that the Company or its subsidiaries may enter into. Since we rely on dividends from our PRC subsidiaries as a source of funding for the payment of dividends, these restrictions may limit or completely prevent us from paying dividends.

Any declaration and payment of dividends, as well as the amount thereof, will be subject to the articles of association of the Company (the "**Articles**") and the Companies Law of the Cayman Islands (the "**Cayman Companies Law**"). Shareholders of the Company may, at general meetings, approve and make any declaration of dividends, which must not exceed the amount recommended by the Directors. No dividend may be declared or paid except out of our profits or reserves set aside from profits at the Directors' discretion. Dividends may also be declared and paid out of the share premium account of the Company in accordance with the Cayman Companies Law and the Articles, provided that no dividend may be paid out of the Company's share premium account unless the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend is proposed to be paid.

The Board does not recommend the payment of a final dividend for the year ended December 31, 2021 (2020: nil).

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders of the Company by reason of their holding of the Company's securities.

RESERVES

Details of the movements in the reserves of the Group during the year ended December 31, 2021 are set out in Note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2021, the Company had distributable reserves of approximately RMB389.4 million.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements of our property, plant and equipment during the year ended December 31, 2021 are set out in Note 14 to the consolidated financial statements.

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. 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 *HK$ million*	Utilized amount up to December 31, 2020 *HK$ million*	Utilized amount subsequent to December 31, 2020 and up to December 31, 2021 *HK$ million*	Unutilized amount as at December 31, 2021 *HK$ million*	Expected time period
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	

CONVERTIBLE BONDS

Vanguard Convertible Bonds

In view of the Group's substantial need to fund our future acquisitions, the Company and Vanguard Glory Limited ("**Vanguard Glory**"), a shareholder holding 70.19% of the Company's issued share capital, entered into a subscription agreement on January 25, 2018, pursuant to which, on March 5, 2018, the Company issued and Vanguard Glory subscribed for convertible bonds in the principal amount of HK$468 million ("**Vanguard Convertible Bonds**") with an initial conversion price of HK$18.00 per conversion share. The Vanguard Convertible Bonds will mature three years upon their issuance or may be converted into 26,000,000 ordinary shares of the Company (assuming the conversion rights are exercised in full and subject to adjustment). Upon maturity, the Company will redeem all outstanding Vanguard Convertible Bonds at its principal amount.

On December 17, 2020, in accordance with the terms and conditions of the Vanguard Convertible Bonds, the Company and Vanguard Glory entered into a deed of amendment to alter certain terms of the Vanguard Convertible Bonds, subject to and effective from fulfilment of the conditions precedent (the "**Alteration of Terms of Vanguard Convertible Bonds**").

Pursuant to the Alteration of Terms of Vanguard Convertible Bonds, (i) the maturity date of the Vanguard Convertible Bonds shall be extended from March 5, 2021 to December 29, 2023; and (ii) in the event that the shares of the Company cease to be listed or admitted to trading on the Stock Exchange, each bondholder shall have the right, at such bondholder's option, to require the Company to redeem, in whole or in part (i.e. rather than in whole only), such bondholder's Vanguard Convertible Bonds.

The Alteration of Terms of Vanguard Convertible Bonds was approved by the Shareholders other than Vanguard Glory at the extraordinary general meeting of the Company held on February 22, 2021 and was approved by the Stock Exchange subsequently.

Please refer to the announcements of the Company dated December 17, 2020 and February 22, 2021 and the circular of the Company dated January 29, 2021 for further details.

The market price of the Company's shares on January 25, 2018, being the date on which the terms of the issuance of the Vanguard Convertible Bonds were determined, was HK$15.00 per share.

The net proceeds from the Vanguard Convertible Bonds, after deducting all related costs and expenses, was approximately HK$467 million. The net proceeds of approximately HK$405 million were used to acquire Cixi Hongai Medical Management Co., Ltd. ("**Cixi Hongai**") in March 2018. As at December 31, 2021, the remaining net proceeds of approximately HK$62 million were placed in the bank account of the Group opened with licensed banks in Hong Kong, and was expected to be utilized in accordance with the use of proceeds as referred to in the circular of the Company dated February 13, 2018. The unutilized amount of the net proceeds will be used for acquisitions of other hospitals or hospital management businesses by the Group. The Directors believe that it is fair and reasonable, and in the interests of the Company and its shareholders as a whole. As at December 31, 2021, the analysis of use of the net proceeds is as follows:

	Percentage of the total amount	**Net proceeds**	**Utilized amount**	**Unutilized amount**	**Expected time period**
		HK$ million	*HK$ million*	*HK$ million*	
Acquisition of Cixi Hongai	45%	211	405	–	–
Acquisitions of other hospitals or hospital management businesses	55%	256	–	62	The balance is expected to be fully utilized by 2023
Total	100%	467	405	62	

As at December 31, 2021, none of the Vanguard Convertible Bonds has been converted into shares of the Company. Details of the Vanguard Convertible Bonds were disclosed in the announcement and circular of the Company dated January 25, 2018 and February 13, 2018, respectively.

Dilution Impact on Earnings per Share

As calculated based on loss attributable to owners of the Company of approximately RMB280.7 million for the year ended December 31, 2021, basic and diluted losses per share of the Company amounted to RMB2.031 and RMB2.031, respectively.

Based on the implied internal rate of returns of the Vanguard Convertible Bonds, the Company's share prices at the future dates at which it would be equally financially advantageous for the holders of the Vanguard Convertible Bonds to convert were as follows:

Date	**December 29, 2023**
	(HK$ per Share)
Share price	18.0

Hony Convertible Bonds

On May 29, 2018, the Company and Hony Capital Fund VIII (Cayman), L.P. ("**Hony Fund VIII**") entered into a share purchase agreement (the "**Share Purchase Agreement**") in relation to the sale and purchase of the entire equity interest in Oriental Ally Holdings Limited ("**Oriental Ally**"), a company incorporated in the British Virgin Islands with limited liability and owned by Hony Fund VIII, at a consideration of RMB630,000,000 (equivalent to approximately HK$773,879,717).

Oriental Ally is an investment holding company, which directly owns 100% of the equity interest in Impeccable Success Limited ("**Impeccable Success**"), which in turn directly owns 75% of the equity interest in Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. ("**Zhejiang Honghe Zhiyuan**") (collectively referred to as the "**Target Group**"). The Target Group is principally engaged in the provision of management and consultation services to a not-for-profit hospital, Jinhua Hospital, in the PRC.

On August 7, 2018, the acquisition was completed, and Oriental Ally became a subsidiary of the Company. The Company directly holds 100% of the equity interest in Oriental Ally. Through Oriental Ally, the Company indirectly holds 75% of the equity interest in Zhejiang Honghe Zhiyuan. The remaining 25% equity interest held by Hony Kangshou Management Consulting (Shanghai) Co., Ltd. shall be recognized as a non-controlling interest. The consideration was satisfied by the issuance of the convertible bonds (the "**Hony Convertible Bonds**") in the aggregate principal amount of HK$773,879,717 by the Company to Hony Fund VIII on the completion date of the acquisition pursuant to the Share Purchase Agreement. On August 7, 2018, the Hony Convertible Bonds were issued in registered form in the denomination of HK$1.00 each provided that in no event shall any Hony Convertible Bonds be transferred, exchanged, converted or purchased in an aggregate principal amount less than HK$1.00. The Hony Convertible Bonds will mature five years from their issuance or may be converted into 38,693,985 ordinary shares of the Company (assuming the conversion rights are exercised in full and subject to adjustment) at the holder's option at the conversion price of HK$20.00 per conversion share (subject to adjustment to the conversion price). Upon maturity, the Company will redeem all outstanding Hony Convertible Bonds at its principal amount.

The market price of the Company's shares on May 29, 2018, being the date on which the terms of the issuance of the Hony Convertible Bonds were determined, was HK$20.10 per share.

As at December 31, 2021, none of the Hony Convertible Bonds has been converted into shares of the Company. Details of the Hony Convertible Bonds have been disclosed in the announcement and circular of the Company dated May 29, 2018 and June 24, 2018, respectively.

Dilution Impact on Earnings per Share

As calculated based on loss attributable to owners of the Company of approximately RMB280.7 million for the year ended December 31, 2021, basic and diluted losses per share of the Company amounted to RMB2.031 and RMB2.031, respectively.

Based on the implied internal rate of returns of the Hony Convertible Bonds, the Company's share prices at the future dates at which it would be equally financially advantageous for the holders of the Hony Convertible Bonds to convert were as follows:

Date	August 7, 2023 *(HK$ per Share)*
Share price	20.0

LW Convertible Bonds

In view of the Group's need for further financing to fund our future acquisitions, on December 21, 2018 and January 16, 2019, the Company and Leap Wave entered into a subscription agreement and an amendment agreement respectively, pursuant to which the Company agreed to issue and Leap Wave agreed to subscribe for convertible bonds (the "**LW Convertible Bonds**") in the aggregate principal amount of HK$800,000,000 at a total consideration equal to the aggregate principal amount of the convertible bonds. On February 27, 2019, the LW Convertible Bonds were issued in registered form in the denomination of HK$1.00 each. The LW Convertible Bonds will mature five years from their issuance or may be converted into 40,000,000 ordinary shares of the Company (assuming the conversion rights are exercised in full and subject to adjustment) at the holder's option at the conversion price of HK$20.00 per conversion share (subject to adjustment to the conversion price). Upon maturity, the Company shall redeem in whole the LW Convertible Bonds with the redemption amount calculated in accordance with the following formula: principal amount of outstanding convertible bonds + principal amount of outstanding convertible bonds × 6% × 5.

The market price of the Company's shares on January 16, 2019, being the date on which the terms of the issuance of the LW Convertible Bonds were determined, was HK$16.18 per share.

On August 12, 2021, in accordance with the terms and conditions of the LW Convertible Bonds, the Company and Leap Wave entered into a deed of amendment for the Alteration of Terms of LW Convertible Bonds in relation to early redemption (the "**Early Redemption**"), subject to and effective from the fulfilment of certain conditions precedent.

The Alteration of Terms of LW Convertible Bonds was approved by the Shareholders at the extraordinary general meeting of the Company held on October 8, 2021 and was approved by the Stock Exchange subsequently.

The terms of LW Convertible Bonds has been amended as follows:

(i) The existing arrangements with respect to early redemption shall be replaced in entirety with the following:

With prior written consent of the Company and the Bondholder, the outstanding Convertible Bonds may be redeemed in whole by the Company prior to the Maturity Date at the mutually agreed Early Redemption Amount calculated in accordance with the following formula:

Early Redemption Amount = Principal amount of the outstanding Convertible Bonds as of the redemption date x 98%.

(ii) The following payment arrangements with respect to early redemption shall be added:

With prior written consent of the Company and the Bondholder, in the event of an early redemption, the Company may pay the Early Redemption Amount to the Bondholder in instalments. The detailed instalment schedules shall be agreed between the Company and the Bondholder and set out in the redemption notice to be served by the Company to the Bondholder. No interest shall accrue on any unpaid Early Redemption Amount during the instalment period, unless where the Company fails to pay the agreed instalments on the corresponding payment dates, default interest (i.e. 5% per annum) shall accrue on the overdue amount in accordance with the existing terms of the Convertible Bonds.

On October 15, 2021, the Company has served a redemption notice to 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 the following payment schedule:

Payment dates	Instalment amount *(HKD in millions)*
October 20, 2021	550
July 31, 2022	120
July 31, 2023	114
Total Early Redemption Amount:	784

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. 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.

Dilution Effect of the Conversion of the Vanguard Convertible Bonds and the Hony Convertible Bonds

Set out below is the dilution effect on equity interest of the substantial Shareholders upon the full conversion of the outstanding Vanguard Convertible Bonds and the outstanding Hony Convertible Bonds.

Substantial Shareholders	As at December 31, 2021		Immediately upon full conversion of the Vanguard Convertible Bonds and the Hony Convertible Bonds	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
Vanguard Glory	97,000,000	70.19	123,000,000	60.62
Hony Fund VIII	0	0.00	38,693,985	19.07
Anhui Zhong'an LP	9,098,800	6.58	9,098,800	4.48

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.

DIRECTORS

During the year and up to the date of this report, the Directors were:

Executive Directors:

Mr. Chen Shuai *(Chairman and Acting Chief Executive Officer)*
Mr. Lu Wenzuo
Mr. Pu Chengchuan *(appointed on June 22, 2021)*
Ms. Pan Jianli *(appointed on March 29, 2022)*

Non-executive Directors:

Mr. Su Zhiqiang *(resigned on June 22, 2021)*
Ms. Shi Wenting *(resigned on March 29, 2022)*
Ms. Liu Lu
Ms. Wang Nan

Independent non-executive Directors:

Mr. Dang Jinxue
Mr. Shi Luwen
Mr. Zhou Xiangliang

Biographical details of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 67 to 77 of this annual report.

Mr. Lu Wenzuo, Ms. Pan Jianli, Mr. Dang Jinxue and Mr. Zhou Xiangliang shall retire by rotation at the forthcoming annual general meeting of the Company (the "**AGM**"). Ms. Liu Lu and Ms. Wang Nan shall also voluntarily retire at the AGM. All of the aforementioned retiring Directors, being eligible, will offer themselves for re-election at the AGM.

DISCLOSURE OF DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Changes in the information of Directors required to be disclosed under Rule 13.51B(1) of the Listing Rules are set out below:

Mr. Dang Jinxue, an independent non-executive Director of the Company, has been appointed as a member of the Audit Committee of the Company with effect from March 29, 2022.

DIRECTORS' SERVICE CONTRACTS

None of the Directors offering themselves for re-election at the AGM has a service contract with the Company which is not determinable within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND COMPETING BUSINESS

Save as disclosed under Note 40 "Significant related party transactions" to the consolidated financial statements and the section headed "Convertible Bonds" in this report, no transaction, arrangement or contract of significance (as defined in Appendix 16 to the Listing Rules) in relation to our business to which the Company, its holding company or any of its subsidiaries was a party and in which a Director or controlling shareholder of the Company had a material interest, either directly or indirectly, subsisted at any time during or at the end of the year ended December 31, 2021.

As of December 31, 2021, none of the Directors was interested in any businesses other than our business which competes or is likely to compete with our business, either directly or indirectly or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, at no time during the year ended December 31, 2021 did the Company or any of its subsidiaries enter into any contract of significance with a controlling shareholder of the Company or any of its subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries.

CONTINUING CONNECTED TRANSACTIONS

On June 3, 2019, Jiande Hospital, an indirect non-wholly owned subsidiary of the Company, entered into the following agreements which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules:

(i) Medicine Procurement Agreement with Zhejiang Zhongyouli, pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Zhongyouli agreed to sell, certain types of medicines from time to time during the term of the Medicine Procurement Agreement, for a three years' term ending on December 31, 2021. For medicines listed in the 2018 Medical Insurance Price Catalog of Zhejiang Province (浙江省二零一八年醫保支付價目錄), the purchase price shall be determined in accordance with the price of the winning bid of supplying medicine to the medical insurance of Zhejiang Province. For medicines not listed in the 2018 Medical Insurance Price Catalog of Zhejiang Province (浙江省二零一八年醫保支付價目錄), the purchase price shall be determined in accordance with the purchase price of the same medicine on the Medicine Bidding and Purchasing Platform of Zhejiang Province (浙江省藥品招標採購平台); and

(ii) Medical Consumables and Equipment Procurement Agreement with Zhejiang Dajia, pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Dajia agreed to sell, certain medical consumables and equipment from time to time during the term of the Medical Consumables and Equipment Procurement Agreement, for a three years' term ending on December 31, 2021. The purchase price shall be more favorable than the fair market values of or prices offered by independent third parties for the medical consumables and equipment to be purchased under the Medical Consumables and Equipment Procurement Agreement and will be determined after arm's length negotiation and agreement between the parties to the Medical Consumables and Equipment Procurement Agreement with reference to: (a) the current market prices of similar products provided by independent third parties in their normal course of business in the vicinity of the parties and on normal commercial terms; and (b) the prices of similar products in non-connected transactions between Zhejiang Dajia and independent third parties.

At the time of the transaction, Mr. Hong Jiangxin was a substantial shareholder of Jiande Hospital, which is an indirect non-wholly owned subsidiary of the Company, and therefore, a connected person of the Company. Zhejiang Zhongyouli is held directly as to 49% by Mr. Hong Jiangxin and 51% by Mr. Hong Yang, and Zhejiang Dajia is a direct wholly-owned subsidiary of Zhejiang Xinxiangli Investment Co., Ltd. ("**Xinxiangli Investment**"), which is held as to 67% by Mr. Hong Jiangxin, 32% by Mr. Hong Yang and 1% by Ms. Hong. Therefore, both Zhejiang Zhongyouli and Zhejiang Dajia are associates of Mr. Hong Jiangxin under the Listing Rules, and are therefore connected persons of the Company under the Listing Rules. Therefore the transactions contemplated under the Medicine Procurement Agreement and the Medical Consumables and Equipment Procurement Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Annual caps and historical transaction amounts

Annual caps for the Medicine Procurement Agreement

The annual caps in respect of the transactions contemplated under the Medicine Procurement Agreement for each of the three financial years ending December 31, 2019, 2020 and 2021 are expected to be RMB50 million for each year.

Annual caps for the Medical Consumables and Equipment Procurement Agreement

The annual caps in respect of the transactions contemplated under the Medical Consumables and Equipment Procurement Agreement for each of the three financial years ending December 31, 2021 are expected to be RMB7 million, RMB8 million and RMB9 million, respectively.

In view of its anticipated business development, Jiande Hospital would include some of the medical consumables and equipment originally purchased from other third parties into the scope of procurement from 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 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 (the "**Revised 2021 Consumables and Equipment Annual Cap**").

The Revised 2021 Consumables and Equipment Annual Cap for the year ending 31 December 2021 was determined with reference to (i) the historical amounts for the two years ended 31 December 2020 and six months ended 30 June 2021 under the Medical Consumables and Equipment Procurement Agreement; (ii) in light of the fact that Jiande Hospital will include some of the medical consumables and equipment originally purchased from other third parties into the scope of procurement from Zhejiang Dajia, the historical transaction amounts of the medical consumables and equipment purchased from the third parties; (iii) the anticipated demand of the Medical Consumables and Equipment of the Company in the second half of 2021; (iv) the current market prices of the Medical Consumables and Equipment; and (v) potential prices fluctuations.

Historical transaction amounts

During the year ended December 31, 2021, the cost of purchasing medicines, medical consumables and medical equipment incurred by the Group pursuant to the Medicine Procurement Agreement and the Medical Consumables and Equipment Procurement Agreement amounted to approximately RMB29,543,000, comprising (i) approximately RMB19,501,000 paid to Zhejiang Zhongyouli for the purchase of medicines; and (ii) approximately RMB10,042,000 paid to Zhejiang Dajia for the purchase of medical consumables and equipment. The actual amounts paid by the Group to Zhejiang Zhongyouli and Zhejiang Dajia under the Medicine Procurement Agreement and the Medical Consumables and Equipment Procurement Agreement, respectively, did not exceed the above-mentioned annual caps approved by the Board.

Internal control procedures

For the above continuing connected transactions, the procurement department of the Group has in place the following internal control procedures to ensure that the pricing terms offered by Zhejiang Zhongyouli and Zhejiang Dajia reflect the fair market prices of similar or related products:

(i) conducting quarterly reviews of the guidance or reference prices available on purchasing platforms in Zhejiang province;

(ii) comparing, on a quarterly basis, procurement prices of medicines and medical consumables or equipment offered to Jiande Hospital by Zhejiang Zhongyouli and Zhejiang Dajia, against the procurement prices of similar or related products offered to other hospitals managed or founded by the Group; and

(iii) seeking quotations for similar medicines and medical consumables or equipment offered by independent third party suppliers from time to time depending on market price adjustments and anticipated changes in pricing terms within the industry.

Confirmation from Directors in respect of continuing connected transactions

The independent non-executive Directors have reviewed the continuing connected transactions of the Company and confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company confirms that it has complied with the reporting and annual review requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions set out above.

The Directors, including the independent non-executive Directors, consider that the continuing connected transactions and the annual caps set out above are fair and reasonable, and that such transactions have been entered into and will be carried out in the ordinary and usual course of business of the Group, are on normal or better commercial terms, and are in the interests of the shareholders of the Company as a whole.

Auditor's report on continuing connected transactions

The Company's auditor was engaged to report on the Group's continuing connected transactions as disclosed above in accordance with the Hong Kong Standard on Assurance Engagement 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on page 49 of the Annual Report in accordance with paragraph 14A.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

In addition, all of the continuing connected transactions of the Company disclosed above which constitute related party transactions were set out in Note 40 to the consolidated financial statements in this annual report. Save as disclosed above, all other related party transactions as described in Note 40 to the consolidated financial statements did not fall under the definition of "continuing connected transaction" or "connected transaction" under the Listing Rules.

Save for the continuing connected transaction as disclosed above and the related party transactions as disclosed in Note 40 to the consolidated financial statements in this annual report, during the year ended December 31, 2021, the Company did not enter into any connected transactions and/or continuing connected transactions which were required to be disclosed in accordance with the requirements of Chapter 14A of the Listing Rules. The Company has complied with all applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at December 31, 2021, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, under section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (iii) which were required under the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity/Nature of interest	Number of shares or underlying shares of the Company	Approximate percentage of shareholding interest[2]
Ms. Liu Lu	Interest of controlled corporation	9,098,800[1]	6.58%

Notes:

(1) Ms. Liu Lu is one of the general partners of Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥)), which holds 55% of the equity interest in Anhui Zhong'an Health Investment Management Co., Ltd. (安徽中安健康投資管理有限公司) ("**Anhui Zhong'an**"). Anhui Zhong'an is the general partner of Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) (安徽省中安健康養老服務產業投資合夥企業(有限合夥)) ("**Anhui Zhong'an LP**"), which is a limited partnership formed under the laws of the PRC as an investment vehicle and holds approximately 6.58% of the issued share capital of the Company. Ms. Liu Lu is a director of Anhui Zhong'an.

(2) As of December 31, 2021, the total number of issued shares of the Company was 138,194,000.

Save as disclosed above, as of December 31, 2021, so far as is known to the Directors, none of the Directors and chief executives of the Company had or were deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified under Divisions 7 and 8 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As of December 31, 2021, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or underlying shares of the Company which were required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued shares of the Company:

Name of shareholder	Capacity/Nature of interest	Number of shares or underlying shares of the Company	Approximate percentage of shareholding interest(6)
Vanguard Glory(1)	Beneficial owner	123,000,000	89.01%
Hony Capital Fund V, L.P.(2)	Interest of controlled corporation	123,000,000	89.01%
Hony Capital Fund V GP, L.P.(2)	Interest of controlled corporation	123,000,000	89.01%
Hony Capital Fund V GP Limited(2)	Interest of controlled corporation	123,000,000	89.01%
Hony Group Management Limited(2)(3)	Interest in controlled corporation	161,693,985	117.01%
Hony Managing Partners Limited(2)(3)	Interest in controlled corporation	161,693,985	117.01%
Exponential Fortune Group Limited(2)(3)	Interest in controlled corporation	161,693,985	117.01%
Hony Fund VIII(3)	Beneficial owner	38,693,985	28.00%
Hony Capital Fund VIII GP (Cayman), L.P.(3)	Interest in controlled corporation	38,693,985	28.00%
Hony Capital Fund VIII GP (Cayman) Limited(3)	Interest in controlled corporation	38,693,985	28.00%
Mr. Zhao John Huan(4)	Interest in controlled corporation	161,693,985	117.01%
Anhui Zhong'an LP(5)	Beneficial owner	9,098,800	6.58%
Anhui Zhong'an(5)	Interest in controlled corporation	9,098,800	6.58%
Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥))(5)	Interest in controlled corporation	9,098,800	6.58%
Anhui Chuanggu Equity Investment Fund Management Co., Ltd. (安徽創谷股權投資基金管理有限公司)(5)	Interest in controlled corporation	9,098,800	6.58%
Mr. Niu Yang(5)	Interest in controlled corporation	9,098,800	6.58%

Notes:

(1) Vanguard Glory is a wholly-owned subsidiary of Hony Fund V, L.P. and holds (a) 97,000,000 shares of the Company and (b) convertible bonds issued by the Company, which can be converted into 26,000,000 shares of the Company and represent approximately 18.81% of the issued share capital of the Company as of December 31, 2021. For further details, please refer to the section headed "Convertible Bonds" in this report.

(2) Hony Capital Fund V, L.P. is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Capital Fund V, L.P. is Hony Capital Fund V GP, L.P., whose general partner is Hony Capital Fund V GP Limited. Hony Capital Fund V GP Limited is wholly-owned by Hony Group Management Limited, 80% equity interest of which is held by Hony Managing Partners Limited, which in turn is wholly-owned by Exponential Fortune Group Limited. Exponential Fortune Group Limited is held as to 49% by Mr. Zhao John Huan. Mr. Zhao John Huan is a director of Hony Capital Fund V GP Limited, Hony Group Management Limited, Hony Managing Partners Limited and Exponential Fortune Group Limited.

(3) Hony Capital Fund VIII (Cayman), L.P. is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Capital Fund VIII (Cayman), L.P. is Hony Capital Fund VIII GP (Cayman), L.P., whose general partner is Hony Capital Fund VIII GP (Cayman) Limited. Hony Capital Fund VIII GP (Cayman) Limited is wholly-owned by Hony Group Management Limited, 80% equity interest of which is held by Hony Managing Partners Limited, which in turn is wholly-owned by Exponential Fortune Group Limited. Exponential Fortune Group Limited is held as to 49% by Mr. Zhao John Huan. Mr. Zhao John Huan is a director of Hony Capital Fund VIII GP (Cayman) Limited, Hony Group Management Limited, Hony Managing Partners Limited and Exponential Fortune Group Limited.

(4) Mr. Zhao John Huan is deemed to be interested in a total of 161,693,985 shares that are held by his controlled corporations, Vanguard Glory and Hony Fund VIII. Vanguard Glory holds 97,000,000 shares of the Company and holds convertible bonds issued by the Company that can be converted into 26,000,000 shares of the Company. Hony Fund VIII holds convertible bonds issued by the Company that can be converted into 38,693,985 shares of the Company. For details, please refer to the section headed "Convertible Bonds" in this report.

(5) Anhui Zhong'an LP is a limited partnership formed under the laws of the PRC as an investment vehicle. The general partner of Anhui Zhong'an LP is Anhui Zhong'an, which is jointly held as to 55% by Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥)) and as to 45% by Anhui Chuanggu Equity Investment Fund Management Co. Ltd. (安徽創谷股權投資基金管理有限公司). Mr. Niu Yang is one of the general partners of Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥)). Ms. Liu Lu is a director of Anhui Zhong'an and Anhui Chuanggu Equity Investment Fund Management Co. Ltd. (安徽創谷股權投資基金管理有限公司).

(6) As of December 31, 2021, the total number of issued shares of the Company was 138,194,000.

SHARE-BASED PAYMENT SCHEMES

Save as disclosed below and under Note 26 to the consolidated financial statements, the Company does not have any other share option schemes.

(a) Share Subscription Agreement

For the benefit and long-term development of the Group, on March 31, 2016, the Company entered into a share subscription agreement (the "**Share Subscription Agreement**") with certain members of the management (collectively, the "**Management Subscribers**" and each a "**Management Subscriber**"), their respective investment holding companies, Midpoint Honour (a shareholder of the Company, which is collectively owned by the investment holding companies of the Management Subscribers), Hony Management (a management company established by Hony Capital), and Vanguard Glory (the immediate parent company of the Company).

The Share Subscription Agreement was subsequently amended on December 4, 2016 and January 23, 2017 (the "**Amendment Agreements**").

Pursuant to the Share Subscription Agreement, the Company allotted and issued 300 new shares ("**Subscription Shares**") to Midpoint Honour, representing 3% of the Company's then issued share capital, for RMB31,152,000, and such Subscription Shares were treated as treasury shares. On December 4, 2016, the Company repurchased 14 Subscription Shares at a price of HK$1,787,000 and subsequently cancelled these shares. Pursuant to the Amendment Agreements, the Subscription Shares with par value amounting to RMB2,000 were treated as treasury shares. On March 16, 2017, the remaining 286 Subscription Shares were divided into 2,860,000 shares with a par value of HK$0.001 each upon the capitalization issue.

Pursuant to the Share Subscription Agreement and the Amendment Agreements, Midpoint Honour is subject to lock-up restrictions and shall put back the Subscription Shares to the Company when a Management Subscriber resigns with the Company's consent, at a consideration equal to the subscription consideration plus interest where available (the "**Put Back Consideration**"). As a result, it is accounted for as a share option scheme in accordance with relevant accounting standards, under which the Management Subscribers were granted 300 share options and the Group receives services from the Management Subscribers. The share options are conditional on the employees completing the first year and second year's services, which are the vesting period. The share options are exercisable starting 12 months (the "**First Batch Share Options**") or 24 months (the "**Second Batch Share Options**") from the Listing Date. The exercise price of the granted share options is equal to the Put Back Consideration. The granted share options were considered as an equity-settled share-based payment to the subscriber.

On March 15, 2018, pursuant to the Share Subscription Agreement and the Amendment Agreements, the First Batch Share Options of unlocked treasury shares were vested to the respective Management Subscribers. In 2018, one of the Management Subscriptions resigned and the Company agreed not to exercise its right to repurchase the relevant shares attributable to him that were subject to lock-up restrictions.

On March 15, 2019, pursuant to the Share Subscription Agreement and the Amendment Agreements, the Second Batch Share Options of unlocked treasury shares were vested to the respective Management Subscribers. In 2019, one of the remaining Management Subscribers resigned and the Company agreed not to exercise its right to repurchase the relevant shares attributable to him that were subject to lock-up restrictions.

As of December 31, 2021, pursuant to the Share Subscription Agreement and the Amendment Agreements, the granted share options have been finally settled when the options were vested or repurchased.

(b) Pre-IPO Share Appreciation Rights Scheme

On November 28, 2016, the Board approved a share appreciation rights scheme prior to the initial public offering of the Company (the "**Pre-IPO SARs Scheme**") which enables the Company to grant share appreciation rights to certain members of management (collectively referred to as the "**Pre-IPO SARs Grantees**"). The purpose of the Pre-IPO SARs Scheme is to enable the Company to grant share appreciation rights to eligible participants as rewards or returns for their contribution or potential contribution to the Company and/or and of its subsidiaries.

Pursuant to the Pre-IPO SARs Scheme, the Company granted 2,500,000 notional shares to the Pre-IPO SARs Grantees entitling them to receive cash payments based on the appreciation of the notional shares over a vesting period starting from June 30, 2016.

Pursuant to the lock-up restrictions provided in the Pre-IPO SARs Scheme, from March 15, 2018, the first batch, representing 25% of the total number of notional shares were free to be vested. In 2018, one of the Pre-IPO SARs Grantees resigned and the remaining 75% of locked-up notional shares granted to him lapsed pursuant to the Pre-IPO SARs Scheme.

In January 2019, one of the Pre-IPO SARs Grantees exercised the aforementioned 25% of total notional shares that were free to be vested.

From March 15, 2019, the second batch, representing 25% of the total number of notional shares, were free to be vested. In 2019, one of the remaining Pre-IPO SARs Grantee resigned and the remaining 50% of locked-up notional shares granted to him lapsed pursuant to the Pre-IPO SARs Scheme.

From March 15, 2020, the third batch, representing 25% of the total number of notional shares, were free to be vested.

As at March 15, 2021, the final batch, which is 25% of the total notional shares were free to be vested for the remaining Pre-IPO SARs Grantees.

The share-based compensation expense related to the Pre-IPO SARs Scheme of RMB568,000 were derecognized as "cost of revenue" for the year ended December 31, 2021 (2020: RMB990,000 were derecognized as "cost of revenue").

(c) **Service Contract with Mr. Lu Wenzuo**

Pursuant to a service contract entered into between New Pride Holdings Limited ("**New Pride**") and Mr. Lu Wenzuo (the "**Service Contract**"), New Pride conditionally granted the following awards to Mr. Lu Wenzuo if he could work for Weikang Investment Management Co., Ltd. ("**Weikang Investment**") and provide hospital management services to Yangsi Hospital as the hospital administrator until December 31, 2017:

(i) Certain share awards (the "**Share Awards**") to acquire 1% of the equity interest in each of Weikang Investment and Tibet Dazi Honghe Ruixin Business Management Co., Ltd. ("**Honghe Ruixin**") for each of the three years ending December 31, 2017 from New Pride and Tibet Honghe Zhiyuan Business Management Co., Ltd., or receive a cash payment equivalent to the value of 1% of the equity interest in each of Weikang Investment and Honghe Ruixin for each of the three years ending December 31, 2017; and

(ii) Share appreciation rights ("**Mr. Lu's SARs**") to receive a cash payment based on the appreciation of 1% of the notional equity interest in Weikang Investment and Honghe Ruixin.

On May 30, 2018, pursuant to an exercise notification from Mr. Lu Wenzuo to New Pride, Mr. Lu Wenzuo confirmed his choice to settle the Share Awards in shares rather than in cash. Pursuant to the Service Contract, the fair value of the debt component of the Share Awards amounting to RMB40,500,000 was recognised as capital reserve upon the date of the exercise notification.

On January 25, 2019, Mr. Lu Wenzuo submitted an application to New Pride for the exercise of Mr. Lu's SARs amounting to RMB13,623,000. As of December 31, 2021, the amount in respect of Mr. Lu's SARs had not been settled.

(d) **Share Incentive Scheme**

On October 24, 2017, Vanguard Glory entered into a share incentive scheme (the "**Share Incentive Scheme**") with certain members of management (collectively referred to as the "**Share Incentive Grantees**" and each a "**Share Incentive Grantee**"). Pursuant to the Share Incentive Scheme, Vanguard Glory granted 6,412,201 share awards to the Share Incentive Grantees entitling them to subscribe for shares held by Vanguard Glory at an exercise price of HK$14.35 per share, subject to certain lock-up restrictions.

In 2018, two of the Share Incentive Grantees resigned and the Company agreed with one of the grantees that all of the share awards granted by Vanguard Glory to him would remain in effect after his resignation with an accelerated vesting schedule. Further, as agreed by the Company, 25% of the share awards granted by Vanguard Glory to another grantee would be free to be vested after her resignation, and the remaining 75% locked-up notional shares granted to her lapsed. The share-based compensation expenses in relation to the share awards granted to the resigned Share Incentive Grantee for the year ended December 31, 2018 was recognised as capital reserve upon her resignation.

In 2019, two of the Share Incentive Grantees resigned and as agreed by the Company, 50% of the share awards granted by Vanguard Glory to one of the grantees would be released from the lock-up restrictions and free to be vested after his resignation, while the remaining 50% locked-up notional shares granted to him lapsed. The share-based compensation expenses in relation to the share awards granted to the resigned Share Incentive Grantee for the year ended December 31, 2019 were recognised as capital reserve upon his resignation. Further, pursuant to the Share Incentive Scheme, the share awards granted to another grantee who has resigned which were permitted to vest but had not been exercised will be terminated and the remaining locked-up notional shares granted to him shall lapse.

In 2021, the remaining 50% of the shared awards granted by Vanguard Glory has been released from the lock-up restrictions and free to be vested.

Share-based compensation expenses related to the Share Incentive Scheme of RMB676,000 were recognized as 'cost of revenue' for the year ended December 31, 2021 (2020: RMB1,392,000).

(e) **Post-IPO Share Appreciation Rights Scheme**

We adopted a post-IPO share appreciation rights scheme (the "**Post-IPO SARs Scheme**") on December 13, 2016 to enable the Company to grant post-IPO share appreciation rights (the "**Post-IPO SARs**") to Post-IPO SARs Eligible Participants (as defined below) as rewards or returns for their contribution or potential contribution to the Company and/or any its the subsidiaries. The Post-IPO SARs Scheme does not involve the grant of options over new securities of the Company. Under the Post-IPO SARs Scheme, directors, employees, advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture partners and service providers of the Company or any of its subsidiaries (the "**Post-IPO SARs Eligible Participants**") who, in the sole opinion of the Board, have contributed to the Company and/or any of its subsidiaries will be entitled to receive cash payments determined based on the appreciation of the notional shares over a specified period pursuant to the Post-IPO SARs Scheme. The Post-IPO SARs Eligible Participants who accepted the offer do not have any voting rights and rights to dividends entitled by the shareholders of the Company.

Details of the Post-IPO SARs Scheme were set out in the Prospectus. Since the Listing Date and up to the date of this report, no Post-IPO SARs had been granted under the Post-IPO SARs Scheme.

(f) **Share Award Scheme**

The Company has adopted a share award scheme of the Company (the "**Share Award Scheme**") on January 18, 2021.

The following classes of participants (the "**SAS Eligible Participants**") are eligible for participation in the Share Award Scheme: (a) directors (including executive directors and non-executive directors) of the Company or any of its subsidiaries; (b) employees (including full-time and part-time), officers, agents or consultants of the Company or any of its subsidiaries; and (c) core management members of any hospital owned, managed and/or founded by the Group.

The Board or any committee delegated with the power and authority by the Board to administer the Share Award Scheme (the "**SAS Administration Body**") may, from time to time, at its absolute discretion select any SAS Eligible Participant (the "**SAS Selected Participant**") to be entitled to receive a grant of award of Shares (the "**Share Award**"), either Shares subject to vesting criteria or restrictions or Shares granted directly to the SAS Selected Participants which the SAS Administration Body determines to be vested immediately upon acceptance without any vesting conditions, under the Share Award Scheme. The Board or the respective committee may also grant Share Awards to such SAS Selected Participant which are to be satisfied by new Shares to be subscribed by the trustee of the trust set up under the Share Award Scheme (the "**SAS Trustee**") and/or existing Shares purchased by the SAS Trustee.

The eligibility of any of the SAS Eligible Participant to a Share Award and/or the number of Shares to be granted shall be determined by the SAS Administration Body, taking into consideration matters such as the contribution of the relevant SAS Eligible Participant to the profits of the Group and the general financial condition of the Group. After the SAS Administration Body has determined the number of Shares to be granted and/or the SAS Selected Participants, it shall notify the SAS Trustee and (if the SAS Selected Participants are identified) issue the grant letter to the SAS Selected Participants.

The purposes of the Share Award Scheme are (i) to encourage or facilitate the holding of Shares by 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 Shareholders through ownership of Shares.

The Share Award Scheme offers a different form of incentive as compared to the Post-IPO SARs Scheme of the Company, since SAS Eligible Participants will be entitled to receive Shares upon vesting of the Share Awards under the Share Award Scheme, while the Post-IPO SARs Eligible Participants will only be entitled to receive cash payments determined based on the appreciation of the notional Shares over a specified period under the Post-IPO SARs Scheme. Given the difference in nature of the reward under the Share Award Scheme and the Post-IPO SARs Scheme, the Company believes that the Share Award Scheme will impose less pressure on the Group's cash flow position and enable the Company to prevent substantive cash outflow while allowing additional incentives to the Participants to contribute to the Group in the foreseeable future.

Details of the Share Award Scheme were set out in the announcement of the Company dated January 18, 2021.

EQUITY-LINKED AGREEMENTS

Save for the share-based payment schemes as set out above and the convertible bonds issued by the Company as disclosed in the section headed "Convertible Bonds" in this report, no equity-linked agreement that would or might result in the Company issuing shares, or requiring the Company to enter into an agreement that would or might result in the Company issuing shares, was entered into by the Company during the year ended December 31, 2021 or subsisted at the end of 2021.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Details of compliance by the controlling shareholders of the Company with the deed of non-competition entered into with the Company on December 13, 2016 is set out in the "Corporate Governance Report" of this annual report.

MINIMUM PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors, as of the date of this report, the Company has maintained the prescribed public float as approved by the Stock Exchange since the Listing Date.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of the Cayman Islands (being the place of incorporation of the Company) or under the Articles which would require the Company to offer new shares on a pro-rata basis to its existing shareholders.

EMOLUMENT POLICY AND SENIOR MANAGEMENT'S EMOLUMENTS

The Directors' fees are subject to approval by the shareholders of the Company at general meetings. Their emoluments are determined by the Board with reference to factors such as Directors' duties, responsibilities and performance and the results of the Group.

The five individuals whose remuneration was the highest in the Group for the year ended December 31, 2021 included one Directors and four members of the senior management.

Details of the remuneration of the five highest paid individuals and each of the Directors for the year ended December 31, 2021 are set out in Note 9 and Note 43 to the consolidated financial statements, respectively. None of the Directors has agreed to waive any emoluments for the year ended December 31, 2021.

The Group has adopted certain share-based payment schemes for the purpose of, among others, providing additional incentive for the employees of the Group to achieve performance goals. Details have been set out in the section headed "SHARE-BASED PAYMENT SCHEMES" in the Report of the Directors.

PENSION SCHEME

The employees of the Group which operates in Mainland China are required to participate in a central pension scheme (the "**Central Pension Scheme**") operated by the local municipal government, which the Group is required to contribute a certain percentage, which was pre-determined by the local municipal government, of the sum of basic salary and allowance of employees to the Central Pension Scheme. The contributions by the Group for the Central Pension Scheme are charged to the statements of profit or loss as they become payable in accordance with the relevant rules of the respective schemes.

The Group's contributions to the Central Pension Scheme vest fully and immediately with the employees. Accordingly, (i) for each of the two years ended December 31, 2020 and December 31, 2021, there was no forfeiture of contributions under the Central Pension Scheme; and (ii) there were no forfeited contributions available for the Group to reduce its existing level of contributions to the Central Pension Scheme as at December 31, 2020 and December 31, 2021.

Certain subsidiary of the Group operates a post employment benefit plan during the year ended December 31, 2021.Details of the post employment benefit plan are set out in Note 32 to the consolidated financial statements. For the year end December 31, 2020 the Group did not have any defined benefit plan.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or a substantial part of the business of the Company were entered into or existed during the year ended December 31, 2021.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favor, or in which he/she is acquitted. Such permitted indemnity provision was in force throughout the year ended December 31, 2021 and up to the date of this report.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents occurred during the Reporting Period under review.

The Group maintains cooperation relationships with suppliers to meet our customers' needs in an efficient and effective manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner.

Our major suppliers are generally manufacturers of pharmaceutical products, and had business relationship with the Group for over five years on average. Our largest supplier is headquartered in Zhejiang province, China and engaged in the wholesale and retail of pharmaceuticals and medical devices. The credit period from the major suppliers is 90 to 365 days. The payables were usually settled within the credit period.

Details of the trade and bills payables of the Group as at December 31, 2021 are set out in note 29 to the financial statements. Up to the date of this report, approximately 80% of the trade and bills payable to the major suppliers has been settled.

The principal activities of the Group are provision of hospital management services and general hospital services and wholesale of pharmaceutical products which rely on, among other things, sufficient supply of the pharmaceutical products. The Company is subject to price fluctuation of the pharmaceutical products and could face shortage in supply of pharmaceutical products. To mitigate the risk, the Company has estimated certain periods of the material usages and maintained a safe inventory level. The Company has also developed business relationships with more suppliers for specific pharmaceutical products in order to diversify the risk of relying on single supplier.

During the Reporting Period, the Group did not have any significant disputes with our major suppliers.

The Group values the views and opinions of all customers and collected their views and opinions through various means and channels, including the use of business intelligence to understand customer trends and needs and analyze customers' feedback on a regular basis. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

Our major customers include the Group Hospitals. The years of business relationship of these major customers with the Group ranged between nil and six years and the credit terms granted to them ranged from 90 to 365 days. Details of the trade and bills receivables of the Group as at December 31, 2021 are set out in note 18 to the financial statements. Up to the date of this report, approximately 90% of the trade and bills receivables from the major customers has been settled.

Our service focuses on improving patients' health condition, and patients have varying expectations on the magnitude of improvement that may result from our services. If we fail to properly manage patients' expectations of the results from the services provided by the Group Hospitals, patients may in turn be dissatisfied with the results of the service provided by the Group Hospitals, and a disappointed client may, among others, complain to the media and file legal claims against the Group Hospitals. Such actions from patients may have a material adverse effect on our reputation, business, and results of operations, financial condition and prospects.

During the Reporting Period, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. The Group did not have any material dispute with our customers.

MAJOR CUSTOMERS AND SUPPLIERS

In 2021, Yangsi Hospital (included in the scope of consolidation of the Group since December 6, 2021), Cixi Hospital and Jinhua Hospital were our largest customers, and the Group received management service fees from Yangsi Hospital, Cixi Hospital and Jinhua Hospital in respect of the provision of management and consultancy services to them. In 2021, the management service fees recognised from them (net of value-added tax) were approximately RMB217.5 million (2020: approximately RMB226.9 million), accounting for approximately 41.8% (2020: approximately 56.8%) of our revenue, and the management service fees recognised from the largest customer accounted for approximately 31.6% (2020: approximately 43.4%) of our revenue for the year ended December 31, 2021. Our other customers are patients of Yangsi Hospital and Jiande Hospital, from whom we derive revenue by providing general hospital services.

The majority of these patients rely on public medical insurance programs to pay for their medical treatments.

In 2021, our purchases from the top five suppliers of the Group amounted to RMB69.3 million (2020: approximately RMB67.9 million) (net of value-added tax), accounting for approximately 61.9% (2020: approximately 65.1%) of our total purchase, and the amount of purchase from the largest supplier accounted for approximately 27.5% (2020: approximately 27.5%) of our total purchase for the year ended December 31, 2021.

None of the Directors, their close associates or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in any of our five largest customers and suppliers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 2021 was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RISK MANAGEMENT

Market Risk

We conduct our business in China, from where we derive our revenue. The functional currency for all of our operating subsidiaries is RMB. In Hong Kong, where the currency is HKD, we accept certain exchange rate risks to meet investment and financing business needs. We are mainly exposed to price risk in respect of convertible bonds hold by the Group, details of the price risk of the Group during the year ended December 31, 2021 are set out in Note 3.1(iv) to the consolidated financial statements. The wealth management products we held in 2021 were classified as financial assets at fair value through profit and loss. In view of the short maturity and relatively stable prices of those wealth management products, we assess its price risk to be low. Borrowings obtained at variable rates expose us to cash flow interest rate risk, which may be offset in part by cash and wealth management products held at variable rates, and also expose us to fair value interest rate risk. As of December 31, 2021, our borrowings amounted to approximately RMB71.0 million. The interest rates of our loans which bear floating rates are linked to HIBOR. In order to meet daily business capital requirements, we accept the interest rate risk within HIBOR's fluctuation.

Credit risk

Credit risk mainly arises from cash and cash equivalents, term deposit, financial assets at fair value through profit or loss ("**FVPL**"), amounts due from related parties, and trade and other receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets.

The credit risk of cash and cash equivalents, term deposit, financial assets at FVPL of the Company is limited because the counterparties are mainly state-owned or public listed commercial banks which are high-credit-quality financial institutions in the PRC.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and amount due from related parties (trade in nature). To measure the expected credit losses, trade receivables and amount due from related parties (trade in nature) have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 12 month before December 31, 2021 or December 31, 2020, respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the gross domestic product ("**GDP**"), consumer price index ("**CPI**") and producer price index ("**PPI**") of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Other financial assets at amortised cost include other receivables, deposits and amounts due from related parties (others). The Directors have assessed that other receivables, deposit and amounts due from related parties (others) have not had a significant increase in credit risk since initial recognition. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of the reporting period of the Group is adopted by management. The Directors do not expect any losses from non-performance by the counterparties of other receivables, deposits and amounts due from related parties (others) to be recognised.

Details of the credit risk of the Group during the year ended December 31, 2021 are set out in Note 3.1(ii) to the consolidated financial statements.

Liquidity Risk

We are exposed to liquidity risk. We aim to maintain sufficient cash and cash equivalents to meet our operating capital requirements.

Capital Risk

Our primary objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns to our shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. We actively and regularly review and manage our capital structure to maintain a balance between the higher equity shareholders' returns that may be achieved with higher levels of borrowings and the advantage and security afforded by a sound capital position, and make adjustments to our capital structure in light of changes in economic conditions. In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt. We monitor our capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. Our liability-to-asset ratio was approximately 63% as of December 31, 2020 and approximately 64% as of December 31, 2021. Neither our Company nor any of our subsidiaries is subject to externally imposed capital requirements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility to promote sustainable development and foster an environmentally-friendly environment. The Group has implemented internal policies and procedures with respect to environmental protection at the Group Hospitals and has engaged qualified service providers to dispose of our Group Hospitals' medical waste. The Group has established a hospital infection management committee that sets out annual work plans and carries out supervision on preventing hospital infections. For the year ended December 31, 2021, the Group incurred approximately RMB323,702 (2020: approximately RMB335,160) in environmental compliance costs. The Group integrates international standards, national regulations and industry standards into its medical services, and procurement and business management activities. The specific tasks are performed by the Group's subsidiaries and medical institutions. The Group's functional departments are connected to ensure that daily operations are in line with the environmental, social and governance regulations. During the year ended December 31, 2021 and up to the date of this report, none of our management received reports concerning environmental claims, lawsuits, penalties or administrative sanctions.

COMPLIANCE WITH LAWS AND REGULATIONS

Our operations are mainly carried out by the Company's subsidiaries in China while the Company's shares are listed on the Stock Exchange. Our operations shall comply with relevant laws and regulations in China, Hong Kong and the Cayman Islands. During the year ended December 31, 2021 and up to the date of this report, the Group has complied with all the relevant laws and regulations in China, Hong Kong and the Cayman Islands in all material respects.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2021 have been audited by PricewaterhouseCoopers who will retire at the conclusion of the AGM. The Company has not changed its auditor during any of the past three years.

On behalf of the Board

Chen Shuai
Chairman and Acting Chief Executive Officer

Hong Kong
March 29, 2022

DIRECTORS

Chen Shuai (陳帥)

Chairman and Acting Chief Executive Officer

Mr. Chen, aged 48, was appointed as a non-executive Director, the Chairman of the Board and the acting Chief Executive Officer of the Company in June 2020 and was re-designated as an executive Director on November 20, 2020. Mr. Chen has extensive experience in investment management, supplier management and retail business. He joined Hony Capital (a series of private equity investment funds, together with their respective management companies/general partners, "**Hony Capital**") in 2003 and has served as a managing director of Hony Capital since 2011. Mr. Chen also currently serves as the deputy general manager of the private equity investment department and a member of the private equity business steering committee of Hony Capital, as well as general manager of Hony Capital's Shanghai platform. Prior to joining Hony Capital, Mr. Chen was the senior financial manager of Wumart Stores, Inc., general manager of the vendor management department of Beijing Jiahe Group (北京家和集團), and senior investment manager of the investment management department and urban strategic circulation department of D'Long International Strategic Investment Company.

Mr. Chen is currently a non-executive director of China Rongzhong Financial Holdings Company Limited (HKEX Stock Code: 3963), a non-executive director of Century Ginwa Retail Holdings Limited (HKEX Stock Code: 162) and a director of Shanghai Chengtou Holding Co., Ltd. (Shanghai Stock Exchange Stock Code: 600649). He was a director of Shanghai Environment Group Co., Ltd. (Shanghai Stock Exchange Stock Code: 601200) from February 2017 to September 2019. Mr. Chen is also a member of the 11th Finance Sector Youth Union (青聯金融界別) of Shanghai and the 7th Merger, Acquisition and Reorganization Committee (併購重組委) of the China Securities Regulatory Commission.

Mr. Chen obtained his bachelor's degree in economics from Beijing Forestry University in 1997, and a Master of Business Administration from the China Europe International Business School in 2010.

Lu Wenzuo (陸文佐)

Executive Director

Mr. Lu, aged 76, is an executive Director of the Company and was appointed as a Director on December 16, 2015. Mr. Lu is responsible for the overall hospital operation and management of Yangsi Hospital. He joined our Group in December 2003. He currently serves as a director of Weikang Investment and Yangsi Hospital, and also held the position of hospital administrator of Yangsi Hospital upon its establishment. As the hospital administrator of Yangsi Hospital, Mr. Lu is primarily responsible for the overall management and operations of Yangsi Hospital. Mr. Lu has significant decision-making authority in the administrative matters of Yangsi Hospital, including decision-making authority in daily operations, hiring and promotion of personnel and remuneration. Mr. Lu is also responsible for the implementation of plans and the financial auditing of Yangsi Hospital. Furthermore, Mr. Lu is responsible for overseeing and executing the tasks formulated by the Chinese government and the Group. Mr. Lu has more than 34 years of experience in hospital management. Prior to joining our Group, he served as the deputy hospital administrator of the First People's Hospital of Nantong (南通市第一人民醫院), a Class IIIA general hospital located in Nantong, Jiangsu province, from July 1983 to March 1987. He joined Shanghai Punan Hospital (上海浦南醫院), a Class II general hospital located in Shanghai, in April 1987 and served as the deputy hospital administrator from January 1992 to December 2003.

Mr. Lu graduated from Shanghai Medical College (復旦大學上海醫學院) (previously known as Shanghai First Medical College (上海第一醫學院)) in China in August 1969 and majored in medicine. Mr. Lu received the qualification of chief physician (主任醫師) from the Medical Technical Worker Advanced Qualifications Review Committee of Shanghai (上海衛生技術人員高級職稱評審委員會) in December 1996. He was awarded as one of the Top Ten Outstanding Administrators in Shanghai by the Shanghai Association for Non-government Medical Institutions (上海市社會醫療機構協會) in November 2013.

Pu Chengchuan (蒲成川)

Executive Director

Mr. Pu, aged 35, was appointed as an executive Director of the Company on June 22, 2021. Mr. Pu currently serves as a senior investment manager of the private equity investment department of Hony Capital, focusing on the investment in medical and healthcare-related fields. Prior to joining Hony Capital, Mr. Pu worked in the investment department of CITIC Private Equity Funds Management Co., Ltd. from 2012 to 2016, and in the strategic investment department of Beijing Cathay Health Technology Co, Ltd.* (北京國泰智慧醫療科技有限公司) from 2016 to 2018.

Mr. Pu is currently a director of certain subsidiaries of the Company, namely, Acute Sky Holdings Limited, Ever Surpass Investments Limited, Oriental Ally Holdings Limited, Shanghai Weikang Investment Management Co., Ltd.* (上海維康投資管理有限公司), Yangsi Hospital and Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd.* (浙江弘和致遠醫療科技有限公司). Mr. Pu is also currently a supervisor of certain subsidiaries of the Company, namely, Honghe Yixin Investment Management (Shanghai) Co., Ltd.* (弘和醫信投資管理(上海)有限公司), Tibet Honghe Zhiyuan Business Management Co., Ltd.* (西藏弘和志遠企業管理有限公司), Tibet Dazi Honghe Ruixin Business Management Co., Ltd.* (西藏達孜弘和瑞信企業管理有限公司) and Tibet Hongai Business Management Co., Ltd.* (西藏弘愛企業管理有限公司).

Mr. Pu obtained his Bachelor's degree in Science (Physics) from Tsinghua University in July 2008 and his Master's degree in Finance from Peking University in June 2012.

Pan Jianli (潘建麗)

Executive Director

Ms. Pan, aged 44, was appointed as the Chief Financial Officer of the Company in April 2021, and was appointed as an executive Director of the Company on March 29, 2022. She is currently responsible for the supervision and management of the Company in the fields such as finance, investment and financing, risk control and auditing. Ms. Pan has over 20 years of work experience in the field of financial management and investment, and has extensive experience in financial auditing, merger, acquisition and reorganization, and cross-border investment and financing of listed companies. From April 2007 to December 2017, Ms. Pan served as the assistant to president, company secretary, and head of the finance department and investment management department of China Glass Holdings Limited (whose shares are listed on the Main Board of the Stock Exchange, Stock Code: 03300), and was responsible for capital operation, compliance, financial management and corporate external auditing of listed companies. From December 2017 until before joining the Company, she served as a partner of a cross-border investment institution, responsible for cross-border mergers and acquisitions and financing consulting business based on the Hong Kong capital market. Since December 6, 2019, Ms. Pan has been serving as an independent non-executive director of China Singyes New Materials Holdings Limited (whose shares are listed on the GEM of the Stock Exchange, Stock Code: 08073), and as the chairperson of the audit committee and a member of the remuneration committee of the company.

Ms. Pan is currently a director of certain subsidiaries of the Company, namely Bliss Success Holdings Limited, Impeccable Success Limited and New Pride Holdings Limited.

Ms. Pan obtained her master's degree in management from Guanghua School of Management, Peking University (北京大學光華管理學院) in the PRC in 2009 and her bachelor's degree in economics from Shandong University of Finance and Economics (山東財經大學) in the PRC in 1999. Ms. Pan is concurrently a Senior Accountant in China and a member of the Chinese Institute of Certified Public Accountant.

Liu Lu (劉路)

Non-executive Director

Ms. Liu Lu (劉路), aged 48, was appointed as a non-executive Director of the Company on May 26, 2017. Ms. Liu is mainly responsible for overseeing the corporate development and strategic planning of our Group. From November 2008 to March 2015, Ms. Liu served as an assistant to the general manager and subsequently a deputy general manager at Anhui Venture Capital Investment Co., Ltd. (安徽省創業投資有限公司). From March 2015 to February 2016, Ms. Liu was a deputy general manager at Anhui Hi-Tech Industry Investment Co., Ltd. (安徽省高新技術產業投資公司). Since December 2015, Ms. Liu has been the general manager of Anhui Zhong'an Health Investment Management Co., Ltd. (安徽中安健康投資管理有限公司). She currently serves as a director of multiple companies, including Anhui Fengshou Investment Co., Ltd. (安徽豐收投資有限公司) and Anhui Sunhere Pharmaceutical Excipients Co., Ltd. (安徽山河藥用輔料股份有限公司), a company listed on the Shenzhen Stock Exchange (Shenzhen Stock Exchange Stock Code: 300452). For directorships held by Ms. Liu in substantial shareholders of the Company within the meaning of Part XV of the SFO, please refer to the section headed "Report of the Directors – Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" in this annual report.

Ms. Liu obtained her bachelor's degree and master's degree in biology from Hebei University (河北大學) in June 1994 and from Nankai University (南開大學) in June 1997, respectively.

Wang Nan (王楠)

Non-executive Director

Ms. Wang Nan (王楠), aged 45, was appointed as a non-executive Director of the Company on May 26, 2017. Ms. Wang is mainly responsible for overseeing the corporate development and strategic planning of our Group. Since August 1995, Ms. Wang has been serving in Neusoft Corporation (東軟集團股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600718), where she holds various positions, including the head of the mobile internet division, a deputy director of the advanced automotive electronic technology research center and the general manager of the strategic alliance and international business development division. Ms. Wang has been serving as a senior vice president and the secretary to the board of directors at Neusoft Corporation since May 2011 and December 2011, respectively.

Ms. Wang obtained her Doctor of Philosophy degree in computer applications from Northeastern University (東北大學) in China in July 2009.

Dang Jinxue (党金雪)

Independent non-executive Director

Mr. Dang Jinxue (党金雪), aged 67, was appointed as an independent non-executive Director on March 9, 2020. He has extensive experience as a hospital director, has outstanding ability in handling all aspects of hospital development and management, and also has in-depth knowledge of the medical capital market. Mr. Dang served as the dean of sales of Xijing Hospital (西京醫院) from December 2003 to 2010, and the dean of Weinan Economic Development Zone People's Hospital (private) (渭南經開區人民醫院(民營)) from 2011 to 2014. He served as the dean of Xi'an Chang'an Hospital (private) (西安長安醫院(民營)) from July 2013 to December 2016 and the medical director of Xi'an Xin Chang'an Medical Investment Company Limited (西安新長安醫療投資有限公司) from January 2017 to January 2018. Since March 2018 and up to the date of this report, Mr. Dang has been serving as the deputy general manager of Beijing Kangjia Yongjian Medical Investment Management Company Limited (北京康嘉永健醫療投資管理有限公司) and since August 2019, he has been serving as the dean of preparation of Yulin Rehabilitation Hospital (Youfang Hospital) (榆林康復醫院(友芳醫院)).

Mr. Dang graduated from the military medical department of the Fourth Military Medical University (第四軍醫大學軍醫系) in 1984 and joined the Department of Psychology of Shaanxi Normal University (陝西師範大學) as a guest researcher in 2002. Mr. Dang previously served as the leader of the rating review team of Shaanxi Provincial Hospital (陝西省醫院) and an expert of the Shaanxi Provincial Rural Cooperative Medical Technical Guidance Group (陝西省農村合作醫療技術指導組) from 2006 to 2010. He is currently a registered medical practitioner.

Shi Luwen (史錄文)

Independent non-executive Director

Mr. Shi Luwen (史錄文), aged 58, was appointed as an independent non-executive Director on December 13, 2016 with effect from the Listing Date. Mr. Shi has served as a professor of the Department of Pharmacy Administration and Clinical Pharmacy of Peking University School of Pharmaceutical Sciences (北京大學藥學院) since 2000 and as the director of the International Research Center for Medical Administration of Peking University (北京大學醫藥管理國際研究中心) since 2002. Mr. Shi currently holds positions in various organizations, including those set out below:

Name of organization	Position
Medicine Policy Professional Committee of China Pharmaceutical Industry Research and Development Association (中國藥促會藥物政策專委會)	Vice chairman
Pharmaceutical Affairs Management Commission of Chinese Pharmaceutical Association (中國藥學會藥事管理專委會)	Committee member
Pharmacoeconomics Expert Committee of Chinese Research Hospital Association (中國研究型醫院學會藥物經濟學專業委員會)	Chairman
Rare Disease Branch of Beijing Medical Association (北京醫學會罕見病分會)	Vice chairman
Paediatrics Committee of Chinese Research Hospital Association (中國研究型醫院學會兒科專業委會)	Vice chairman
Pharmaceuticals Price and Tender Procurement Guidance Center of National Healthcare Security Administration (國家醫療保障局醫藥價格和招標採購指導中心)	Member of the expert panel
Expert Committee of National Food and Drug Administration for Consistency Evaluation on Quality and Efficacy of Generic Drugs (國家食品藥品監督總局仿製藥質量和療效一致性評價專家委員會)	Committee member
Medical and Health System Reform Intensifying Expert Advisory Panel of the Ministry of Health of the PRC (中國衛生部深化醫藥衛生體制改革專家諮詢組)	Expert

Mr. Shi has been an independent non-executive director of China Meheco Co., Ltd. (中國醫藥健康產業股份有限公司), a company listed on the Shanghai Stock Exchange (Shanghai Stock Exchange Stock Code: 600056), since December 2015. Mr. Shi was awarded the Scientific Chinese Person (2011) (科學中國人(2011)年度人物) by the Scientific Chinese Magazine in 2012, the Hospital Science and Technology Innovation Award (醫院科技創新獎) by the Chinese Hospital Association in 2011 and the Xue Muqiao Price Research Award (薛暮橋價格研究獎) by the Price Association of China (中國價格協會) in 2010. He was awarded the Beijing Science and Technology Award (北京市科學技術獎) by the People's Government of Beijing Municipality in 2002.

Mr. Shi obtained his bachelor's degree in science from the Peking University Health Science Center (北京大學醫學部) (formerly known as Beijing Medical University (北京醫科大學)) in July 1987 and his master's degree in health professions education from the University of Illinois in the United States in July 1992.

Zhou Xiangliang (周向亮)

Independent non-executive Director

Mr. Zhou Xiangliang (周向亮), aged 41, was appointed as an independent non-executive Director on December 13, 2016 with effect from the Listing Date. Mr. Zhou has served as the chief financial officer of Beijing Science Technology Co., Ltd. (北京中環信科科技股份有限公司) since July 2010 and has also held the position of board secretary since August 2011. Prior to working in Beijing Science Technology Co., Ltd., Mr. Zhou worked as a consultant in KPMG Huazhen LLP.

Mr. Zhou obtained his bachelor's degree in management from the Central University of Finance and Economics (中央財經大學) in China in June 2003. He was qualified as a Chinese Certified Public Accountant (中國註冊會計師) by the Beijing Institute of Certified Public Accountants (北京註冊會計師協會) in July 2007 and as a board secretary by the Shenzhen Stock Exchange in November 2012. He has served as the manager of Tianjin Hexinyuan Investment Company (天津和信源投資公司) since July 2018.

SENIOR MANAGEMENT

Wu Yuanzhi (吳遠志)

Deputy general manager of the Company

Mr. Wu Yuanzhi (吳遠志), aged 62, was appointed as deputy general manager of the Company in January 2021. He is primarily responsible for supervising the healthcare quality management of our Company. He joined our Group in September 2019 and served as the healthcare director of the Group and was later promoted to be the deputy general manager. Prior to joining the Group, Mr. Wu successively served as the head of the surgical department, vice hospital administrator and hospital administrator and secretary of the party committee of Wugang No.2 Hospital (武鋼二醫院), vice hospital administrator of Wugang General Hospital (武鋼總醫院), deputy general manager of the China Resources Wugang Hospital Management Co., Ltd. (華潤武鋼醫院管理公司) and etc. under China Resources Healthcare Group Limited (華潤醫療集團有限公司) from 1982 to 2019.

Mr. Wu graduated from the Medical School of Hubei Minzu University (湖北民族大學醫學院) in March 1982.

Lang Xiaofeng (郎曉峰)

Chief company development officer of the Company

Mr. Lang Xiaofeng (郎曉峰), aged 39, was appointed as the assistant to the Chairman and the chief company development officer (公司發展部總監) of the Company in September 2020. He is primarily responsible for strategic research, branding affairs, public relations and government affairs of the Company. Prior to joining our Group, Mr. Lang served as a senior manager of Hony Capital from 2014 to September 2020; and a sales manager of China Railway Investment Co., Ltd. from 2009 to 2014.

Mr. Lang obtained his master's degree in business and information technology from University of Melbourne (墨爾本大學), Australia in December 2007, and his bachelor's degree in information management and information systems from Dalian University of Technology (大連理工大學) in July 2005.

Ding Yue (丁玥)

Chief quality management/nursing officer of the Company

Ms. Ding Yue (丁玥), aged 49, was appointed as the chief quality management/nursing officer (品質管理／護理總監) of our Company in March 2014. She is primarily responsible for supervising the healthcare quality management of our Company. She is currently an executive council member of Beijing Nursing Association (北京護理學會) and a member of administration committee of the Chinese Nursing Association (中華護理學會). She joined our Group in March 2014. Prior to joining our Group, Ms. Ding served as nursing supervisor (護理主管) of the hospital management office in Peking University Health Science Center (北京大學醫學部醫院管理處) from July 2012 to February 2014. From August 1996 to June 2012, Ms. Ding worked at Beijing Cancer Hospital as the head of the nursing department and the deputy head of the nursing department.

Ms. Ding obtained her bachelor's degree in medicine in July 1996 from the School of Nursing of Peking University in China.

Zhang Lixin (張立新)

Chief supply chain management officer of the Company

Mr. Zhang Lixin (張立新), aged 48, was appointed as the chief supply chain management officer (供應鏈管理部總監) of the Company in December 2020. He is primarily responsible for the strategic research and operation management of supply chain. Prior to joining the Group, Mr. Zhang served as a senior consultant and a senior investment management manager of Hony Capital from 2010 to 2020, respectively. He was also the chief logistic management officer of Greater China in Lenovo Group (聯想集團) from 1997 to 2010.

Mr. Zhang obtained his master's degree of business administration from the Business School Netherlands (荷蘭商學院) in September 2015 and his bachelor's degree of management of agricultural economy in Huazhong Agricultural University (華中農業大學) in June 1997.

Yang Su (楊蘇)

Chief performance officer of the Company

Ms. Yang Su (楊蘇), aged 42, is an accountant and has served as the chief performance officer of the Company since September 2018. She is mainly responsible for conducting hospital administrators' annual performance appraisal across all Group Hospitals, devising performance proposals for every hospital, and evaluating the capital expenditure. Prior to joining our Group, Ms. Yang served as a deputy senior staff member of the finance department of the Guangdong 999 Neurology Hospital (廣東三九腦科醫院) under China Resources Healthcare Group Limited (華潤醫療集團) from 2005 to February 2017. She was also the manager of finance department of Foresea Life Insurance Hospital (前海人壽醫院) under Baoneng Group (寶能集團) from 2017 to 2018.

Ms. Yang obtained her bachelor's degree in Sun Yat-sen University (中山大學) in December 2009.

Liu Hui (劉輝)

Chief legal officer and secretary to the Board

Mr. Liu Hui (劉輝), aged 32, served as senior legal manager of the Company from 2017 to September 2018, re-joined in July 2020, and was subsequently appointed as chief legal officer and secretary to the Board. He is primarily responsible for the Company's domestic and overseas compliance services. Prior to joining our Group, Mr. Liu served as a practicing lawyer of the securities department in DeHeng Law Offices, Beijing (北京德恒律師事務所公司) and successively served as a senior legal consultant of Haier Group (Qingdao) Financial Holdings Ltd. (海爾集團(青島)金融控股有限公司) and the legal officer of HAI Cloud Exchange (HK) Ltd. (海雲匯(香港)有限公司) from 2018 to June 2020.

Mr. Liu obtained his master's degree of law from Jilin University (吉林大學) in 2015.

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. Save as disclosed herein, the Board considered 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.

CODE PROVISION C.2.1

Code provision C.2.1 of the CG Code stipulates that the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual. Please refer to the paragraph under "Chairman and Chief Executive Officer" below for details.

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 the relevant employees (who likely possess inside information of the Company) (the "**Securities Dealing Code**") on terms no less stringent than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiries with all Directors and relevant employees of the Company, the Company confirms that all Directors and relevant employees of the Company have complied with the Model Code and the Securities Dealing Code throughout the year ended December 31, 2021.

BOARD OF DIRECTORS

As at the date of this report, the Board of the Company comprises the following directors:

Executive Directors:
Mr. Chen Shuai *(Chairman and Acting Chief Executive Officer)*
Mr. Lu Wenzuo
Mr. Pu Chengchuan
Ms. Pan Jianli

Non-executive Directors:
Ms. Liu Lu
Ms. Wang Nan

Independent Non-executive Directors:
Mr. Dang Jinxue
Mr. Shi Luwen
Mr. Zhou Xiangliang

The biographical information of the Directors is set out in the section headed "Biographies of Directors and Senior Management" on pages 67 to 77 of this annual report.

As at the date of this report, there is no relationship, including financial, business, family or other material and relevant relationship, among members of the Board.

Insurance for Directors

Code provision C.1.8 of the CG Code stipulates that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company has arranged for appropriate insurance cover to protect Directors from possible legal action against them.

Chairman and Chief Executive Officer

Provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Shan Guoxin resigned as the chief executive officer of the Company ("**Chief Executive Officer**") and Mr. Zhao John Huan resigned as the chairman of the Board with effect from June 23, 2020. On the same day, 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 seek to comply with provision C.2.1 of the CG Code again, and believes that Mr. Chen serving concurrently as the acting Chief Executive Officer can ensure the normal operation of the Company in the meantime and is in the interests of the Company and its shareholders as a whole.

Independent Non-executive Directors

During the year under review, the Board has complied with the requirements of the Listing Rules to appoint at least three independent non-executive Directors, representing at least one-third of the Board, with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Directors' Re-election

Code provision B.2.2 of the CG Code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Save for two of the non-executive Directors who are engaged on an appointment letter for a term of 1 year, each of the Directors is engaged on a service contract or appointment letter (as the case may be) for a term of 3 years.

In accordance with the Articles, all Directors are subject to retirement by rotation and re-election at an annual general meeting of the Company at least once every three years and any Director appointed by the Board or elected by the shareholders to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting, as the case may be, of the Company after his/her appointment and be subject to re-election at such meeting.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for the leadership and control of the Company and oversees the businesses, strategic decisions and performance of the Group, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflicts of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of their responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure an appropriate understanding of the business and operations of the Company and full awareness of directors' responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors, where appropriate.

During the year under review, all Directors have been provided with the relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interests. During the year under review, relevant reading materials, including legal and regulatory updates, have been provided to the Directors appointed (if any) for their reference and study.

A summary of the Directors' participation in training and continuous professional development during the year ended December 31, 2021 according to the records provided by the Directors is as follows:

Name of directors	Attending training organised by professional organisations and/or reading materials on latest rules and regulations
Executive Directors	
Mr. Chen Shuai	✓
Mr. Lu Wenzuo	✓
Mr. Pu Chengchuan *(Note 1)*	✓
Ms. Pan Jianli *(Note 2)*	N/A
Non-executive Directors	
Mr. Su Zhiqiang *(Note 3)*	✓
Ms. Shi Wenting *(Note 4)*	✓
Ms. Liu Lu	✓
Ms. Wang Nan	✓
Independent non-executive Directors	
Mr. Dang Jinxue	✓
Mr. Shi Luwen	✓
Mr. Zhou Xiangliang	✓

Notes:

1. Mr. Pu Chengchuan has been elected as an executive Director at the annual general meeting of the Company held on June 22, 2021.

2. Ms. Pan Jianli was appointed as an executive Director on March 29, 2022.

3. Mr. Su Zhiqiang resigned as a non-executive Director upon conclusion of the annual general meeting of the Company held on June 22, 2021 due to his other business commitments.

4. Ms. Shi Wenting resigned as a non-executive Director on March 29, 2022 due to her other business engagements which require more of her time.

ATTENDANCE RECORD OF BOARD AND BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS

Code provision C.5.1 of the CG Code requires that at least four regular Board meetings should be held each year at approximate quarterly intervals, with active participation of a majority of directors, either in person or through other electronic means of communication.

The attendance records of each Director while holding such offices at Board and Board committee meetings and general meetings of the Company held during the year ended December 31, 2021 are set out in the table below:

	Number of meetings attended/held				
	Board Meeting(s)	Audit Committee Meeting(s)	Remuneration Committee Meeting(s)	Nomination Committee Meeting(s)	General Meeting(s)
Executive Directors					
Mr. Chen Shuai	4/4*	–	–	1/1*	3/3
Mr. Lu Wenzuo	4/4	–	–	–	0/3
Mr. Pu Chengchuan *(Note 1)*	2/2	–	N/A	–	1/1
Ms. Pan Jianli *(Note 2)*	N/A	–	–	–	N/A
Non-executive Directors					
Mr. Su Zhiqiang *(Note 3)*	2/2	–	1/1	–	2/2
Ms. Shi Wenting *(Note 4)*	4/4	2/2	–	–	0/3
Ms. Liu Lu	4/4	–	–	–	0/3
Ms. Wang Nan	4/4	–	–	–	0/3
Independent non-executive Director					
Mr. Dang Jinxue *(Note 5)*	4/4	N/A	1/1*	1/1	1/3
Mr. Shi Luwen	4/4	2/2	–	1/1	1/3
Mr. Zhou Xiangliang	4/4	2/2*	1/1	–	1/3

* *the chairman of the Board or the committees*

Notes:

1. Mr. Pu Chengchuan has been elected as an executive Director at the annual general meeting of the Company held on June 22, 2021. Mr. Pu Chengchuan was also appointed as a member of the remuneration committee of the Company with effect from the conclusion of the annual general meeting of the Company held on June 22, 2021.

2. Ms. Pan Jianli was appointed as an executive Director on March 29, 2022.

3. Mr. Su Zhiqiang resigned as a non-executive Director and ceased to be a member of the remuneration committee of the Company upon conclusion of the annual general meeting of the Company held on June 22, 2021 due to his other business commitments.

4. Ms. Shi Wenting resigned as a non-executive Director and ceased to be a member of the audit committee of the Company on March 29, 2022 due to her other business engagements which require more of her time.

5. Mr. Dang Jinxue was appointed as a member of the Audit Committee on March 29, 2022.

BOARD COMMITTEES

The Board has established three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference. The terms of reference of the Board committees are posted on the website of the Company and of Hong Kong Exchanges and Clearing Limited ("**HKEX**") and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting system, internal control procedures and risk management system, relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held 2 meetings during the year. The following matters have been discussed and considered:

(a) the audit related matters for 2021 (including but not limited to the Group's financial accounting policies and practices, and the work performed by the external auditor of the Company);

(b) the annual results announcement and annual report of the Company for the year ended December 31, 2020, and the interim results announcement and interim report of the Company for the six months ended June 30, 2021;

(c) the independent auditor's report prepared by the external auditor of the Company;

(d) the Company's risk management and internal control system and the effectiveness thereof, and discussed the same with management;

(e) the re-appointment of the external auditor of the Company for 2022; and

(f) the Company's continuing connected transactions in 2021.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors, non-executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee held 1 meeting during the year and considered and recommended the following matters to the Board:

(a) remuneration and other benefits paid by the Company to the Directors and senior management of the Company; and

(b) terms of service and remuneration plan for newly appointed Directors.

The annual remuneration of the members of the senior management by band for the year ended December 31, 2021 is set out below:

Remuneration bands	Number of individuals
Nil to HK$1,499,999	1
HK$1,500,000 to HK$1,999,999	2
HK$2,500,000 to HK$2,999,999	1

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning for directors, and assessing the independence of independent non-executive Directors.

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") to achieve and maintain diversity on the Board in order to strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring. The Company considers that the Board Diversity Policy is beneficial for enhancing the Company's comprehensive performance and operating capability, and provides support for the Company in achieving strategic goals and maintaining sustainable and balanced development. According to the Board Diversity Policy, in selecting Director candidates, we will consider board diversity, including but not limited to skills, experience and cultural and educational background, geographical location, industry and professional experience, ethnicity, gender, age, knowledge and length of service.

Based on the business needs of the Group, the Nomination Committee has recommended and the Board has adopted the following measurable objectives:

(a) a prescribed proportion of Board members shall be non-executive Directors or independent non-executive Directors; and

(b) a prescribed proportion of Board members shall have obtained accounting or other professional qualifications.

The Nomination Committee shall monitor the implementation of the Board Diversity Policy and review the progress of its measurable objectives from time to time.

In evaluating and selecting any candidate for directorship, the following criteria are considered: (i) character and integrity; (ii) qualifications; (iii) the above-mentioned measurable objectives adopted for achieving diversity on the Board; (iv) requirement for the Board to have independent Directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the Listing Rules; (v) potential contributions; (vi) willingness and ability to devote adequate time to discharge duties; and (vii) such other perspectives that are appropriate to the Company's business and succession plan. Upon receipt of a proposal on appointment of a new Director and his/her biographical information, the Nomination Committee and the Board will evaluate such candidate based on the aforementioned criteria to determine whether he/she is qualified for directorship. The Nomination Committee will then recommend to the Board the candidate for are directorship, if appropriate.

The Board has also adopted the nomination policy (the "**Nomination Policy**") which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board.

The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the efficiency of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

To nominate director candidates, candidates would be identified by various methods and evaluated based on the approved selection criteria. Shortlisted candidates would be interviewed and their profiles would be reviewed, before making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

The Nomination Committee held 2 meetings during the year and reviewed the structure, size and composition of the Board, assessed the independence of independent non-executive Directors, and considered and made recommendations to the Board on the appointment or re-appointment of Directors.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 of the CG Code.

The Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Securities Dealing Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2021.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 93 to 100 of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended December 31, 2021 is set out below:

Service Category	Fees paid/ payable *RMB'000*
Audit services for annual report	2,142
Non-audit services	1,409
Total	3,551

Note: Non-audit services include the review fee for interim report (approximately RMB1,409,000 was paid).

RISK MANAGEMENT, INTERNAL CONTROLS AND INTERNAL AUDIT

The Board is responsible for setting up and implementing an appropriate and effective risk management and internal control system, and ensuring the effectiveness thereof, including evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. In addition, they provide only a reasonable but not an absolute assurance against material misstatement or loss.

A series of risk management and internal control policies and procedures are adopted both in the Group and the hospitals the Company manages, which includes risk management, internal control system and internal audit function. The risk management system contains identifying and categorizing current and emerging risks in our business operations, assessing and prioritizing risks, mitigating risks, and measuring our risk management. The internal control system includes employee code of conduct, internal audit, management report and internal control system in the hospitals the Company owns or manages. The internal control department accesses and monitors key risks, controls and procedures to assure our management and the Directors that the internal control system is functioning as intended and is sound and effective. The Audit Committee is responsible for supervising our internal audit function and its effectiveness, and is supported by the legal and risk control department of the Company. In addition, a standardized internal control system has been adopted by the hospitals the Company owns or manages to improve their internal policies and procedures. Yangsi Hospital, Cixi Hospital, Jiande Hospital and Jinhua Hospital have improved their internal policies and procedures based on this standardized systems.

Procedures on Identifying, Evaluating and Managing Significant Risks

Risk management is a continuous process and requires regular monitoring and review. The Company's procedures on identifying, evaluating and managing significant risks are as follows:

- Risk identification and assessment: Risks that may have a potential impact on the business and operations of the Group's various business units are identified, and a risk database is established and continuously updated; the assessment criteria that have been reviewed and approved by the management are used in the assessment of the identified risks, during which the likelihood of their occurrence and their impact on the business are taken into account;

- Risk-countering: Through comparison of risk assessment outcomes, risks are ranked by priority, and risk management strategies and internal control procedures are determined for preventing, avoiding or reducing risks; and

- Risk monitoring and reporting: Relevant risks are monitored on an ongoing and regular basis, and appropriate internal control procedures are guaranteed to be in place; in the event of any material change, the risk management policies and internal control procedures would be amended; and the risk monitoring results are reported to the Audit Committee and the management on a regular basis.

We strive to enhance the Company's risk management and internal control structure and capability to ensure long-term growth and sustainable development for the Company's business. In this regard, we are required to implement consistently an effective risk management and internal control structure. We will continue along the same direction, aiming to integrate risk management and internal control into our daily operations.

The Board of Directors reviews the effectiveness of the Group's risk management and internal control system once a year. During the reporting period ended December 31, 2021, the Company's risk management and internal control system was effective and sufficient, and there were no matters of major concerns relating to financial, operational or compliance controls.

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management, internal control system and internal audit function of the Company and considered the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function. The Company confirms that the above-mentioned risk management, internal control system and internal audit function are adequate and effective.

PROCEDURES ON AND INTERNAL CONTROLS FOR HANDLING AND DISSEMINATING INSIDE INFORMATION

In order to regulate information disclosure, strengthen management of information disclosure, and protect the rights and interests of the Company and its shareholders and other stakeholders, the Group has put in place procedures and internal controls for the handling and dissemination of inside information (the "**Procedures**") in accordance with the principles and requirements under laws and regulations such as the SFO and the Listing Rules. The Procedures are applicable to persons including the Directors, secretary to the Board, senior management, responsible person of each department and subsidiary, other persons having the duty for information disclosure, and staff who have access to inside information by virtue of his/her office or capacity. The Procedures provide detailed guidelines on the appropriate timing, contents, formats, internal vetting processes and disseminating procedures of information under different circumstances, the review and disclosure procedures of releasing results announcements, ad hoc announcements, inside information announcements, regular reports and circulars, duties of confidentiality and penalty provisions for all management staff who are responsible for information disclosure.

The Board is of the view that the Company's procedures on and internal controls for handling and disseminating inside information are effective.

COMPANY SECRETARY

Ms. Ho Wing Yan, an associate member of The Hong Kong Chartered Governance Institute ("**HKCGI**") and The Chartered Governance Institute and a holder of the Practitioner's Endorsement issued by HKCGI, an external service provider, has been engaged by the Company as its company secretary. Ms. Ho has confirmed that she has complied with Rule 3.29 of the Listing Rules. The primary contact person at the Company is Mr. Liu Hui, the chief legal officer and secretary to the Board.

DIVIDEND POLICY

The Board has adopted the dividend policy (the "**Dividend Policy**") which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Dividend Policy aims to allow the Shareholders to participate in the Company's profits whilst preserving the Company's liquidity to capture future growth opportunities. The dividend distribution decision of the Company will depend on, among others, the financial results, the cashflow, Shareholders' interests, the general business conditions and strategies, the current and future operations, the liquidity and capital requirements, taxation considerations, statutory and regulatory restrictions and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time.

The Dividend Policy will be reviewed on a regular basis.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of HKEX after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 12.3 of the Articles, any two or more shareholders or any one shareholder which is a recognized clearing house (or its nominee(s)) (the "**Requisitionist(s)**") holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles or the Cayman Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Suite 10, 70/F., Two International Finance Centre, No. 8 Finance Street, Hong Kong
(For the attention of the Company Secretary)

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Company's business performance and strategies. The Company endeavors to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Company maintains a website at www.hcclhealthcare.com as a communication platform with shareholders of the Company and investors, where the financial information and other relevant information of the Company are available for public access.

Constitutional Documents

During the year ended December 31, 2021, the Company has not made any changes to the Articles. An up-to-date version of the Articles is also available on the Company's website and HKEX's website.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Vanguard Glory Limited, Hony Capital Fund V, L.P., Hony Capital Fund V GP, L.P. and Hony Capital Fund V GP Limited are the controlling shareholders (as defined in the Listing Rules) of the Company (collectively, the "**Controlling Shareholders**"). To ensure that direct and indirect competition does not develop between us and the Controlling Shareholders' other activities, our Controlling Shareholders have entered into a deed of non-competition (the "**Deed of Non-Competition**") as set out in section headed "Relationship with Our Controlling Shareholders—Non-Competition Undertaking" in the Prospectus. The Controlling Shareholders confirmed its compliance of all the undertakings provided under the Deed of Non-Competition. There are no matters which are required to be deliberated by the independent non-executive Directors in relation to the compliance and enforcement of the Deed of Non-Competition and it is considered that the terms of the Deed of Non-Competition have been complied by the Controlling Shareholders.

To the Shareholders of Hospital Corporation of China Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Hospital Corporation of China Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 101 to 216, comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Assessment of goodwill impairment

- Fair value estimation of convertible bonds

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of goodwill impairment	
Refer to note 2.8(i), 4(i) and 16 to the consolidated financial statements. As at December 31, 2021, the carrying amount of goodwill amounting to RMB1,108,690,000 arose from acquisitions of subsidiaries of the Group, among which RMB1,050,195,000 and RMB58,495,000 were allocated to segments of hospital management services and general hospital services. Management reviews the business performance and monitors goodwill on operating segment level. Goodwill impairment reviews were undertaken annually or more frequently if events or changes in circumstances indicated a potential impairment. The recoverable amount of each cash-generating unit was determined based on the higher of fair value less costs of disposal and value in use. These calculations required the use of estimates and judgements.	We obtained an understanding of the management's internal controls and assessment process of goodwill impairment, evaluated and tested relevant controls. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors. We assessed the independence, competence, capabilities and objectivity of the professional valuer who was involved in management's impairment assessment. With the support of our internal valuation experts, we assessed the appropriateness of valuation model applied and parameters selected by the external valuation expert. We further assessed the relevant key assumptions used in determining the recoverable amount of each operating segment as follows: • compound growth rate of revenue within forecast period by reference to management's research and analysis based on industry information and data;

Key Audit Matters – *continued*

Key Audit Matter

Assessment of goodwill impairment

Management assessed and determined the recoverable amount of each operating segment with the assistance from an independent valuer. The key assumptions used in the calculations were: compound growth rate of revenue within forecast period, long-term growth rate and post-tax discount rate.

Due to the changes on local medical and healthcare policy and the combined effect of the expected slow recovery from current market conditions influenced by the Coronavirus Disease 2019 ('the COVID-19') and the changes of business relationship, for the year ended December 31, 2021 the operating results of certain subsidiaries historically acquired were below management's previous forecasts. Based on the management's assessment with updated forecasts, goodwill impairment losses of RMB132,008,000 and RMB9,266,000 have been recognised in each of hospital management services and sale of pharmaceutical products segments, respectively.

We focused on auditing the impairment of goodwill because the estimation of recoverable amount is subject to high degree of estimation uncertainty. The inherent risk in relation to the impairment assessment of goodwill is considered significant due to the subjectivity of significant assumptions used and the significant judgements involved in selecting data.

How our audit addressed the Key Audit Matter

- long-term growth rate by reference to the long-term inflation rate of China;

- post-tax discount rate by reference to the cost of equity of comparable companies.

We also checked the mathematical accuracy of the calculations of methods and impairment losses performed by management and independent valuer on sample basis.

We discussed with management and independent valuer regarding the sensitivity analysis performed by management and independent valuer on the above key assumptions to further understand the extent to which adverse changes, either individually or in aggregate, would result in the goodwill being impaired.

We also considered whether the judgements made in selecting the significant assumptions and data would give rise to indicators of possible management bias.

We assessed the adequacy of the disclosures in relation to goodwill impairment in the context of the applicable financial reporting framework.

In light of the above work conducted, we found the significant judgements and estimates made by management on relevant key assumptions and assessment were supported by the evidences we gathered.

Key Audit Matters – *continued*

Key Audit Matter

Fair value estimation of convertible bonds

Refer to Notes 4(iii) and 34 to the consolidated financial statements.

The convertible bonds issued by the Company are designated as financial liabilities at fair value through profit or loss. The fair value of these convertible bonds was determined by management with reference to the valuation report issued by an independent professional valuer, using valuation techniques.

Judgements and estimates were applied in determining valuation method and assumptions.

The key assumptions included risk-free rate of interest, volatility, dividend yield and time to expiration.

We focused on auditing the fair value of convertible bonds because the fair value determination of convertible bonds is subject to high degree of estimation uncertainty. The inherent risk in relation to the fair value estimation of convertible bonds is considered significant due to the relevant key assumptions applied in valuation involved significant judgements and estimates.

How our audit addressed the Key Audit Matter

We obtained an understanding of the management's internal controls and assessment process of fair value estimation of convertible bonds. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors.

We assessed the independence, competence, capabilities and objectivity of the external professional valuer.

We assessed the valuation methods applied and the relevant key assumptions with the assistance from internal valuation experts as follows:

- risk-free rate of interest by reference to the market yield of Hong Kong government bond with a term close to time to maturity of the convertible bonds as of the valuation date;
- volatility by reference to the annualized standard deviation of the daily return embedded in historical stock prices of the Company with a time horizon close to the expected term;
- dividend yield by reference to the dividend policy of the Group;
- time to expiration by reference to the terms of convertible bond instruments.

We also checked the mathematical accuracy of the calculation of fair value of the convertible bonds with the assistance from our internal valuation experts.

Key Audit Matters – *continued*

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value estimation of convertible bonds	
	We also considered whether the judgements made in selecting the significant assumptions and data would give rise to indicators of possible management bias. We assessed the adequacy of the relevant disclosures in relation to the fair value estimation of convertible bonds in the context of the applicable financial reporting framework. In light of the above work conducted, we found the significant judgements and estimates made by management on relevant key assumptions were supported by the evidences we gathered.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements – *continued*

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements – *continued*

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tsun NG.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 29, 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended December 31, 2021 RMB'000	2020 RMB'000
Revenue	5	520,290	399,214
Cost of revenue	6	(306,063)	(204,885)
Gross profit		214,227	194,329
Selling expenses	6	(2,006)	(4)
Administrative expenses	6	(95,872)	(51,899)
Net impairment losses on financial assets	3.1(ii)	(26,477)	(15,077)
Impairment losses on intangible assets	16	(551,981)	(668,219)
Other income – net	7	7,181	4,803
Other gains – net	8	19,854	136,226
Operating loss		(435,074)	(399,841)
Finance income	10	6,733	18,420
Finance costs	10	(20,761)	(54,402)
Loss before income tax		(449,102)	(435,823)
Income tax credit	12	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)	13	(2.031)	(2.926)
– Diluted loss per share (in RMB)	13	(2.031)	(2.926)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

	Notes	As at December 31, 2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**250,715**	145,125
Right-of-use assets	15	**48,458**	38,875
Intangible assets	16	**1,637,308**	2,208,557
Deferred income tax assets	33	**9,284**	3,835
Other receivables, deposits and prepayments	20	**2,374**	1,897
Amount due from a related party	21	**–**	80,000
Total non-current assets		**1,948,139**	2,478,289
Current assets			
Inventories	19	**48,033**	6,560
Trade receivables	18	**114,794**	33,945
Other receivables, deposits and prepayments	20	**9,975**	2,827
Amounts due from related parties	21	**222,802**	271,120
Financial assets at fair value through profit or loss	22	**338,905**	90,737
Term deposits	23	**638**	–
Cash and cash equivalents	24	**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	25	**123**	123
Share premium	25	**435,304**	435,304
Other reserves	27	**929,345**	928,111
Accumulated losses	28	**(566,799)**	(283,382)
		797,973	1,080,156
Non-controlling interests		**337,854**	287,084
Total equity		**1,135,827**	1,367,240

	Notes	As at December 31, 2021 RMB'000	2020 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	30	**–**	34,386
Convertible bonds	34	**906,916**	1,558,245
Lease liabilities	15	**7,607**	692
Employment benefit obligations	32	**42,798**	–
Deferred income tax liabilities	33	**178,741**	302,301
Accruals, other payables and provisions	31	**325,804**	196
Total non-current liabilities		**1,461,866**	1,895,820
Current liabilities			
Trade payables	29	**124,300**	16,762
Accruals, other payables and provisions	31	**287,419**	85,711
Amounts due to related parties	21	**13,246**	22,843
Contract liabilities		**1,494**	872
Current income tax liabilities		**27,030**	20,281
Borrowings	30	**71,018**	97,309
Lease liabilities	15	**1,514**	266
Other financial liability at amortised cost	17	**–**	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

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on page 101 to page 216 were approved by the Board of Directors on March 29, 2022 and were signed on its behalf.

Chen Shuai

Pu Chengchuan

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to owners of the Company						
		Share capital	Share premium	Other reserves	Retained earnings/ (accumulated losses)	Sub-total	Attributable to non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2020		123	435,304	924,231	123,448	1,483,106	334,734	1,817,840
Comprehensive loss								
– Loss for the year		–	–	–	(404,342)	(404,342)	(16,727)	(421,069)
Share-based payments								
– share incentive scheme	26	–	–	1,392	–	1,392	–	1,392
Transfer of reserves	27(a)	–	–	2,488	(2,488)	–	–	–
Dividends provided for or paid	11(iii)	–	–	–	–	–	(30,923)	(30,923)
Balance at December 31, 2020		123	435,304	928,111	(283,382)	1,080,156	287,084	1,367,240
Balance at January 1, 2021		123	435,304	928,111	(283,382)	1,080,156	287,084	1,367,240
Comprehensive loss								
– Loss for the year		–	–	–	(280,709)	(280,709)	(81,687)	(362,396)
Expiration of put option		–	–	(2,150)	–	(2,150)	–	(2,150)
Share-based payments								
– share incentive scheme	26	–	–	676	–	676	–	676
Transfer of reserves	27(a)	–	–	2,708	(2,708)	–	–	–
Dividends provided for or paid	11(iii)	–	–	–	–	–	(30,791)	(30,791)
Changes as a result of business combination	39(b)	–	–	–	–	–	163,248	163,248
Balance at December 31, 2021		123	435,304	929,345	(566,799)	797,973	337,854	1,135,827

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended December 31, 2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash generated from operations	36(i)	**167,006**	127,128
Income tax paid		**(35,554)**	(43,886)
Interest received		**1,617**	243
Net cash generated from operating activities		**133,069**	83,485
Cash flows from investing activities			
Payments for property, plant and equipment		**(12,416)**	(9,013)
Payments for intangible assets		**(3,380)**	(1,258)
Proceeds from sale of property, plant and equipment		**2,019**	636
Payments for financial assets at fair value through profit or loss	3.3(iii)	**(405,850)**	(502,320)
Proceeds from sale of financial assets at fair value through profit or loss	3.3(iii)	**381,735**	449,215
Interest received on financial assets at fair value through profit and loss	3.3(iii)	**2,710**	1,150
Payment of professional fees for acquisition		**–**	(1,535)
Placement of term deposits with initial terms over three months	23	**(638)**	–
Redemption of term deposits with initial terms of over three months		**–**	134,370
Interest received on term deposits		**1,212**	13,809
Loans to related parties	40(iii)	**(9)**	(55,350)
Loans repayment from related parties	40(iii)	**–**	55,062
Loans interest received from related parties	40(iii)	**4,138**	5,059
Refund of monetary fund		**–**	15,000
Net cash received from business combination	39(c)	**44,434**	–
Net cash generated from investing activities		**13,955**	104,825

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended December 31, 2021 RMB'000	2020 RMB'000
Cash flows from financing activities			
Proceeds from borrowings	36(ii)	**40,000**	57,200
Repayment of borrowings	36(ii)	**(104,715)**	(142,564)
Principal elements of lease payments	36(ii)	**(2,057)**	(2,147)
Redemption of convertible bonds	36(ii)	**(453,145)**	–
Loans from related parties	36(ii)	**–**	1,726
Loans repayment to related parties	36(ii)	**(112)**	(2,439)
Dividend and withholding tax paid		**(30,791)**	(30,923)
Net cash used in financing activities		**(550,820)**	(119,147)
Net (decrease)/increase in cash and cash equivalents		**(403,796)**	69,163
Cash and cash equivalents at beginning of the year		**860,726**	836,624
Effects of exchange rate changes on cash and cash equivalents		**(16,502)**	(45,061)
Cash and cash equivalents at the end of the year		**440,428**	860,726

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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 hospitals; (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.

2 Summary of significant accounting policies – *continued*

2.1 Basis of preparation – *continued*

(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.

(iv) New standards and interpretations not yet adopted by the Group

		Effective Date
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	January 1, 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
Annual Improvements	Annual Improvements 2018-2020 cycle	January 1, 2022
IFRS 17	Insurance Contracts	January 1, 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023

2 Summary of significant accounting policies – *continued*

2.1 Basis of preparation – *continued*

(iv) New standards and interpretations not yet adopted by the Group – continued

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for December 31, 2021 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (Note 2.3).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet, respectively.

2 Summary of significant accounting policies – *continued*

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- Fair values of the assets transferred,
- Liabilities incurred to the former owners of the acquired business,
- Equity interests issued by the Group,
- Fair value of any asset or liability resulting from a contingent consideration arrangement, and
- Fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- Consideration transferred,
- Amount of any non-controlling interest in the acquired entity, and
- Acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the consolidated statement of comprehensive income as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

2 Summary of significant accounting policies – *continued*

2.3 Business combinations – *continued*

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in the consolidated statement of comprehensive income.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in the consolidated statement of comprehensive income.

Settlement gains and losses from non-contractual relationships are measured at fair value on the acquisition date. Settlement gains and losses from contractual relationships are measured at the lesser of the following amounts:

- The amount by which the contract terms are either favourable or unfavourable (from the acquirer's perspective), compared to pricing for current market transactions for the same or similar items. If the contract terms are favourable compared to current market transactions, a settlement gain is recognised. If the contract terms are unfavourable compared to current market transactions, a settlement loss is recognised.

- Those to be measured at amortised cost. The amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavourable. The amount of any settlement provision, for breach of contract or voluntary termination, is used to determine the settlement gain or loss.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 Summary of significant accounting policies – *continued*

2.5 Segment reporting

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

2.6 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Since the majority of the operations of the Group are located in the PRC, the consolidated financial statements are presented in RMB, which is the Group's functional currency and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to cash and cash equivalents and borrowings are presented in the consolidated statement of comprehensive income, within 'finance income and cost – net'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains/(losses) – net'.

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replace. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

2 Summary of significant accounting policies – *continued*

2.7 Property, plant and equipment – *continued*

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate the cost or revalued amounts of the assets, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, as follows:

–	Buildings	20-50 years
–	Medical equipment	5-10 years
–	Vehicles	5-10 years
–	Office equipment and furniture	3-10 years
–	Leasehold improvements	Shorter of remaining lease term or estimated useful lives

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses)– net' in the consolidated statement of comprehensive income.

Construction-in-progress (the 'CIP') represents buildings under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to buildings and depreciated in accordance with the policy as stated above.

2 Summary of significant accounting policies – *continued*

2.8 Intangible assets

(i) Goodwill

The excess of the consideration transferred, amount of any non-controlling interest and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired in business combination is recorded as goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

(ii) Medical licences

Medical licences acquired in a business combination are recognised at fair value at the acquisition date. These medical licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

(iii) Contractual rights to provide management services

Contractual rights to provide management services are the rights to provide management services to not-for-profit hospitals. These contractual rights acquired in a business combination are recognised at fair value at the acquisition date. These contractual rights have finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of contractual rights over their estimated useful lives.

(iv) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives of 5 or 10 years. Costs associated with maintaining computer software programmes are recognised as expense as incurred.

2 Summary of significant accounting policies – *continued*

2.9 Right-of-use assets – land use right

Right-of-use assets – land use right are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the consolidated statement of comprehensive income on a straight-line basis over the remaining period of the lease.

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income ('OCI') or through profit or loss), and

- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded either in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ('FVOCI').

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 Summary of significant accounting policies – *continued*

2.11 Investments and other financial assets – *continued*

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ('FVPL'), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated statement of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated statement of comprehensive income and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

2 Summary of significant accounting policies – *continued*

2.11 Investments and other financial assets – *continued*

(iii) Measurement – continued

Debt instruments – *continued*

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in the consolidated statement of comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the consolidated statement of comprehensive income and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of comprehensive income following the derecognition of the investment. Dividends from such investments continue to be recognised in the consolidated statement of comprehensive income as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2 Summary of significant accounting policies – *continued*

2.11 Investments and other financial assets – *continued*

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and its receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and amounts due from related parties (trade in nature), the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(ii) for further details.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined on first-in-first-out method. Net realizable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and estimated costs necessary to make the sale.

2.14 Trade and other receivables

Trade receivables are amounts due from patients and customers for goods sold or services performed and governments' social insurance schemes rendered in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 18 for further information about the Group's accounting for trade receivables and Note 3.1(ii) for a description of the Group's impairment policies.

2 Summary of significant accounting policies – *continued*

2.15 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows and consolidated balance sheet, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any entity within the Group purchases the Company's equity share capital (treasury shares), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the owners of the Company.

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2 Summary of significant accounting policies – *continued*

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The convertible bonds were designated as financial liabilities at FVPL by management, the amount of change in fair value of the financial liabilities that is attributable to change in the credit risk of that liabilities shall be presented in other comprehensive income, the remaining amount of change in the fair value of liabilities shall be presented in the consolidated statement of comprehensive income.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the consolidated statement of comprehensive income as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2 Summary of significant accounting policies – *continued*

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 Summary of significant accounting policies – *continued*

2.21 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) Post-employment obligation

The Group operates various post-employment schemes, including both defined contribution plan and defined benefit plan.

(a) Defined contribution plan

The subsidiaries of the Group which are companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payables to the existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

There were no forfeited contributions (by employers on behalf of employees who leave the plans prior to vesting fully in such contributions) to offset existing contributions under the defined contribution plans.

2 Summary of significant accounting policies – *continued*

2.21 Employee benefits – *continued*

(ii) Post-employment obligation – *continued*

(b) Defined benefit plan

Certain subsidiaries of the Group provided defined benefit plan to its certain employees after retirement. The liability or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligations. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of comprehensive income.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in the consolidated statement of comprehensive income as past service costs.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2 Summary of significant accounting policies – *continued*

2.22 Share-based payments

(i) Equity-settled share-based payment transactions

The Group operates a number of equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (including shares or share options) of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of share options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

(ii) Cash-settled share-based payment transactions

The Group operates a number of cash-settled share-based compensation plans, under which the entity receives services from employees by incurring liabilities for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity (the share appreciation rights). The employee services received and the liability incurred is measured at the fair value of the liability.

The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date.

At the end of each reporting period and at the date of settlement, the Group re-measures the fair value of the liability, with any changes in fair value recognised in the consolidated statement of comprehensive income for the period.

2 Summary of significant accounting policies – *continued*

2.22 Share-based payments – *continued*

(iii) Share-based payment transactions among group entities

The Company settling a share-based payment transaction when another entity in the Group receives the goods or services shall recognize the transaction as an equity-settled share-based payment transaction only if it is settled in the Company's own equity instruments. Otherwise, the transaction shall be recognised as a cash settled share-based payment transaction. In its separate financial statements, the Company records a debit, recognizing an increase in the investment in subsidiaries as a capital contribution from the parent and a credit to equity as no goods or services are received by the Company.

(iv) Modification and cancellation

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

2.23 Revenue recognition

Revenues are recognised when or as the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- Provides all of the benefits received and consumed simultaneously by the customer;
- Creates and enhances an asset that the customer controls as the Group performs; or
- Does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of the performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

2 Summary of significant accounting policies – *continued*

2.23 Revenue recognition – *continued*

The progress towards complete satisfaction of performance obligation is measured based on one of the following methods that best depicts the Group's performance in satisfying the performance obligation:

- Direct measurements of the value of individual services transferred by the Group to the customer; or

- The Group's efforts or inputs to the satisfaction of the performance obligation.

If contracts involve the sale of multiple goods, goods followed by related services, or multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

When either party to a contract has performed, the Group presents the contract in the consolidated balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract as a contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

The following is a description of the accounting policy for the principal revenue streams of the Group.

2 Summary of significant accounting policies – *continued*

2.23 Revenue recognition – *continued*

(i) Hospital Management Services

Revenue from provision of hospital management services is recognised in the accounting period in which the services are rendered.

For the hospital management services in relation to various aspects of daily operations of not-for-profit hospitals, the contracts include multiple deliverables. Considering such services have the same pattern and are all highly relevant, it is therefore regarded as one performance obligation.

Relevant revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards the complete satisfaction of performance obligation is measured by direct measurements of the value to the customer of service transferred by the Group.

The Group receives the payment according to the contracts. Any unconditional rights to consideration of the contract is presented as a receivable. If the Group performs by transferring services to the customer before the customer pays consideration or before payments is due, the Group presents the contract as a contract asset, excluding any amounts presented as a receivable. If a customer pays consideration before the Group transfer services to the customer, the Group presented the contract as a contract liability when the payment is made or the payment is due.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the consolidated statement of comprehensive income in the period in which the circumstances that give rise to the revision become known by management.

2 Summary of significant accounting policies – *continued*

2.23 Revenue recognition – *continued*

(ii) General hospital services

Revenue from provision of general hospital services is recognised when the related services have been rendered to customers.

For inpatient service, the customers normally receive inpatient treatment which contains various treatment components that are all highly relevant and regarded as one performance obligation. The usual period of inpatient is within two weeks. Relevant revenue of inpatient treatment is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards the complete satisfaction of performance obligation is measured by direct measurements of the value of individual services transferred by the Group to the customer.

Relevant revenue of outpatient services is recognised at a point in time.

The Group usually receives the payment from customers in advance before the hospital services are rendered. Customers normally do not ask for a refund of payment and the services not yet rendered are recorded as contract liability. The contract liability is recognised as revenue when the related services are rendered.

For the cost to be borne by the relevant social security authority, the Group usually receives the payment based on a payment schedule. If the services rendered by the Group exceed the payment, the trade receivable is recognised.

(iii) Sale of pharmaceutical products

Revenue from sale of pharmaceutical products is recognised when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2 Summary of significant accounting policies – *continued*

2.24 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains on these assets, see Note 8 below. Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

2.25 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group under residual value guarantees
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

2 Summary of significant accounting policies – *continued*

2.25 Leases – *continued*

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated among principal and finance cost. The finance cost is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 Summary of significant accounting policies – *continued*

2.25 Leases – *continued*

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.26 Dividends distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2 Summary of significant accounting policies – *continued*

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Note 7 provides further information on how the Group accounts for government grants.

2.28 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit 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 and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cashflow and fair value interest rate risk), credit risk, price risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the executive directors.

(i) Market risk

(a) Foreign exchange risk

Foreign currency risk is the risk that the value of a financial instrument fluctuates because of the changes in foreign exchange rates.

The Group mainly operates in the PRC with most of the transactions settled in RMB. Foreign exchange rate risk arises when recognised 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 the US dollars (USD) and HK dollars (HKD).

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.

The amounts denominated in the currency other than the functional currency of the Group were as follows:

	As at December 31, 2021		As at December 31, 2020	
	USD RMB'000	HKD RMB'000	USD RMB'000	HKD RMB'000
Amounts due from related parties	340	–	348	–
Cash and cash equivalents	3,001	92,726	3,682	628,487
Term deposits	638	–	–	–
Borrowings	–	(31,018)	–	(91,695)
Convertible bonds	–	(906,916)	–	(1,558,245)
Accruals, other payables and provisions	–	(188,105)	(1,236)	(2,388)
Amounts due to related parties	(1,393)	–	(1,419)	(7)
	2,586	(1,033,313)	1,375	(1,023,848)

3 Financial risk management – *continued*

3.1 Financial risk factors – *continued*

(i) Market risk – continued

(a) Foreign exchange risk – *continued*

As at December 31, 2021, if RMB had weakened/strengthened by 5% against USD, with all other variable held constant, post-tax profit for the year of the Group would have been RMB125,000 higher/lower (2020: RMB58,000 higher/lower).

As at December 31, 2021, if RMB had weakened/strengthened by 5% against HKD, with all other variable held constant, post-tax profit for the year of the Group would have been RMB51,618,000 lower/higher (2020: RMB51,157,000 lower/higher).

(b) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from borrowings with variable rates, which expose the Group to cash flow interest rate risk.

The Group's borrowings and receivables are carried at amortised cost. The borrowings are periodically contractually repriced (see below) and to that extent are also exposed to the risk of future changes in market interest rates.

The exposure of the Group's borrowing to interest rate changes and the contractual re-pricing dates of the borrowings at the end of the reporting period are as follows:

	As at December 31, 2021		As at December 31, 2020	
	RMB'000	% of total loans	RMB'000	% of total loans
Fixed rate borrowings	40,000	56%	40,000	30%
Other borrowings				
– repricing dates:				
3 months or less	31,018	44%	91,695	70%
	71,018	100%	131,695	100%

3 Financial risk management – *continued*

3.1 Financial risk factors – *continued*

(i) Market risk – continued

(b) Cash flow and fair value interest rate risk – *continued*

An analysis by maturities is provided in Note 3.1(iii). The percentage of total loans shows the proportion of loans that are currently at fixed and variable rates in relation to the total amount of borrowings.

Profit or loss is sensitive to higher/lower interest rates change, if interest rates on borrowings with variable interest rates had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB637,000 (2020: RMB1,739,000) lower/higher.

(ii) Credit risk

Credit risk mainly arises from cash and cash equivalents, term deposit, financial assets at FVPL, amounts due from related parties and trade and other receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

The credit risk of cash and cash equivalents, term deposit, financial assets at FVPL is limited because the counterparties are mainly state-owned or public listed commercial banks which are high-credit-quality financial institutions in the PRC.

(a) Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- Trade receivables from the provision of general hospital services and sales of pharmaceutical products and amounts due from related parties (trade in nature);
- Debt investments carried at amortised cost; and
- Debt investments carried at FVPL.

While cash and cash equivalents and term deposit are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

3 Financial risk management – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk – continued

(a) Impairment of financial assets – *continued*

Trade receivables and amounts due from related parties (trade in nature)

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and amounts due from related parties (trade in nature).

To measure the expected credit losses, trade receivables and amounts due from related parties (trade in nature) have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 24 month before December 31, 2021 or December 31, 2020, respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Product (GDP), Consumer Price Index (CPI) and Producer Price Index (PPI) of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

3 Financial risk management – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk – *continued*

(a) Impairment of financial assets – *continued*

Trade receivables and amounts due from related parties (trade in nature) – continued

On that basis, the loss allowance of trade receivable and amounts due from related parties (trade in nature) as at December 31, 2021 and 2020 was determined as follows:

	Lifetime expected credit loss rate	Gross carrying amount	Lifetime expected credit loss	Net carrying Amount
December 31, 2021				
Provision on trade receivables	5.54%	121,533	(6,739)	114,794
Provision on amounts due from related parties (trade in nature)	18.51%	174,799	(32,347)	142,452
		296,332	(39,086)	257,246
December 31, 2020				
Provision on trade receivables	8.12%	36,945	(3,000)	33,945
Provision on amounts due from related parties (trade in nature)	3.34%	279,703	(9,345)	270,358
		316,648	(12,345)	304,303

3 Financial risk management – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk – continued

(a) Impairment of financial assets – *continued*

Trade receivables and amounts due from related parties (trade in nature) – continued

The loss allowances for trade receivables and amounts due from related parties (trade in nature) as at December 31, 2021 and 2020 reconcile to the opening loss allowances as follows:

	Trade receivables	
	2021	2020
	RMB'000	RMB'000
Opening loss allowance as at January 1	**3,000**	1,000
Changes as a result of business combination (Note 39(b)(i))	**3,085**	–
Increase in loss allowance for trade receivables recognised in the consolidated statement of comprehensive income during the year	**3,475**	5,732
Receivables written off during the year as uncollectible	**(2,821)**	(3,732)
Closing loss allowance as at December 31	**6,739**	3,000

	Amounts due from related parties (trade in nature)	
	2021	2020
	RMB'000	RMB'000
Opening loss allowance as at January 1	**9,345**	–
Increase in loss allowance for amounts due from related parties (trade in nature) recognised in the consolidated statement of comprehensive income during the year	**23,002**	9,345
Closing loss allowance as at December 31	**32,347**	9,345

3 Financial risk management – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk – continued

(a) Impairment of financial assets – *continued*

Trade receivables and amounts due from related parties (trade in nature) – continued

Trade receivables and amounts due from related parties (trade in nature) are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables and amounts due from related parties (trade in nature) are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Debt investments

All of the Group's debt investments at amortised cost are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months' expected losses. The investment instruments are considered to be low credit risk where they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, deposits and amounts due from related parties (others). The directors of the Group do not expect any losses from non-performance by the counterparties of other receivables, deposits and amounts due from related parties (others). Thus, no loss allowance provision was recognised.

Debt investments carried at FVPL

Debt investments carried at FVPL include investment in monetary funds. The directors of the Group do not expect any losses from non-performance by the counterparties of the debt investments carried at FVPL. Thus no loss allowance provision was recognised.

3 Financial risk management – *continued*

3.1 Financial risk factors – *continued*

(iii) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents to meet operating capital requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At December 31, 2021					
Borrowing and interests	73,573	–	–	–	73,573
Lease liabilities	1,880	1,702	3,802	2,733	10,117
Trade payables	124,300	–	–	–	124,300
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	148,201	346,747	–	–	494,948
Amounts due to related parties	13,246	–	–	–	13,246
Convertible bonds	–	906,916	–	–	906,916
	361,200	1,255,365	3,802	2,733	1,623,100
At December 31, 2020					
Borrowing and interests	103,263	36,164	–	–	139,427
Lease liabilities	370	57	171	805	1,403
Trade payables	16,762	–	–	–	16,762
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	24,366	–	–	–	24,366
Amounts due to related parties	22,843	–	–	–	22,843
Convertible bonds	–	–	1,558,245	–	1,558,245
Other financial liability at amortised cost	237,100	–	–	–	237,100
	404,704	36,221	1,558,416	805	2,000,146

3 Financial risk management – *continued*

3.1 Financial risk factors – *continued*

(iv) Price risk

The Group is mainly exposed to price risk in respect of convertible bonds held by the Group. The significant inputs in the valuation model related to convertible bonds were listed in Note 34.

The sensitivity analysis is performed by the management. If the fair values of convertible bonds held by the Group had been 5% higher/lower, the profit before income tax for the year ended December 31, 2021 would have been approximately RMB45,346,000 (2020: RMB77,912,000) lower/higher.

Fair value of convertible bonds is affected by changes in share price of the Company. If the Company's share price had increased/decreased by 5% with all other variables held constant, the profit before income tax for the year ended December 31, 2021 would have been approximately RMB5,668,000 lower or RMB4,048,000 higher (2020: RMB12,121,000 lower or RMB13,546,000 higher).

3.2 Capital Risk Management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at December 31, 2021 was 64% (2020: 63%).

There were no changes in the Group's approach to capital management for the years ended December 31, 2021 and 2020.

3 Financial risk management – *continued*

3.3 Fair value estimation

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets that are measured at fair value at December 31, 2021 and 2020.

At December 31, 2021	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at FVPL				
– Monetary funds with floating rates	–	338,905	–	338,905
Total assets	–	338,905	–	338,905
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds	–	–	906,916	906,916
Total liabilities	–	–	906,916	906,916

At December 31, 2020	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at FVPL				
– Monetary funds with floating rates	–	90,737	–	90,737
Total assets	–	90,737	–	90,737
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds	–	–	1,558,245	1,558,245
Total liabilities	–	–	1,558,245	1,558,245

3 Financial risk management – *continued*

3.3 Fair value estimation – *continued*

(i) Fair value hierarchy – continued

There were no transfers between level 1, 2 and 3 for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments, and
- for convertible bonds – option pricing models (e.g. binomial model).

3 Financial risk management – *continued*

3.3 Fair value estimation – *continued*

(iii) Fair value measurements using significant observable inputs (level 2)

The following table presents the changes in level 2 instruments for the years ended December 31, 2021 and 2020, respectively.

	Monetary funds with floating rates RMB'000
Opening balance as at January 1, 2020	36,229
Additions	502,320
Settlements	(450,365)
Gains recognised in other gains/(losses) – net*	2,553
Closing balance as at December 31, 2020	90,737
Opening balance as at January 1, 2021	**90,737**
Changes as a result of business combination (Note 39(b))	**221,000**
Additions	**405,850**
Settlements	**(384,445)**
Gains recognised in other gains/(losses) – net*	**5,763**
Closing balance as at December 31, 2021	**338,905**
* Includes unrealised gains recognised in the consolidated statement of comprehensive income attributable to balance held at the end of the reporting period	
2021	**3,053**
2020	1,403

Financial instruments in level 2 were monetary funds with floating rates treated as financial assets at FVPL held by the Group. The fair value changes resulting from the change of the monetary funds' value held by the Group is RMB5,763,000 during the year ended December 31, 2021 and was recognised in other gains/(losses) – net (2020: RMB2,553,000).

3 Financial risk management – *continued*

3.3 Fair value estimation – *continued*

(iv) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the years ended December 31, 2021 and 2020, respectively.

	Call option to acquire subsidiaries' remaining interests (Note 22) RMB'000	Convertible bonds (Note 34) RMB'000	Total RMB'000
Opening balance as at January 1, 2020	600	(1,693,430)	(1,692,830)
(Losses)/gains recognised in other gains/(losses) – net	(600)	135,185	134,585
Closing balance as at December 31, 2020	–	(1,558,245)	(1,558,245)
Opening balance as at January 1, 2021	**–**	**(1,558,245)**	**(1,558,245)**
Redemption of convertible bonds	**–**	**689,644**	**689,644**
(Losses)/gains recognised in other gains/(losses) – net	**–**	**(38,315)**	**(38,315)**
Closing balance as at December 31, 2021	**–**	**(906,916)**	**(906,916)**

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Estimation of goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a CGU or a group of CGUs is determined based on value in use or/and fair value less costs of disposal calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering an eight-year period for general hospital services segment, hospital management services segment and sale of pharmaceutical products segment ('Forecast Period'). When applying valuation technique, the Group relies on a number of factors and judgements, including, among others, historical results, business plans, forecasts and market data.

Cash flows beyond the forecast period are extrapolated using the estimated growth rates stated in Note 16. These growth rates are consistent with management's research and analysis based on industry information and data provided by industry consultants specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 16.

(a) Revenue (% compound growth rates)

The revenue compound growth rates over the Forecast Period is based on the Group's forecast of its average revenue growth rate. The Group considers the business transition strategy and other market forecasts in estimating this growth rate.

(b) Long-term growth rate

The long-term growth rate after the Forecast Period is estimated on the basis of the inflation rate of China. It is a commonly used valuation assumption that the long-term growth rate of a company will converge with the long-term growth rate of the country in which it operates.

4 Critical accounting estimates and judgements – *continued*

(i) Estimation of goodwill impairment – *continued*

(c) Discount rates

The discount rates for the Forecast Period and after that period are determined by reference to discount rates provided by an independent valuer. Discount rates were estimated based on the weighted average cost of capital ('WACCs') with reference to the industry risk premium and the debt to equity ratio of some guideline companies in China healthcare sector.

Changes in the conditions for these estimates and assumptions can significantly affect the assessed result of goodwill impairment test.

For the sensitivity analysis and other details, please refer to Note 16.

(ii) Fair value estimation of convertible bonds

The fair values of the convertible bonds were determined by using valuation techniques. The Group applied judgements to select a variety of methods and made assumptions that were mainly based on market conditions existing at the end of each reporting period. If there was any change in methods or assumptions, the gains or losses relating to fair value changes could be changed. For the details of the valuation method and key assumptions used, please refer to Note 34.

(iii) Assessment of control over not-for-profit hospitals

Certain not-for-profit hospitals were founded by subsidiaries of the Company. Despite the fact that the subsidiaries founded the not-for-profit hospitals, the subsidiaries are not entitled to the dividend of the not-for-profit hospitals in accordance with relevant PRC laws and regulations. The subsidiaries have entered into agreements with the not-for-profit hospitals in which the subsidiaries obtained contractual rights to provide management services for certain periods and were entitled to receive performance-based management fees for the years ended December 31, 2021 and 2020.

The Group has exercised significant judgements in determining whether the Group has control over the not-for-profit hospitals. In exercising such judgement, the Group considers the purpose and design of the not-for-profit hospitals, what the relevant activities are and how decisions about those activities are made, whether the rights of the Group gives the current ability to direct the relevant activities, whether rights exercisable by other parties as internal governance body members are substantive, whether the Group is exposed, or has rights, to variable returns from its involvement with the not-for-profit hospitals, and whether the Group has the ability to use its power over the not-for-profit hospitals to affect the amount of the Group's returns.

4 Critical accounting estimates and judgements – *continued*

(iii) Assessment of control over not-for-profit hospitals – *continued*

After assessment of control over not-for-profit hospitals, the management has concluded that the Group has control over Yangsi Hospital starting from December 6, 2021 and thus has consolidated it. For the details, please refer to Note 11 and 39. For other not-for-profit hospitals, based on the assessment, the Group does not have the decision making power over internal governance body to direct the relevant activities of the not-for-profit hospitals, the Group does not control and thus does not consolidate the not-for-profit hospitals. Instead, relevant agreements are considered as management contracts to generate management services income.

(iv) Estimation of defined benefit obligation

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. Details of key assumptions and impact of possible changes in key assumptions are disclosed in Note 32.

5 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:

5 Segment information – *continued*

(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 its subsidiary Honghe (Jinhua) Pharmaceutical Co., Ltd. ('Jinhua Pharmacy').

5 Segment information – *continued*

(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)
Amortisation	(7,726)	(16,623)	(38)	–	(1,287)	(25,674)
Finance (costs)/income	(4,109)	(110)	(26)	–	(9,783)	(14,028)
Unallocated cost – 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

5 Segment information – *continued*

(iv) Unallocated – *continued*

	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)
Amortisation	(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

6 Expenses by nature

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Cost of inventories	**143,331**	79,240
Employee benefits expenses (Note 9)	**187,240**	110,400
Amortisation and depreciation	**41,145**	42,902
Professional fees	**7,824**	5,074
Operating lease rental expenses	**1,730**	972
Business tax and other transaction taxes	**3,001**	2,393
Utilities and office expenses	**3,863**	2,768
Auditor's remuneration		
– Audit Services	**2,142**	2,933
– Non-audit Services	**1,409**	1,912
Travelling and entertainment expenses	**1,203**	683
Other expenses	**11,053**	7,511
	403,941	256,788

7 Other income – net

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Government grants and subsidies (a)	**5,021**	4,299
Others	**2,160**	504
	7,181	4,803

(a) The Government grants and subsidies are mainly subsidies received by certain subsidiaries of the Group in consideration of their tax contribution or to support the development of private medical institution established through social capital contribution. All of the government grants and subsidies were income related and credited to the consolidated statement of comprehensive income when received.

8 Other gains – net

	Year ended December 31,	
	2021	2020
	RMB'000	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

9 Employee benefit expense

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Wages, salaries, bonuses and other benefits	**129,356**	101,723
Defined benefit obligation (Note 32)	**42,798**	–
Share-based compensation expenses (Note 26)	**108**	402
Contribution to pension plans and others (a)	**14,978**	8,275
	187,240	110,400

(a) The Group did not have any forfeited contribution for the year ended December 31, 2021 and 2020 in connection with the defined contribution plan operated by local governments.

The employees of the Group in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

9 Employee benefit expense – *continued*

(i) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2020: two) director whose emolument is reflected in the analysis shown in Note 43. The emoluments payables to the remaining four (2020: three) individuals during the year are as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**3,443**	2,868
Contribution to pension scheme	**105**	79
Discretionary bonuses	**1,422**	1,365
Compensation for loss of office:		
– Contractual payments	**–**	–
– Other payments	**958**	260
Share-based compensation expenses	**69**	433
	5,997	5,005

The number of highest paid non-director individuals whose remunerations fell within the following band is as follows:

	Year ended December 31,	
	2021	2020
	no. of individual	no. of individual
Emolument band		
HKD1,000,000 – HKD1,499,999	**1**	–
HKD1,500,000 – HKD1,999,999	**2**	2
HKD2,000,000 – HKD2,499,999	**–**	1
HKD2,500,000 – HKD2,999,999	**1**	–
	4	3

10 Finance income and costs

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Finance income		
Interest income on bank deposits	2,829	14,052
Interest income on loan to related parties	3,904	4,368
	6,733	18,420
Finance costs		
Interest expense on bank borrowings	(5,706)	(12,964)
Interest expense on lease liabilities	(386)	(100)
Finance cost on other financial liability at amortised cost	(1,250)	(6,500)
Foreign exchange losses – net	(13,345)	(34,753)
Others	(74)	(85)
	(20,761)	(54,402)
Finance costs – net	(14,028)	(35,982)

11 Subsidiaries

The Group's principal subsidiaries at December 31, 2021 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place and date of incorporation/establishment/ kind of legal entity	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2021 %	2020 %	2021 %	2020 %
Directly owned:							
Acute Sky Holdings Limited (天鋭控股有限公司)	The BVI, on January 2, 2014	Investment holding, the BVI	US$1	100%	100%	–	–
Ever Surpass Investments Limited (恒越投資有限公司)	The BVI, on December 10, 2013	Investment holding, the BVI	US$1	100%	100%	–	–
Oriental Ally Holdings Limited (東協控股有限公司)	The BVI, on May 2, 2014	Investment holding, the BVI	US$1	100%	100%	–	–
Indirectly owned:							
Bliss Success Holdings Limited (妙榮控股有限公司)	Hong Kong, on December 20, 2011	Investment holding, Hong Kong	HK$1	100%	100%	–	–
New Pride Holdings Limited (捷穎控股有限公司)	Hong Kong, on April 11, 2012	Investment holding, Hong Kong	HK$1	100%	100%	–	–
Impeccable Success Limited (成臻有限公司)	Hong Kong, on June 9, 2014	Investment holding, Hong Kong	US$1	100%	100%	–	–
Honghe Yixin Investment Management (Shanghai) Co., Ltd. (弘和醫信投資管理(上海)有限公司)	The PRC, limited liability company, on July 29, 2014#	Investment holding, the PRC	RMB 30,000,000	100%	100%	–	–
Tibet Honghe Zhiyuan Business Management Co., Ltd. (西藏弘和志遠企業管理有限公司)	The PRC, limited liability company, on October 10, 2014	Management services, the PRC	RMB 30,000,000	100%	100%	–	–
Tibet Dazi Honghe Ruixin Business Management Co., Ltd. (西藏達孜弘和瑞信企業管理有限公司)	The PRC, limited liability company, joint venture, on December 23, 2014	Hospital management, the PRC	RMB 500,000	77%	77%	23%	23%
Shanghai Weikang Investment Management Co., Ltd. (上海維康投資管理有限公司)	The PRC, limited liability company, joint venture, on April 15, 2002@	Hospital management, the PRC	RMB 30,000,000	77%	77%	23%	23%
Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. (Zhejiang Honghe Zhiyuan) (浙江弘和致遠醫療科技有限公司)	The PRC, limited liability company, joint venture, on October 29, 2014@	Hospital management, the PRC	RMB 200,000,000	75%	75%	25%	25%

11 Subsidiaries – *continued*

Name of entity	Place and date of incorporation/ establishment/kind of legal entity	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2021 %	2020 %	2021 %	2020 %
Jiande Heyue Enterprise Management Co., Ltd. (建德和悅企業管理有限公司)	The PRC, limited liability company, on September 20, 2017	Investment holding, the PRC	RMB 80,000,000	100%	100%	–	–
Jiande Hexu Enterprise Management Co., Ltd. (建德和煦企業管理有限公司)	The PRC, limited liability company, on September 19, 2017#	Investment holding, the PRC	RMB 80,000,000	100%	100%	–	–
Jiande Hospital of Traditional Chinese Medicine Co., Ltd. (建德中醫院有限公司)	The PRC, limited liability company, joint venture, on September 19, 2016	General hospital services, the PRC	RMB 10,000,000	70%	70%	30%	30%
Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. (建德大家中醫藥科技有限公司)	The PRC, limited liability company, joint venture, on November 12, 2014	Property management provided to Jiande Hospital, the PRC	RMB 40,000,000	70%	70%	30%	30%
Zhejiang Dajia Medicines Co., Ltd. (浙江大佳醫藥有限公司)	The PRC, limited liability company, joint venture, on August 11, 2005	Wholesale of pharmaceutical products, the PRC	RMB 10,000,000	70%	70%	30%	30%
Cixi Hongai Medical Management Company Limited (慈溪弘愛醫療管理有限公司)	The PRC, limited liability company, on November 22, 2017#	Investment holding, the PRC	RMB 24,500,000	100%	100%	–	–
Cixi Honghe Medical Management Company Limited (慈溪弘和醫療管理有限公司)	The PRC, limited liability company, joint venture, on November 22, 2017	Hospital management, the PRC	RMB 35,000,000	70%	70%	30%	30%
Jiande Xinlin Pharmacy Co., Ltd. (建德鑫林大藥房有限公司)	The PRC, limited liability company, on October 10, 2015	Sale of pharmaceutical products, the PRC	RMB 5,000,000	70%	70%	30%	30%
Cixi Honghe Hospital Company Limited (慈溪弘和醫院有限公司)	The PRC, limited liability company, on March 1, 2019	General hospital services, the PRC	RMB 35,000,000	70%	70%	30%	30%
Tibet Hongai Business Management Co., Ltd. (西藏弘愛企業管理有限公司)	The PRC, limited liability company, on December 13, 2019	Management services, the PRC	RMB 1,000,000	100%	100%	–	–

11 Subsidiaries – *continued*

Name of entity	Place and date of incorporation/ establishment/kind of legal entity	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2021 %	2020 %	2021 %	2020 %
Honghe (Jinhua) Pharmaceutical Co., Ltd. (弘和(金華)藥業有限公司)	The PRC, limited liability company, on March 18, 2020	Sale of pharmaceutical products, the PRC	RMB 100,000	100%	100%	-	–
Beijing Hongyuan Zhiying Enterprise Management Consulting Co., Ltd. (北京弘遠智盈企業管理諮詢有限公司)	The PRC, limited liability company, on September 10, 2020	Management services, the PRC	RMB 1,000,000	100%	100%	-	–
Honghe Medicines (Zhejiang) Co., Ltd (弘和醫藥(浙江)有限公司)	The PRC, limited liability company, on February 22, 2021	Wholesale of pharmaceutical products, the PRC	RMB 10,000,000	100%	–	-	–
Honghe (Yongkang) Medical Instrument Co., Ltd. ('Yongkang Hospital') (弘和(永康)醫療器械有限公司)	The PRC, limited liability company, on October 10, 2021	Wholesale of medical consumables, the PRC	RMB 100,000	100%	–	-	–

\# Registered as wholly foreign owned enterprises under PRC law.

@ Registered as sino-foreign equity joint venture under PRC law.

In addition to the subsidiaries set forth above, the Company has also consolidated Yangsi Hospital starting from December 6, 2021 (Note 4(ii) and Note 39). Yangsi Hospital is a not-for-profit hospital and Weikang Investment is the founder of the hospital. Given 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, Weikang Investment is not entitled to the dividends and the residual assets upon the liquidation of Yangsi Hospital in accordance with relevant PRC laws and regulations. Therefore, the operating results and net assets of Yangsi Hospital are not distributable to its founder and thus presented as attributable to non-controlling interests.

11 Subsidiaries – *continued*

(i) Investment in subsidiaries

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.

(ii) Significant restrictions

Cash and cash equivalents of RMB230,754,000 (2020: RMB116,597,000) is held in Mainland China and is subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

(iii) Material non-controlling interests (NCI)

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

Summarised balance sheet

	Weikang Investment As at December 31,		Honghe Ruixin As at December 31,		Jiande Hospital As at December 31,		Cixi Honghe As at December 31,		Zhejiang Honghe Zhiyuan As at December 31,		Yangsi Hospital Period from December 6 to December 31,
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000
Current assets	128,789	97,711	133,802	116,009	120,630	117,365	25,610	21,042	137,381	150,951	341,431
Current liabilities	(75,832)	(44,031)	(47,261)	(29,167)	(127,320)	(132,922)	(10,642)	(11,837)	(114,549)	(101,492)	(320,859)
Current net assets/ (liabilities)	52,957	53,680	86,541	86,842	(6,690)	(15,557)	14,968	9,205	22,832	49,459	20,572
Non-current assets	2,578	105,827	–	1	240,431	246,457	56,273	237,026	316,430	554,338	113,795
Non-current liabilities	–	(25,349)	–	–	(45,768)	(47,446)	(14,068)	(59,257)	(77,086)	(137,998)	(115)
Non-current net assets	2,578	80,478	–	1	194,663	199,011	42,205	177,769	239,344	416,340	113,680
Net assets	55,535	134,158	86,541	86,843	187,973	183,454	57,173	186,974	262,176	465,799	134,252
Accumulated NCI	31,706	26,955	18,712	18,782	56,392	55,037	17,148	56,089	65,543	116,449	134,252

11 Subsidiaries – *continued*

(iii) Material non-controlling interests (NCI) – *continued*

Summarised statement of comprehensive income

	Weikang Investment Year ended December 31,		Honghe Ruixin Year ended December 31,		Jiande Hospital Year ended December 31,		Cixi Honghe Year ended December 31,		Zhejiang Honghe Zhiyuan Year ended December 31,		Yangsi Hospital Period from December 6 to December 31,
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**
Revenue	**53,146**	52,853	**125,767**	122,334	**185,553**	167,244	**14,812**	15,426	**17,453**	36,276	**107,933**
Profit/(loss) before income tax	**30,957**	34,200	**120,841**	116,895	**6,311**	(3,218)	**(173,322)**	(64,924)	**(270,286)**	(151,860)	**(28,992)**
Income tax credit/ (expense)	**17,365**	(10,498)	**(17,652)**	(17,826)	**(1,950)**	315	**43,515**	16,291	**66,661**	37,964	**(4)**
Profit/(loss) for the year	**48,322**	23,702	**103,189**	99,069	**4,361**	(2,903)	**(129,807)**	(48,633)	**(203,625)**	(113,896)	**(28,996)**
Other comprehensive income	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**-**
Total comprehensive income/(loss)	**48,322**	23,702	**103,189**	99,069	**4,361**	(2,903)	**(129,807)**	(48,633)	**(203,625)**	(113,896)	**(28,996)**
Profit/(loss) allocated to NCI	**11,114**	5,451	**24,358**	22,786	**1,309**	(871)	**(38,942)**	(14,590)	**(50,906)**	(28,474)	**(28,996)**
Dividends paid to NCI	**6,363**	4,964	**24,428**	20,489	**-**	–	**-**	5,470	**-**	–	**-**

11 Subsidiaries – *continued*

(iii) Material non-controlling interests (NCI) – *continued*

Summarised statement of cash flows

	Weikang Investment As at December 31,		Honghe Ruixin As at December 31,		Jiande Hospital As at December 31,		Cixi Honghe As at December 31,		Zhejiang Honghe Zhiyuan As at December 31,		Yangsi Hospital Period from December 6 to December 31,
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**
Net cash generated from/ (used in) operating activities	**36,887**	15,278	**128,134**	88,268	**23,318**	21,065	**2,057**	7,061	**13,768**	13,544	**(57,821)**
Net cash (used in)/ generated from investing activities	**(21,226)**	(24,910)	**(20,485)**	(2,764)	**(8,771)**	(36,368)	**(5,264)**	(20,000)	**(16,024)**	–	**47,535**
Net cash (used in)/ generated from financing activities	**(4,937)**	(5,894)	**(99,697)**	(84,504)	**(2,993)**	32,998	**–**	1,227	**(3,000)**	1,120	**(35)**
Net increase/(decrease) in cash and cash equivalents	**10,724**	(15,526)	**7,952**	1,000	**11,554**	17,695	**(3,207)**	(11,712)	**(5,256)**	14,664	**(10,321)**

12 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	2020
	RMB'000	RMB'000
Current income tax:		
– PRC corporate income tax	**42,303**	35,454
Deferred income tax credit (Note 33)	**(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	2020
	RMB'000	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)

12 Income tax credit – *continued*

(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.

13 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.

14 Property, plant and equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Medical equipment RMB'000	Office equipment, furniture and vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2020						
Cost	124,955	3,249	31,836	9,441	4,542	174,023
Accumulated depreciation	(13,638)	(2,819)	(7,687)	(3,703)	–	(27,847)
Net amount	111,317	430	24,149	5,738	4,542	146,176
Year ended December 31, 2020						
Net book value						
Opening net book amount	111,317	430	24,149	5,738	4,542	146,176
Additions	–	2,254	8,243	405	1,676	12,578
Disposals	(2,316)	(317)	(218)	(11)	–	(2,862)
Transfer upon completion	3,600	323	–	–	(3,923)	–
Depreciation charge	(4,271)	(332)	(4,717)	(1,447)	–	(10,767)
Closing net book amount	108,330	2,358	27,457	4,685	2,295	145,125
At December 31, 2020						
Cost	126,067	5,509	39,104	9,602	2,295	182,577
Accumulated depreciation	(17,737)	(3,151)	(11,647)	(4,917)	–	(37,452)
Net book amount	108,330	2,358	27,457	4,685	2,295	145,125
Year ended December 31, 2021						
Net book value						
Opening net book amount	**108,330**	**2,358**	**27,457**	**4,685**	**2,295**	**145,125**
Changes as a result of business combination (Note 39(b))	**12,596**	**9,700**	**81,485**	**6,790**	**750**	**111,321**
Additions	**–**	**3,655**	**3,147**	**1,259**	**3,840**	**11,901**
Disposals	**(2,084)**	**–**	**(7)**	**(70)**	**–**	**(2,161)**
Transfer upon completion	**4,291**	**985**	**–**	**859**	**(6,135)**	**–**
Depreciation charge	**(4,894)**	**(1,127)**	**(7,490)**	**(1,960)**	**–**	**(15,471)**
Closing net book amount	**118,239**	**15,571**	**104,592**	**11,563**	**750**	**250,715**
At December 31, 2021						
Cost	**140,870**	**19,849**	**123,729**	**18,440**	**750**	**303,638**
Accumulated depreciation	**(22,631)**	**(4,278)**	**(19,137)**	**(6,877)**	**–**	**(52,923)**
Net book amount	**118,239**	**15,571**	**104,592**	**11,563**	**750**	**250,715**

14 Property, plant and equipment – *continued*

Depreciation expense of RMB11,891,000 (2020: RMB8,232,000) was charged in 'cost of revenue', and RMB3,580,000 (2020: RMB2,535,000) in 'administrative expenses' for the year ended December 31, 2021.

Some land and buildings of the Group have certain title defects. The Group does not hold the land use right certificates or building ownership certificates for the relevant properties, nor the construction work planning permits, commencement permits or completion inspection certificates. The Group has not yet obtained properties title certificates and is in the process of obtaining ownership certificates for all its properties.

Furthermore, PRC legal advisors of the Group advised that the title defects on the land and buildings will not create any substantive legal obstacle for the Group to continue using the land and the buildings located on it or cause suspension to the operations of the Group. The management of the Group reasonably and firmly believes that the risk of the Group being required to suspend using the land and buildings is extremely remote. Moreover, the management has considered and assessed the feasibility of relocation and made a relocation plan accordingly. In addition, the controlling shareholder have confirmed to the management of the Group that they have sufficient financial resources (including capital commitments of the limited partners of Hony Fund V and assets of Hony Fund V) to fully indemnify the Group for any damages or costs incurred in relation to the title defects.

Based on the aforementioned facts, the directors of the Company are of the view that:

(i) The title defects of the land and buildings did not have a significant impact on the operation and going concern issue related to the basis of preparation of the financial information of the Group during the periods; and

(ii) Any damages or costs incurred in relation to the title defects of the land and building will be indemnified by the controlling shareholder of the Company, thus there will be no significant financial impact on the financial information of the Group.

The acquisition cost of buildings is comprising of the land and its building cost. According to an independent valuer, due to the title defects, it is infeasible and impractical to separately evaluate the fair value of the land and the buildings, which would be required to split the value between land and building cost. The directors of the Company consider as there is no reasonable basis to allocate the consideration to the land and the buildings located thereon, respectively, the total consideration has been recognised in the 'Property, Plant and Equipment' as buildings and depreciated over the estimated useful lives of 20 to 50 years. The directors of the Company is of the view that the reclassification of non-current assets in the balance sheet and the difference between depreciation and amortization charges resulting from different useful lives is immaterial.

15 Leases

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Right-of-use assets		
Properties	**11,802**	1,276
Land use right	**36,656**	37,599
	48,458	38,875
Lease Liabilities		
Current	**1,514**	266
Non-current	**7,607**	692
	9,121	958

Additions to the right-of-use assets for the year ended December 31, 2021 were RMB15,814,000 (2020: RMB739,000).

(ii) Amounts recognised in the consolidated statement of comprehensive income

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Depreciation charge of right-of-use assets – properties	**2,082**	2,138
Amortisation charge of right-of-use assets – land use right	**944**	944
Interest expense (included in finance cost)	**386**	100
Expense relating to short-term leases (included in cost of revenue and administrative expenses)	**368**	866
Expense relating to leases of low-value assets (included in administrative expenses)	**340**	16

The total cash outflow for leases for the year ended December 31, 2021 was RMB3,151,000 (2020: RMB3,129,000).

15 Leases – *continued*

(iii) The Group's leasing activities and how these are accounted for

The Group leases a warehouse, a parking area, two retail stores, various equipment, offices, apartments and lands. Rental contracts are typically made for fixed periods of 4 months to 50 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(iv) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

16 Intangible assets

	Goodwill RMB'000	Contractual rights to provide management services RMB'000	Medical licenses RMB'000	Computer software RMB'000	Total RMB'000
At January 1, 2020					
Cost	1,617,767	1,158,200	186,900	1,913	2,964,780
Accumulated amortisation	–	(44,694)	(13,706)	(551)	(58,951)
Net book amount	1,617,767	1,113,506	173,194	1,362	2,905,829
Year ended December 31, 2020					
Opening net book amount as at January 1, 2020	1,617,767	1,113,506	173,194	1,362	2,905,829
Amortisation charge	–	(21,959)	(6,815)	(279)	(29,053)
Impairment charge	(467,083)	(201,136)	–	–	(668,219)
Closing net book amount as at December 31, 2020	1,150,684	890,411	166,379	1,083	2,208,557
At December 31, 2020					
Cost	1,617,767	1,158,200	186,900	1,913	2,964,780
Accumulated amortisation	(467,083)	(267,789)	(20,521)	(830)	(756,223)
Net book amount	1,150,684	890,411	166,379	1,083	2,208,557
Year ended December 31, 2021					
Opening net book amount as at January 1, 2021	1,150,684	890,411	166,379	1,083	2,208,557
Changes as a result of business combination (Note 39(b))	99,280	(99,280)	–	–	–
Additions	–	–	–	3,380	3,380
Amortisation charge	–	(15,807)	(6,474)	(367)	(22,648)
Impairment charge	(141,274)	(410,707)	–	–	(551,981)
Closing net book amount as at December 31, 2021	1,108,690	364,617	159,905	4,096	1,637,308
At December 31, 2021					
Cost	1,717,047	1,042,200	186,900	5,293	2,951,440
Accumulated amortisation and impairment	(608,357)	(677,583)	(26,995)	(1,197)	(1,314,132)
Net book amount	1,108,690	364,617	159,905	4,096	1,637,308

16 Intangible assets – *continued*

(i) Impairment tests for goodwill

Goodwill of RMB1,717,047,000 is mainly resulted from the acquisitions of subsidiaries, among which RMB950,916,000 was arising from the acquisition of Weikang Investment on September 30, 2014, RMB308,854,000 was arising from the acquisition of Jiande Hexu Enterprise Management Co., Ltd. ('Jiande Hexu') on January 11, 2018, RMB166,613,000 was arising from the acquisition of Cixi Hongai Medical Management Company Limited ('Cixi Hongai') on March 14, 2018, RMB188,977,000 was arising from the acquisition of Oriental Ally Holdings Limited ('Oriental Ally') on August 7, 2018, RMB2,407,000 was arising from the acquisition of Xinlin Pharmacy on August 31, 2018, and RMB99,280,000 was arising from the consolidation of Yangsi Hospital (Note 39).

Management reviews the business performance and monitors goodwill resulted from each acquisition on operating segment level, respectively.

Goodwill arising from the acquisition of Weikang Investment and the consolidation of Yangsi Hospital was allocated to hospital management service segment to the extent that attributable to the management team and business prospects in that segment. The recoverable amount of goodwill was calculated based upon a group of CGUs of Weikang Investment and Honghe Ruixin which provided hospital management services to Yangsi Hospital.

Goodwill arising from the acquisition of Jiande Hexu was allocated to general hospital services segment which represented the Jiande Hospital operating CGU and sale of pharmaceutical products which represented the DJ Medicine operating CGU.

Goodwill arising from the acquisition of Cixi Hongai and Oriental Ally was fully allocated to hospital management services segment which including Cixi Honghe operating CGU and Zhejiang Honghe Zhiyuan operating CGU.

Goodwill arising from the acquisition of Xinlin Pharmacy was allocated to general hospital services segment. The recoverable amount of goodwill was calculated based upon Xinlin Pharmacy operating CGU.

16 Intangible assets – *continued*

(i) Impairment tests for goodwill – *continued*

The following is a summary of goodwill allocation for each operating segment:

	Opening RMB'000	Addition (Note 39(b)) RMB'000	Impairment RMB'000	Closing RMB'000
Year ended December 31, 2021				
General hospital services segment	58,495	–	–	58,495
Hospital management services segment	1,082,923	99,280	(132,008)	1,050,195
Sale of pharmaceutical products segment	9,266	–	(9,266)	–
	1,150,684	99,280	(141,274)	1,108,690
Year ended December 31, 2020				
General hospital services segment	301,995	–	(243,500)	58,495
Hospital management services segment	1,306,506	–	(223,583)	1,082,923
Sale of pharmaceutical products segment	9,266	–	–	9,266
	1,617,767	–	(467,083)	1,150,684

As at December 31, 2021, the management of the Group had set up a cash flow forecasts including future investments covering an eight-year period based on reasonable and supportable assumptions. These assumptions and estimates are considered reliable and are supported by management's research and analysis based on industry information and data specific to the industry in which each CGU or a group of CGUs operates. Cash flows beyond the eight-year period are extrapolated using the estimated growth rates stated below.

Management reviews business performance of each CGU or a group of CGUs. The recoverable amount of each CGU or a group of CGUs is determined based on the higher of fair value less costs of disposal (FVLCOD) and value in use (VIU) calculations of the underlying assets with reference to valuation reports issued by an independent valuer. The valuation is considered to be level 3 in fair value hierarchy due to unobservable inputs used in the valuation. These calculations use cash flow projections based on forecasts approved by management covering an eight-year-forecast-period since January 1, 2022. The management considers that the eight-year-forecast-period that has been used in the goodwill impairment test is appropriate because the investment cycle in the healthcare industry is longer than other industries, and the useful lives of the licenses of related subsidiaries are longer than eight years. Cash flows beyond the eight-year period are extrapolated using the estimated long-term growth rate of 3% by reference to the long-term inflation rate of China as at December 31, 2021 and December 31, 2020.

16 Intangible assets – *continued*

(i) Impairment tests for goodwill – *continued*

(a) Goodwill of Cixi Honghe operating CGU and Zhejiang Honghe Zhiyuan operating CGU

Hospital Management Service Segment

Due to the changes on local medical and healthcare policy and the combined effect of the expected slow recovery from current market conditions further influenced by the Coronavirus Disease 2019 ('the COVID-19'), the operation result of hospital management services provided by Cixi Honghe operating CGU and Zhejiang Honghe Zhiyuan operating CGU for the six months ended June 30, 2021 was below the management's forecast.

The recoverable amounts of the two CGUs as at June 30, 2021 were determined based on FVLCOD calculations with reference to valuation reports issued by an independent valuer, and the goodwill of Cixi Honghe and Zhejiang Honghe Zhiyuan operating CGU amounting to RMB36,460,000 (2020: RMB130,153,000) and RMB95,548,000 (2020: RMB93,430,000) were fully impaired as at June 30, 2021.

The following tables set out the key assumptions and recoverable amounts of FVLCOD for the two CGUs where the impairment calculations were updated as at June 30, 2021:

	Cixi Honghe operating CGU	
	June 30, 2021	December 31, 2020
Revenue (% compound growth rate)	**5.14%**	11.77%
Post-tax discount rate	**14.00%**	14.00%
Recoverable amount of operating segment (RMB'000)	**60,900**	255,000

16 Intangible assets – *continued*

(i) Impairment tests for goodwill – *continued*

(a) Goodwill of Cixi Honghe operating CGU and Zhejiang Honghe Zhiyuan operating CGU – continued

Hospital Management Service Segment – *continued*

	Zhejiang Honghe Zhiyuan operating CGU	
	June 30, 2021	December 31, 2020
Revenue (% compound growth rate)	**11.07%**	18.42%
Post-tax discount rate	**14.00%**	14.00%
Recoverable amount of operating segment (RMB'000)	**369,300**	706,000

(b) Goodwill of DJ Medicines operating CGU

Sale of Pharmaceutical Products Segment

In the second half of 2021, a supply chain termination contract was entered by DJ Medicines and its medicines supplier. Accordingly, as a result of the business relationship change, management revisited its forecast of pharmaceutical wholesale business. It was noted that operating results of pharmaceutical wholesales business will be lower than the expected financial budget. Therefore, management performed an impairment assessment and relevant goodwill of DJ Medicines operating CGU amounting to RMB9,266,000 was fully impaired as of December 31, 2021 (2020: nil).

16 Intangible assets – *continued*

(i) Impairment tests for goodwill – *continued*

(b) Goodwill of DJ Medicines operating CGU – *continued*

Sale of Pharmaceutical Products Segment – *continued*

The following table set out the key assumptions used and recoverable amounts for DJ Medicine operating CGU where the impairment calculations were updated by using VIU and FVLCOD calculation as at December 31, 2021 and 2020, respectively:

	DJ Medicine operating CGU 2021
Revenue (% compound growth rate)	3.00%
Pre-tax discount rate	16.20%
Recoverable amount of operating segment (RMB'000)	2,200

	2020
Revenue (% compound growth rate)	19.95%
Post-tax discount rate	15.00%
Recoverable amount of operating segment (RMB'000)	19,000

(c) Goodwill of Weikang Investment and Honghe Ruixin group of CGUs

Hospital Management Service Segment

As at December 31, 2021 and 2020, the key assumptions used and recoverable amounts of FVLCOD for Weikang Investment and Honghe Ruixin group of CGUs were as follows:

	Weikang Investment and Honghe Ruixin group of CGUs	
	2021	2020
Revenue (% compound growth rate)	8.07%	9.36%
Post-tax discount rate	13.50%	13.50%
Recoverable amount of operating segment (RMB'000)	1,678,000	1,592,000

16 Intangible assets – *continued*

(i) Impairment tests for goodwill – *continued*

(c) Goodwill of Weikang Investment and Honghe Ruixin group of CGUs – continued

Hospital Management Service Segment – *continued*

The table below sets forth each key assumption for the eight-year forecast period as of each year end (estimates based on the operations for the periods indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Year ended December 31, 2021	
	Key Assumption	**Breakeven Point**
Percentage of the compound growth rate of revenue	**8.07%**	**5.91%**
Percentage of the post-tax discount rate	**13.50%**	**14.76%**

	Year ended December 31, 2020	
	Key Assumption	Breakeven Point
Percentage of the compound growth rate of revenue	9.36%	7.80%
Percentage of the post-tax discount rate	13.50%	14.55%

No impairment was charged for Weikang Investment and Honghe Ruixin group of operating CGUs during the years ended December 31, 2021 and 2020.

16 Intangible assets – *continued*

(i) Impairment tests for goodwill – *continued*

(d) Goodwill of Jiande Hospital operating CGU

General Hospital Services Segment

As at December 31, 2021 and 2020, the key assumptions used and recoverable amounts of FVLCOD for Jiande Hospital operating CGU were as follows:

	Jiande Hospital operating CGU	
	2021	2020
Revenue (% compound growth rate)	**9.78%**	11.98%
Post-tax discount rate	**15.00%**	15.00%
Recoverable amount of operating segment (RMB'000)	**391,000**	372,000

The table below sets forth each key assumption for the eight-year forecast period as of the year end (estimates based on the operation for the period indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Year ended December 31, 2021	
	Key Assumption	**Breakeven Point**
Percentage of the compound growth rate of revenue	**9.78%**	**7.47%**
Percentage of the post-tax discount rate	**15.00%**	**15.77%**

	Year ended December 31, 2020	
	Key Assumption	Breakeven Point
Percentage of the compound growth rate of revenue	11.98%	9.48%
Percentage of the post-tax discount rate	15.00%	16.28%

No impairment was charged for Jiande Hospital operating CGU during the year ended December 31, 2021 (2020: RMB243,500,000).

16 Intangible assets – *continued*

(ii) Impairment losses on contractual rights to provide management services

Based on the same forecasts and assumptions in goodwill impairment test, the recoverable amounts of contractual rights to provide management services by Zhejiang Honghe Zhiyuan and Cixi Honghe operating CGU to Jinhua Hospital and Cixi Hospital were determined based on FVLCOD calculations and impairment losses of RMB233,455,000 and RMB177,252,000 were recognised as at June 30, 2021 (2020: RMB132,525,000 and RMB68,611,000).

Management tested the contractual rights to provide management services by Zhejiang Honghe Zhiyuan and Cixi Honghe operating CGU to Jinhua Hospital and Cixi Hospital as at December 31, 2021. The recoverable amounts of contractual rights were determined based upon FVLCOD calculations and no impairment need to be further provided or reversed.

(a) Contractual right to provide management service by Zhejiang Honghe Zhiyuan to Jinhua Hospital

As at December 31, 2021 and 2020, the key assumptions and recoverable amounts of FVLCOD for contractual right to provide management service by Zhejiang Honghe Zhiyuan to Jinhua Hospital were as follows.

	Year ended December 31,	
	2021	2020
Revenue (% compound growth rate)	**9.97%**	16.20%
Post-tax discount rate	**14.00%**	14.00%
Recoverable amount of contractual right (RMB'000)	**310,000**	564,000

The recoverable amounts of contractual right to provide management service by Zhejiang Honghe Zhiyuan to Jinhua Hospital would equal its carrying amount if the key assumptions were to change as follows:

	Year ended December 31, 2021	
	Key Assumption	**Breakeven Point**
Percentage of the compound growth rate of revenue	**9.97%**	**9.87%**
Percentage of the post-tax discount rate	**14.00%**	**14.05%**

16 Intangible assets – *continued*

(ii) Impairment losses on contractual rights to provide management services – *continued*

(a) Contractual right to provide management service by Zhejiang Honghe Zhiyuan to Jinhua Hospital – *continued*

	Year ended December 31, 2020	
	Key Assumption	Breakeven Point
Percentage of the compound growth rate of revenue	16.20%	15.81%
Percentage of the post-tax discount rate	14.00%	14.24%

(b) Contractual right to provide management service by Cixi Honghe to Cixi Hospital

As at 31 December 2021 and 2020, the key assumptions and recoverable amounts of FVLCOD for contractual right to provide management service by Cixi Honghe to Cixi Hospital were as follows.

	Year ended December 31,	
	2021	2020
Revenue (% compound growth rate)	**4.99%**	11.77%
Post-tax discount rate	**14.00%**	14.00%
Recoverable amount of contractual right (RMB'000)	**58,000**	257,000

The recoverable amounts of contractual right to provide management service by Cixi Honghe to Cixi Hospital would equal its carrying amount if the key assumptions were to change as follows:

	Year ended December 31, 2021	
	Key Assumption	**Breakeven Point**
Percentage of the compound growth rate of revenue	**4.99%**	**4.32%**
Percentage of the post-tax discount rate	**14.00%**	**14.42%**

	Year ended December 31, 2020	
	Key Assumption	Breakeven Point
Percentage of the compound growth rate of revenue	11.77%	10.23%
Percentage of the post-tax discount rate	14.00%	14.89%

17 Financial instruments by category

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Financial assets		
Financial assets at amortised cost		
Trade receivables	**114,794**	33,945
Other receivables and deposits	**2,111**	2,544
Amounts due from related parties	**222,802**	351,120
Cash and cash equivalents	**440,428**	860,726
Term deposits	**638**	–
Financial assets at FVPL		
Monetary funds with floating rates	**338,905**	90,737
	1,119,678	1,339,072

	As at December 31, 2021 RMB'000	As at December 31, 2020 RMB'000
Financial liabilities		
Financial liabilities at amortised cost		
Borrowing	**71,018**	131,695
Trade payables	**124,300**	16,762
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	**474,005**	24,366
Amounts due to related parties	**13,246**	22,843
Financial liabilities at amortised cost	**–**	237,100
Lease liabilities	**9,121**	958
Financial liabilities at FVPL		
Convertible bonds	**906,916**	1,558,245
	1,598,606	1,991,969

18 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 (Note 3.1(ii))	**(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

19 Inventories

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Pharmaceuticals	**41,678**	5,605
Medical consumables	**6,355**	955
	48,033	6,560

The cost of inventories recognised as expense and included in 'cost of revenue' during the year ended December 31, 2021 amounting to RMB143,331,000 (2020: RMB79,240,000).

20 Other receivables, deposits and prepayments

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Prepayments to vendors and suppliers	**7,152**	1,331
Other prepayments	**3,086**	849
Advances to employees	**521**	192
Deposits for rental	**475**	599
Interest receivables from fixed deposits	**–**	1,152
Others	**1,115**	601
	12,349	4,724
Less: non-current portion	**(2,374)**	(1,897)
Current portion	**9,975**	2,827

The carrying amounts of other receivables, deposits and prepayments are denominated in RMB and approximate to their fair values.

21 Balances with related parties

As at December 31, 2021 and 2020, the balances with related parties are unsecured, receivable/payable on demand and are denominated in RMB.

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Amounts due from related parties		
– Trade in nature		
Jinhua Hospital	**158,524**	150,573
Cixi Hospital	**15,932**	12,822
Yongkang Hospital	**343**	–
Yangsi Hospital	**–**	116,308
– Others		
Jinhua Hospital (a)	**80,000**	80,000
Vanguard Glory Limited	**335**	342
Yongkang Hospital	**9**	–
Han Prestige Limited	**6**	6
Yangsi Hospital	**–**	414
	255,149	360,465
Less: provision for impairment of amounts due from related parties (Note 3.1(ii))	**(32,347)**	(9,345)
Amounts due from related parties – net	**222,802**	351,120
Less: non-current portion (a)	**–**	(80,000)
Current portion	**222,802**	271,120

(a) Honghe Zhiyuan, as a lender, entered into three loan agreements with Jinhua Hospital in July, November and December of 2019 with the principle amounting to RMB40,000,000, RMB20,000,000, RMB20,000,000, respectively. The loans will mature in 36 months from the date of drawdown and bear an interest rate of 5.23% per annum, which is subject to adjustment according to the applicable benchmark interest rates as published by the People's Bank of China from time to time. As at December 31, 2021, the outstanding principal amounted to RMB80,000,000 have not been recovered.

21 Balances with related parties – *continued*

As at December 31, 2021 and 2020, the aging analysis based on trading date of the amount due from related parties which are trade in nature was as follows:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Within 90 days	**19,195**	68,311
90 to 180 days	**8,713**	62,794
Over 180 days	**146,891**	148,598
	174,799	279,703

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Amounts due to related parties		
– Trade in nature		
Zhejiang Zhongyouli Medicines Co., Ltd.	**–**	5,617
Dajia Medical Equipment Co., Ltd.	**5,870**	2,844
– Others		
Jinhua Hospital	**5,971**	5,975
Vanguard Glory Limited	**1,386**	1,419
Cixi Hospital	**13**	13
Midpoint Honour Ltd.	**6**	7
Yangsi Hospital	**–**	6,968
	13,246	22,843

Their carrying values due as at December 31, 2021 and 2020 approximated their fair values.

21 Balances with related parties – *continued*

As at December 31, 2021 and 2020, the aging analysis based on trading date of the amount due to related parties which are trade in nature was as follows:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Within 90 days	**5,176**	7,031
90 to 180 days	**694**	1,260
Over 180 days	**–**	170
	5,870	8,461

22 Financial assets at fair value through profit or loss

(i) Classification of financial assets at FVPL

The Group classifies the following financial assets at FVPL:

- Debt investments that do not qualify for measurement at either amortised cost or FVOCI, and
- Equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Current assets		
Monetary funds with floating rates	**338,905**	90,737

22 Financial assets at fair value through profit or loss – *continued*

(ii) Amounts recognised in the consolidated statement of comprehensive income

During the year, the following gains were recognised in the consolidated statement of comprehensive income:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Fair value gains on monetary funds with floating rates recognised in other gains	**5,763**	2,553
Fair value loss on call option recognised in other losses	**–**	(600)
	5,763	1,953

(iii) Risk exposure and fair value measurements

For information about the methods and assumptions used in determining fair value please refer to Note 3.3.

23 Term deposits

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
USD term deposits	**638**	–

24 Cash and cash equivalents

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Cash at banks	**204,490**	142,612
Cash on hand	**659**	300
Term deposits with initial terms within three months	**100,000**	676,714
Deposits held at call with financial institutions	**135,279**	41,100
	440,428	860,726

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
US dollars	**3,001**	3,682
Hong Kong dollars	**92,726**	628,487
RMB	**344,701**	228,557
	440,428	860,726

Cash at banks earns interest at floating rates based on daily bank deposit rates, and deposits held at call with financial institutions earns interest at the fixed rates.

25 Share capital and share premium

	Number of shares	Nominal value of shares HKD
Authorised		
Ordinary shares	500,000,000	500,000

	Number of shares	Share Capital RMB'000	Share premium RMB'000
Issued and Paid			
As at January 1, 2020	138,194,000	123	435,304
As at December 31, 2020	138,194,000	123	435,304
As at December 31, 2021	**138,194,000**	**123**	**435,304**

26 Share-based payments

(i) Pre-IPO Share Appreciation Rights Scheme

On November 28, 2016, the Board of the Company approved a share appreciation rights scheme prior to the initial public offering (the "Pre-IPO SARs Scheme") which enables the Company to grant share appreciation rights to certain members of management (collectively referred to as the "Pre-IPO SARs Grantees").

Pursuant to the Pre-IPO SARs Scheme, the Company granted 2,500,000 notional shares to the Pre-IPO SARs Grantees entitling them to receive cash payments based on the appreciation of the notional shares over a vesting period starting from June 30, 2016.

The fair value of the notional shares granted to the Pre-IPO SARs Grantee as at December 31, 2021, as determined using the Black-Scholes model by a professional valuation firm, was RMB890,000. The significant inputs in the valuation model were listed as below:

	As at December 31, 2021			
	First Batch Share Options	Second Batch Share Options	Third Batch Share Options	Fourth Batch Share Options
Volatility	27.10%	27.10%	27.10%	27.10%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected option life (month)	20.50	32.50	44.50	56.50
Annual risk-free interest rate	1.59%	1.59%	1.59%	1.59%
Carrying amount of liability	278,000	278,000	167,000	167,000

Pursuant to the lock-up restrictions provided in the Pre-IPO SARs Scheme, from March 15, 2018, the first batch, which is 25% of the total notional shares were free to be vested. In 2018, one of the Pre-IPO SARs Grantees resigned and remaining 75% locked-up notional shares granted to him lapsed pursuant to the Pre-IPO SARs Scheme.

In January 2019, one of the Pre-IPO SARs Grantees exercised the 25% of the total notional shares that were free to be vested.

From March 15, 2019, the second batch, which is 25% of the total notional shares were free to be vested. In 2019, one of the remaining Pre-IPO SARs Grantees resigned and the remaining 50% locked-up notional shares granted to him lapsed pursuant to the Pre-IPO SARs Scheme.

26 Share-based payments – *continued*

(i) Pre-IPO Share Appreciation Rights Scheme – *continued*

From March 15, 2020, the third batch, which is 25% of the total notional shares were free to be vested for the remaining Pre-IPO SARs Grantees.

From March 15, 2021, the final batch, which is 25% of the total notional shares were free to be vested for the remaining Pre-IPO SARs Grantees.

Share-based compensation expenses related to the Pre-IPO SARs Scheme of RMB568,000 was derecognised as 'cost of revenue' for the year ended December 31, 2021 (2020: RMB990,000 was derecognised as 'cost of revenue').

(ii) Service Contract with Mr. Lu Wenzuo

Pursuant to a service contract between New Pride and Mr. Lu Wenzuo (the 'Service Contract'), New Pride conditionally granted the following awards to Mr. Lu Wenzuo if he could work for Weikang Investment and provide hospital management services to Yangsi Hospital as the hospital administrator until December 31, 2017:

(a) Certain share awards (the 'Share Awards') to acquire 1% equity interest in each of Weikang Investment and Honghe Ruixin from New Pride and Honghe Zhiyuan or receive a cash payment equivalent to the value of 1% equity interest in each of Weikang Investment and Honghe Ruixin for each of the three years ending December 31, 2017; and

(b) Share appreciation rights (the 'Mr. Lu's SARs') to receive a cash payment based on the appreciation of 1% of the notional equity interest in Weikang Investment and Honghe Ruixin.

On May 30, 2018, pursuant to an exercise notification from Mr. Lu Wenzuo to New Pride, Mr. Lu Wenzuo confirmed that he chose to settle the Share Awards in shares rather than in cash. Pursuant to the Service Contract, the fair value of the debt component of the Share Awards amounting to RMB40,500,000 was recognised as capital reserve upon the date of the exercise notification.

On January 25, 2019, Mr. Lu Wenzuo submitted an application to New Pride for the exercise of Mr. Lu's SARs amounting to RMB13,623,000. As at December 31, 2021, the amount of Mr. Lu's SARs had not been settled.

26 Share-based payments – *continued*

(iii) Share Incentive Scheme

On October 24, 2017, Vanguard Glory entered into a share incentive scheme (the 'Share Incentive Scheme') with certain members of management (collectively referred to as the 'Share Incentive Grantees'), respectively. Pursuant to the Share Incentive Scheme, Vanguard Glory granted 6,412,201 share awards to the Share Incentive Grantees entitling them to subscribe shares held by Vanguard Glory at the exercise price of HKD14.35 per share, subject to certain lock-up restrictions.

In 2018, two of the Share Incentive Grantees resigned, the Company agreed with one of the grantees that all of the share awards granted by Vanguard Glory to him would remain in effect after his resignation with an accelerated vesting schedule. Besides, another grantee as agreed by the Company, 25% of the share awards granted by Vanguard Glory to another grantee would be free to be vested after her resignation, the remaining 75% locked-up notional shares granted to her lapsed. The share-based compensation expenses in relation to the share awards granted to the resigned Share Incentive Grantee for the year ended December 31, 2018 was recognised as capital reserve upon her resignation.

In 2019, two of the share Incentive Grantees resigned, one of the grantees as agreed by the Company, 50% of the share awards granted by Vanguard Glory to one of the grantees would be released from the lock-up restrictions and free to be vested after his resignation, the remaining 50% locked-up notional shares granted to him lapsed. The share-based compensation expenses in relation to the share awards granted to the resigned Share Incentive Grantee for the year ended December 31, 2019 was recognised as capital reserve upon his resignation. Besides, pursuant to the Share Incentive Scheme, the share awards granted to another grantees resigned permitted to vest but not exercised terminated and the remaining locked-up notional shares granted to him lapsed.

In 2020, 50% of the share awards granted by Vanguard Glory to the remaining grantees had been released from the lock-up restrictions and free to be vested.

Share-based compensation expenses related to the Share Incentive Scheme of RMB676,000 was recognised as 'cost of revenue' for the year ended December 31, 2021 (2020: RMB1,392,000).

26 Share-based payments – *continued*

(iv) Post-IPO Share Appreciation Rights Scheme

On December 13, 2016, the Board of the Company approved a post-IPO share appreciation rights scheme (the 'Post-IPO SARs Scheme') to enable the Company to grant post-IPO share appreciation rights (the 'Post-IPO SARs') to Post-IPO SARs Eligible Participants as rewards or returns for their contribution or potential contribution to the Company and/or any its the subsidiaries.

As of December 31, 2021, no Post-IPO SARs had been granted under the Post-IPO SARs Scheme.

(v) Share Award Scheme

On January 18, 2021, the Board of the Company approved a share award scheme. The purposes of the scheme are (i) to encourage or facilitate the holding of shares by the selected participants; (ii) to encourage and retain the selected participants to work with the Group; and (iii) to provide additional incentive for the selected 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 selected participants with the shareholders through ownership of shares. The scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date but may be terminated earlier as determined by the Board.

As of December 31, 2021, no shares has been granted to any participants under the share award scheme.

27 Other reserves

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Total RMB'000
At January 1, 2020	883,938	40,293	924,231
Share-based payments – share incentive scheme (Note 26(iii))	1,392	–	1,392
Transfer of reserves (a)	–	2,488	2,488
At December 31, 2020	885,330	42,781	928,111
At January 1, 2021	**885,330**	**42,781**	**928,111**
Share-based payments – share incentive scheme (Note 26(iii))	**676**	**–**	**676**
Exercise of put option	**(2,150)**	**–**	**(2,150)**
Transfer of reserves (a)	**–**	**2,708**	**2,708**
At December 31, 2021	**883,856**	**45,489**	**929,345**

(a) Statutory surplus reserve

In accordance with the PRC regulations and the articles of association of the companies now comprising the Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

28 Retained earnings/(accumulated losses)

	RMB'000
At January 1, 2020	123,448
Loss for the year	(404,342)
Transfer of reserves	(2,488)
At December 31, 2020	(283,382)
At January 1, 2021	**(283,382)**
Loss for the year	**(280,709)**
Transfer of reserves	**(2,708)**
At December 31, 2021	**(566,799)**

29 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	2020
	RMB'000	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

30 Borrowings

	As at December 31, 2021			As at December 31, 2020		
	Current	Non-current	Total	Current	Non-current	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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

(a) On December 11, 2017, the Company entered into a long-term loan agreement with China Merchants Bank Shanghai Zhangyang Branch. The bank loan commencing from December 12, 2017 will mature until 2022 and bear a floating interest rate with reference to Hong Kong Interbank Offer Rate plus 360 basis points per quarter. The bank loan was secured by the 100% equity interest of Jiande Hexu and Jiande Heyue Enterprise Management Co., Ltd. and 70% equity interest of Jiande Hospital, Jiande DJ Pharmaceutical Technology and DJ Medicines.

(b) Jiande Hospital entered into seven one-year loan agreements with Agricultural Bank of China Jiande Branch on March 15, March 18, November 29, December 6 and December 16, 2021, respectively. The outstanding amount of these loans was RMB40,000,000, which consist of the loans amounting to RMB3,000,000, RMB9,900,000, RMB9,900,000, RMB9,000,000 and RMB8,200,000 beared fixed interest rates of 4.300%.

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.

31 Accruals, other payables and provisions

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Accrued employee benefits	**97,236**	35,673
Payables for redemption of convertible bonds	**184,553**	–
Payables of undertaking letter	**239,788**	–
Payables to third parties	**20,000**	–
Share-based payments	**14,513**	15,081
Duty and tax payables other than corporate income tax	**27,469**	10,787
Other payables to suppliers for purchase of plant and equipment	**9,991**	8,331
Accrued professional service fee	**5,637**	5,508
Others	**14,036**	10,527
	613,223	85,907
Less: non-current portion		
Payables of undertaking letter (b)	**(239,788)**	–
Payables for redemption of convertible bonds	**(85,686)**	–
Others	**(330)**	(196)
	(325,804)	(196)
Current portion	**287,419**	85,711

(a) The carrying amounts of accruals, other payables and provisions are denominated in RMB. The carrying amounts approximate their fair values.

32 Employee benefit obligations

Post employment benefit plan

Certain subsidiaries of the Group operates a post employment benefit plan. The plan is unfunded where the subsidiary meets the benefit payment obligation as it falls due. This plan provided benefits to employees who 1) meet the requirement of performance evaluation after a service period of six years, 2) satisfy certain conditions including compliance, non-disclosure and non-competition agreement after retirement. The level of benefits provided depends on members' length of service and their positions in the final year leading up to retirement as well as the performance of relevant subsidiary.

(a) Balance sheet amounts

The amounts recognised in the balance sheet and the movement in the net defined benefit obligation in 2021 are as follows:

	Present value of obligation RMB'000	Fair value of plan assets RMB'000	Net amount RMB'000
At January 1, 2021	–	–	–
Past and current service cost	42,798	–	42,798
Total amount recognised in the consolidated statement of comprehensive income	42,798	–	42,798
At December 31, 2021	42,798	–	42,798

(b) The significant actuarial assumptions were as follows:

	2021
Discount rate	3.35%
Growth rate of adjusted net profit	3.00%
Rate of accrued benefits	4.60%
Life expectancy	86

32 Employee benefit obligations – *continued*

Post employment benefit plan – *continued*

(c) ***The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:***

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
	2021	2021	2021
Discount rate	0.25%	Decrease by 5.32%	Increase by 5.70%
Growth rate of adjusted net profit	0.25%	Increase by 8.71%	Decrease by 8.18%
Rate of accrued benefits	0.25%	Increase by 0.25%	Decrease by 0.25%
Life expectancy	+/- 1 year	Increase by 3.94%	Decrease by 4.00%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period has been applied as when calculating the defined benefit liability recognised in the balance sheet.

(d) ***Risk exposure***

Through its post employment benefit plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Discount rate	The present value of the post employment benefit plan is calculated using a discount rate determined by reference to yield of China government bond. A decrease in the discount rate will increase the plan liability.
Growth rate of adjusted net profit	The present value of the post employment benefit plan is calculated by reference to the growth rate of the subsidiary's net profit adjusted by management, the growth of the subsidiary's financial performance could lead to the increases of the defined benefit obligation.
Rate of accrued benefits	The present value of the post employment benefit plan is calculated by reference to the rate of accrued benefits. As such, an increase in this rate will increase the plan liability.
Life expectancy	The plan obligation is to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

32 Employee benefit obligations – *continued*

Post employment benefit plan – *continued*

(e) Defined benefit liability and employer contributions

Expected contributions to the post-employment benefit plan for the year ending December 31, 2022 is nil.

The weighted average duration of the post employment benefit plan is 25.31. The expected maturity analysis of undiscounted cash flow of define benefit obligation is as follows:

	Less than a year RMB'000	Between 1 – 2 years RMB'000	Between 2 – 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At December 31, 2021					
Defined benefit obligation	–	17	1,031	140,935	141,983

33 Deferred income tax

	As at December 31,	
	2021 RMB'000	2020 RMB'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**8,087**	–
– Deferred income tax assets to be recovered within 12 months	**1,197**	3,835
	9,284	3,835
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(132,853)**	(265,302)
– Deferred income tax liabilities to be settled within 12 months	**(45,888)**	(36,999)
	(178,741)	(302,301)

33 Deferred income tax – *continued*

Deferred income tax assets

	Provisions RMB'000	Changes in fair value RMB'000	Donation RMB'000	Total RMB'000
Balance at January 1, 2020	605	323	485	1,413
Credited/(charged) to statement of comprehensive income	2,813	(275)	(116)	2,422
Balance at December 31, 2020	3,418	48	369	3,835
Balance at January 1, 2021	**3,418**	**48**	**369**	**3,835**
Credited/(charged) to statement of comprehensive income	**5,818**	**–**	**(369)**	**5,449**
Balance at December 31, 2021	**9,236**	**48**	**–**	**9,284**

Deferred income tax liabilities

	Buildings and intangible assets RMB'000	Withholding tax RMB'000	Interest capitalization RMB'000	Total RMB'000
Balance at January 1, 2020	(328,597)	(21,055)	(435)	(350,087)
Credited/(charged) to statement of comprehensive income	56,760	(8,998)	24	47,786
Balance at December 31, 2020	(271,837)	(30,053)	(411)	(302,301)
Balance at January 1, 2021	**(271,837)**	**(30,053)**	**(411)**	**(302,301)**
Credited/(charged) to statement of comprehensive income	**132,424**	**(8,888)**	**24**	**123,560**
Balance at December 31, 2021	**(139,413)**	**(38,941)**	**(387)**	**(178,741)**

Deferred income tax asset is recognised for provision for impairment of trade receivables, changes in fair value of financial assets at FVPL, unrealized profit resulted from changes in fair value of FVPL, internal transaction and donation to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Group did not recognise deferred income tax assets of RMB5,973,000 in 2021 (2020: RMB4,027,000) in respect of tax losses amounting to RMB23,891,000 (2020: RMB17,386,000) which can be carried forward against future taxable income.

33 Deferred income tax – *continued*

Deferred income tax liabilities – *continued*

The tax losses without recognising deferred income tax as at December 31, 2021 are mainly accumulated by DJ Pharmaceutical Technology, DJ Medicines, Zhejiang Honghe Zhiyuan and Beijing Hongyuan Zhiying Enterprise Management Consulting Co., Ltd. based on management's forecast for their future taxable income.

The recognised deferred tax liabilities by the Group was RMB38,941,000 (2020: RMB30,053,000) as at the year ended December 31, 2021, in respect of the PRC dividend withholding tax on temporary differences relating to the undistributed profits of the PRC entities attributable to the Company amounting to RMB389,410,000 (2020: RMB300,530,000), as it was considered probable that these profits would be distributed in the foreseeable future.

34 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**

None of convertible bonds was converted into ordinary shares of the Company during the year ended December 31, 2021. The Company issued convertible bonds in 2018 and 2019, which were accounted for financial liabilities.

As at December 31, 2021, the fair value of the convertible bonds is approximately HKD1,106,256,000, equivalent to approximately RMB904,499,000 (2020: HKD1,846,841,000, RMB1,554,375,000), which is determined by an independent qualified valuer.

34 Convertible bonds – *continued*

The significant inputs in the valuation model related to convertible bonds were listed as below:

	As at December 31,	
	2021	2020
Volatility	**35%**	30%
Time to expiration (years)	**1.60~1.99**	2.60~3.16
Risk free rate of interest	**0.47%~0.62%**	0.21%~0.25%
Dividend yield	**0.00%**	0.00%

On October 15, 2021, the Company has served a redemption notice to the bondholder to request for early redemption of the convertible bonds issued on February 27, 2019 at the amount of approximately HKD784,000,000, equivalent to approximately RMB645,940,000.

The first redemption amount of HKD550,000,000 (RMB453,145,000) was paid on October 20, 2021, and the remaining amount of HKD120,000,000 (RMB98,869,000) will be paid on July 31, 2022 and HKD114,000,000 (RMB93,926,000) will be paid on July 31, 2023.

35 Dividends

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

36 Cash generated from operations

(i) Cash flow information

	As at December 31, 2021	2020
Losses before income tax	**(449,102)**	(435,823)
Adjustments for:		
– Foreign exchange losses	**13,345**	34,753
– Interest paid – net	**683**	(5,271)
– Finance cost related to other financial liability at amortised cost	**1,250**	6,500
– Provision for impairment of financial assets	**26,477**	15,077
– Depreciation and amortisation	**41,145**	42,902
– Share-based compensation expenses	**108**	402
– Fair value gains on convertible bonds (Note 8)	**(12,843)**	(135,185)
– Fair value losses on call option (Note 8)	**–**	600
– Gains on disposal of financial assets at fair value through profit or loss (Note 8)	**(5,763)**	(2,553)
– Impairment losses on intangible assets	**551,981**	668,219
– Loss on disposal of property, plant and equipment	**142**	2,226
Change in operating assets and liabilities and net of effects from business combination		
– Increase in inventories	**(14,948)**	(1,539)
– Increase in trade receivables	**(13,439)**	(9,345)
– Increase in other receivables, deposits and prepayments	**(5,645)**	(1,430)
– Increase in amounts due from related parties	**(26,449)**	(62,659)
– Decrease in amounts due to related parties	**(5,099)**	(281)
– Increase in trade payables	**23,301**	3,437
– Increase in accruals, other payables and provision	**41,862**	7,098
Cash generated from operations	**167,006**	127,128

36 Cash generated from operations – *continued*

(ii) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Cash and cash equivalents (Note 24)	**440,428**	860,726
Term deposits (Note 23)	**638**	–
Financial assets at fair value through profit or loss		
– Monetary funds with floating rates (Note 22(i))	**338,905**	90,737
Bank borrowings (Note 30)	**(71,018)**	(131,695)
Lease liabilities (Note 15(i))	**(9,121)**	(958)
Amounts due to related parties (non-trade) (Note 21)	**(7,376)**	(14,382)
Convertible bonds (Note 34)	**(906,916)**	(1,558,245)
Net debt	**(214,460)**	(753,817)
Cash and cash equivalents (Note 24)	**440,428**	860,726
Term Deposits (Note 23)	**638**	–
Financial assets at fair value through profit or loss		
– Monetary funds with floating rates (Note 22(i))	**338,905**	90,737
Gross debt-interest free	**(914,292)**	(882,982)
Gross debt-fixed interest rates	**(49,121)**	(730,603)
Gross debt-variable interest rates	**(31,018)**	(91,695)
Net debt	**(214,460)**	(753,817)

36 Cash generated from operations – *continued*

(ii) Net debt reconciliation – *continued*

	Cash and cash equivalents RMB'000	Term deposits RMB'000	Monetary funds with floating rates RMB'000	Bank borrowings RMB'000	Lease liabilities RMB'000	Amount due to related parties (non-trade) RMB'000	Convertible bonds RMB'000	Total RMB'000
Net debt as at January 1, 2020	836,624	134,370	36,229	(214,402)	(3,062)	(15,007)	(1,693,430)	(918,678)
Cash flows	69,163	(134,370)	51,955	85,364	2,147	713	–	74,972
New leases	–	–	–	–	(739)	–	–	(739)
Foreign exchange adjustment	(45,061)	–	–	10,307	–	–	103,806	69,052
Fair value change excluding foreign exchange adjustment	–	–	2,553	–	–	–	(32,326)	(29,773)
Other changes								
Interest expense	–	–	–	(12,964)	(97)	(88)	–	(13,149)
Disposal	–	–	–	–	793	–	–	793
Net gains on the extension	–	–	–	–	–	–	63,705	63,705
Net debt as at December 31, 2020	860,726	–	90,737	(131,695)	(958)	(14,382)	(1,558,245)	(753,817)
Net debt as at January 1, 2021	860,726	–	90,737	(131,695)	(958)	(14,382)	(1,558,245)	(753,817)
Cash flows	(403,796)	638	21,405	64,715	2,057	112	453,145	138,276
New leases	–	–	–	–	(15,814)	–	–	(15,814)
Foreign exchange adjustment	(16,502)	–	–	1,668	–	–	(26,594)	(41,428)
Fair value change excluding foreign exchange adjustment	–	–	5,763	–	–	–	64,909	70,672
Changes as a result of business combination (Note 39(b))	–	–	221,000	–	2,775	6,968	–	230,743
Other changes								
Interest expense	–	–	–	(5,706)	(386)	(74)	–	(6,166)
Disposal	–	–	–	–	3,205	–	159,869	163,074
Net debt as at December 31, 2021	440,428	638	338,905	(71,018)	(9,121)	(7,376)	(906,916)	(214,460)

37 Contingencies

As of December 31, 2021, there was no material outstanding lawsuit of the Group and no significant lawsuit provision has been made based on directors' assessment (2020: nil).

38 Commitments

(i) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Property, plant and equipment	**7,160**	851
Others	**1,554**	1,960
	8,714	2,811

(ii) Non-cancellable operating leases

The Group leases a warehouse, a parking area, two retail stores, various equipment, offices, apartments and lands.

From January 1, 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, as described in Note 2.25 and Note 15.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Within one year	**134**	252

39 Business combination

(a) Summary of acquisition

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 voting 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 voting 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.

(b) The following table summarises the consideration paid for Yangsi Hospital, the fair value of assets acquired, liabilities assumed at the acquisition date.

	RMB'000
Purchase Consideration (refer to (c) below)	
Total purchase consideration	–

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value RMB'000
Net identifiable assets:	163,248
Mainly including:	
Cash and cash equivalents	44,434
Financial assets at fair value through profit or loss	221,000
Property, plant and equipment	111,321
Inventories	26,525
Trade receivables (ii)	70,885
Amounts due from related parties (ii)	4,460
Other receivables, deposits and prepayments (ii)	1,757
Amounts due to related parties	(131,765)
Trade payables	(84,237)
Accruals, other payables and provision	(103,907)
Less: non-controlling interests (iii)	163,248
Net assets acquired	–
Management contracts previously recognised (i)	(99,280)
Goodwill	99,280

39 Business combination – *continued*

(b) The following table summarises the consideration paid for Yangsi Hospital, the fair value of assets acquired, liabilities assumed at the acquisition date. – *continued*

(i) 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.

(ii) The fair value of acquired trade receivables, other receivables, deposits and prepayments and amount due from related parties as at the dates of business combinations amounted to RMB70,885,000, RMB1,757,000 and RMB4,460,000, respectively. The gross contractual amount for trade receivables due is RMB73,970,000, with a loss allowance of RMB3,085,000 recognised on acquisition.

(iii) 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 laws and regulations 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.

(iv) The revenue and net loss attributable to the Group during the period from December 6, 2021 to December 31, 2021 contributed by Yangsi Hospital was RMB107,933,000 and RMB28,996,000, respectively. If the acquisition had occurred on 1 January 2021, consolidated pro-forma revenue and net loss for the year ended December 31, 2021 would have been RMB1,130,003,000 and RMB24,435,000, respectively.

These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the group and the subsidiary, and
- the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from January 1, 2021, together with the consequential tax effects.

39 Business combination – *continued*

(c) Purchase consideration – cash inflow

	2021 RMB'000
Cash consideration	–
Less: Balance acquired	
Cash and cash equivalents	44,434
Net inflow of cash-investing activities	44,434

40 Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Other parties are also considered to be related if they are subject to common control, common significant influence or joint control. Members of key management and their close family member of the Group are also considered as related parties.

The directors of the Company are of the view that the following parties that had transactions or balances with the Group are related parties:

Name	Relationship with the Group
Vanguard Glory Limited	Parent company
Yangsi Hospital*	Certain employees or directors of the Group are Yangsi Hospital's internal governance body members before December 6, 2021
Cixi Hospital	Certain employees or directors of the Group are Cixi Hospital's internal governance body members
Jinhua Hospital	Certain employees or directors of the Group are Jinhua Hospital's internal governance body members
Midpoint Honour Limited	Related party which is owned by the Management Subscribers
Han Prestige Limited	Related party of parent company
Dajia Medical Equipment Co., Ltd.	Related party which controlled by a non-controlling shareholder of a subsidiary of the Group
Zhejiang Zhongyouli Medicines Co., Ltd.	Related party which is controlled by a close family member of a non-controlling shareholder of a subsidiary of the Group
Yongkang Hospital	Founded by a subsidiary of the Group

* The Group obtained the control of Yangsi Hospital on December 6, 2021. Inter-group transactions and balances between the Group and Yangsi Hospital were offset thereafter.

40 Significant related party transactions – *continued*

The following significant transactions were carried out between the Group and its related parties for the years ended December 31, 2021 and 2020. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(i) Significant transactions with related parties

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Management Service fee		
– Yangsi Hospital	**176,927**	173,387
– Cixi Hospital	**14,812**	15,426
– Jinhua Hospital	**17,453**	36,276
	209,192	225,089
Sales of pharmaceuticals, medical consumables and medical equipment		
– Yangsi Hospital	**425**	–
– Cixi Hospital	**544**	–
– Jinhua Hospital	**15,397**	–
– Yongkang Hospital	**623**	–
	16,989	–
Purchase of pharmaceuticals, medical consumables and medical equipment		
– Zhejiang Zhongyouli Medicines Co., Ltd	**19,501**	17,510
– Dajia Medical Equipment Co., Ltd	**10,042**	5,655
	29,543	23,165

40 Significant related party transactions – *continued*

(ii) Loans from related parties

	Year ended December 31, 2021 RMB'000	2020 RMB'000
Beginning of the year	**14,382**	15,007
Loans advanced	**–**	1,726
Loan repayments made	**(38)**	(2,351)
Others	**(6,968)**	–
End of the year	**7,376**	14,382

(iii) Loans to related parties

	Year ended December 31, 2021 RMB'000	2020 RMB'000
Beginning of the year	**80,762**	80,903
Loans advanced	**9**	55,350
Loan repayments received	**–**	(55,062)
Interest receivable	**4,138**	4,630
Interest received	**(4,138)**	(5,059)
Others	**(421)**	–
End of the year	**80,350**	80,762

40 Significant related party transactions – *continued*

(iv) Key management compensation

Key management includes directors and senior managements. The compensation paid or payables to key management for employee services is shown below:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Wages, salaries and bonuses (a)	**9,213**	13,029
Welfare and other expense	**1,451**	2,475
Total	**10,664**	15,504

(a) Mr. Chen Shuai, appointed as the chairman of the Board and the acting Chief Executive Officer of the Company, works full-time for Hony Capital Fund V, L.P. and part-time for the Group. The compensation paid to him by the Group is nil for the year ended December 31, 2021.

(v) Provide guarantee for related party

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 to the maximum amount of RMB412.5 million.

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

41 Events after the reporting period

On February 16, 2022, the Company through its wholly-owned subsidiary Jiande Heyue Enterprise Management Co., Ltd. entered into a purchase agreement for the 30% equity interest of DJ Medicines and DJ Pharmaceutical Technology, which has enabled the Group directly held 100% of the equity interests in the two companies, and signed a series of contractual arrangements so as to control and consolidate the remaining 30% economic benefits of Jiande Hospital, with a total consideration contracted to be paid of RMB120,000,000. After completion of the transaction, the Company will control and consolidate 100% financial statements of DJ Medicines, DJ Pharmaceutical Technology and Jiande Hospital.

As at this report date, the consideration has not been paid.

42 Balance sheet and reserve movement of the Company

Balance sheet of the Company

	Notes	As at December 31, 2021 RMB'000	2020 RMB'000
Assets			
Non-current assets			
Investments in subsidiaries		1,702,000	1,701,892
Total non-current assets		1,702,000	1,701,892
Current assets			
Amounts due from subsidiaries		755,401	783,713
Cash and cash equivalents		195,167	741,245
Total current assets		950,568	1,524,958
Total assets		2,652,568	3,226,850
Equity			
Equity attributable to owners of the Company			
Share capital		123	123
Share premium		435,304	435,304
Other reserves	(a)	842,957	844,431
Accumulated losses	(a)	(103,012)	(56,391)
Total equity		1,175,372	1,223,467
Liabilities			
Non-current liabilities			
Borrowings		–	34,386
Convertible bonds		906,916	1,558,245
Accruals, other payables and provisions		325,474	–
Total non-current liabilities		1,232,390	1,592,631

42 Balance sheet and reserve movement of the Company – *continued*

Balance sheet of the Company – *continued*

	Notes	As at December 31, 2021 RMB'000	2020 RMB'000
Current liabilities			
Borrowing		**71,018**	57,309
Other financial liability at amortised cost		**–**	237,100
Accruals, other payables and provisions		**62,584**	5,108
Amounts due to subsidiaries		**109,811**	109,810
Amounts due to related parties		**1,393**	1,425
Total current liabilities		**244,806**	410,752
Total liabilities		**1,477,196**	2,003,383
Total equity and liabilities		**2,652,568**	3,226,850

The balance sheet of the Company was approved by the Board of Directors on March 29, 2022 and was signed on its behalf.

Chen Shuai

Pu Chengchuan

(a)	Accumulated losses RMB'000	Other reserves RMB'000
At January 1, 2020	(23,827)	843,039
Loss for the year	(32,564)	–
Share-based payments	–	1,392
At December 31, 2020	(56,391)	844,431
At January 1, 2021	**(56,391)**	**844,431**
Loss for the year	**(46,621)**	**–**
Payables of undertaking letter	**–**	**(2,150)**
Share-based payments	**–**	**676**
At December 31, 2021	**(103,012)**	**842,957**

43 Benefits and interests of directors

(i) Directors' and chief executive officers' emoluments

The remuneration of every director and the chief executive is set out below:

	Emoluments paid or receivables in respect of a person's services as a director, whether of the Company or its subsidiary undertaking						
	Fees	Salaries	Discretionary bonuses	Employer's contribution to pension scheme	Share-based payments	Estimated money value of other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2021							
Executive directors							
Mr. Chen Shuai (iii)	–	–	–	–	–	–	–
Mr. Lu Wenzuo	–	419	4,200	–	–	–	4,619
Mr. Pu Chengchuan (i)	–	–	–	–	–	–	–
Non-executive directors							
Mr. Su Zhiqiang (vi)	–	–	–	–	–	–	–
Ms. Liu Lu	–	–	–	–	–	–	–
Ms. Wang Nan	–	–	–	–	–	–	–
Ms. Shi Wenting (vii)	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Shi Luwen	150	–	–	–	–	–	150
Mr. Zhou Xiangliang	150	–	–	–	–	–	150
Mr. Dang Jinxue (viii)	150	–	–	–	–	–	150
	450	419	4,200	–	–	–	5,069

43 Benefits and interests of directors – *continued*

(i) Directors' and chief executive officers' emoluments – *continued*

	Emoluments paid or receivables in respect of a person's services as a director, whether of the Company or its subsidiary undertaking						
	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Employer's contribution to pension scheme RMB'000	Share-based payments RMB'000	Estimated money value of other benefits RMB'000	Total RMB'000
Year ended December 31, 2020							
Executive directors							
Mr. Chen Shuai (iii)	–	–	–	–	–	–	–
Mr. Lu Wenzuo	–	358	4,200	–	–	–	4,558
Mr. Shan Guoxin (ii)	–	1,125	3,000	3	–	2,034	6,162
Non-executive directors							
Mr. Su Zhiqiang (vi)	–	–	–	–	–	–	–
Mr. Zhao John Huan (iv)	–	–	–	–	–	–	–
Mr. Li Peng (v)	–	–	–	–	–	–	–
Ms. Liu Lu	–	–	–	–	–	–	–
Ms. Wang Nan	–	–	–	–	–	–	–
Ms. Shi Wenting (vii)	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Shi Luwen	150	–	–	–	–	–	150
Mr. Zhou Xiangliang	150	–	–	–	–	–	150
Mr. Dang Jinxue (viii)	125	–	–	–	–	–	125
Ms. Chen Xiaohong (viii)	–	–	–	–	–	–	–
	425	1,483	7,200	3	–	2,034	11,145

43 Benefits and interests of directors – *continued*

(i) Directors' and chief executive officers' emoluments – *continued*

(i) Mr. Pu Chengchuan had been appointed as an executive Director of the Group as of June 22, 2021.

(ii) Mr. Shan Guoxin, the chief executive officer of the Group, was appointed as an executive director as of March 12, 2019 and resigned as of June 23, 2020.

(iii) Mr. Chen Shuai was appointed as a non-executive director, the chairman of the Board and acting chief executive officer of the Group as of June 23, 2020, and has been re-designated as an executive director as of November 20, 2020.

(iv) Mr. Zhao John Huan resigned as a non-executive director as of June 23, 2020.

(v) Mr. Li Peng was appointed as a non-executive director as of July 24, 2019 and resigned as of June 23, 2020.

(vi) Mr. Su Zhiqiang resigned as a non-executive director of the Group on June 22, 2021.

(vii) Ms. Shi Wenting was appointed as a non-executive director as of June 23, 2020 and resigned as a non-executive director on March 29, 2022.

(viii) Ms. Chen Xiaohong resigned as an independent non-executive director and Mr. Dang Jinxue has been appointed as an independent non-executive director as of March 9, 2020.

(ix) Ms. Pan Jianli was appointed as an executive director on March 29, 2022.

(ii) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time for the year ended December 31, 2021 (2020: nil).