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

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

(Stock Code: 3689)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

- Revenue for the Reporting Period decreased by 1.0% to RMB862.7 million (six months ended 30 June 2021: RMB871.5 million)

- Loss for the Reporting Period amounted to RMB21.6 million (six months ended 30 June 2021: Profit of RMB14.8 million)

- Loss for the period attributable to owners of the Company amounted to RMB4.2 million (six months ended 30 June 2021: Profit of RMB30.9 million).

- Loss per share amounted to RMB1.2 cents (six months ended 30 June 2021: Earnings per share of RMB9.2 cents)

- Adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation# ("**Adjusted EBITDA**") for the Reporting Period decreased by 41.3% to RMB65.2 million (six months ended 30 June 2021: RMB111.1 million)

- The Board does not recommend payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: nil)

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

INTERIM RESULTS

The board of directors (the "**Board**") of Guangdong Kanghua Healthcare Co., Ltd.* (the "**Company**" or "**our company**", "**we**" or "**us**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**" or "**our Group**"), for the six months ended 30 June 2022 (the "**Reporting Period**") together with the comparative figures for the corresponding period in 2021.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	3	**862,722**	871,485
Cost of revenue		**(774,199)**	(741,640)
Gross profit		**88,523**	129,845
Other income	4	**28,795**	15,750
Other expenses, gains and losses, net	5	**691**	2,596
(Net provision for)/net reversal of impairment losses under the expected credit loss model		**(2,991)**	1,303
Administrative expenses		**(115,340)**	(103,441)
Finance costs		**(8,550)**	(10,210)
(Loss)/profit before tax	6	**(8,872)**	35,843
Income tax expense	7	**(12,730)**	(21,044)
(Loss)/profit and total comprehensive (loss)/income for the period		**(21,602)**	14,799
(Loss)/profit and total comprehensive (loss)/income for the period attributable to:			
Owners of the Company		**(4,156)**	30,875
Non-controlling interests		**(17,446)**	(16,076)
		(21,602)	14,799
(Loss)/earnings per share			
Basic *(RMB cents)*	9	**(1.2)**	9.2
Diluted *(RMB cents)*	9	**(1.2)**	9.2

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	NOTES	At 30 June 2022 RMB'000 (unaudited)	At 31 December 2021 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**1,053,900**	1,031,363
Right-of-use assets	10	**337,924**	354,133
Goodwill		**29,101**	29,101
Other asset	11	**19,916**	–
Deposits paid for acquisition of property, plant and equipment		**61,125**	91,597
Financial assets at fair value through profit or loss	13	**81,833**	73,326
Total non-current assets		**1,583,799**	1,579,520
CURRENT ASSETS			
Inventories		**62,800**	83,939
Accounts and other receivables	12	**306,903**	268,208
Financial assets at fair value through profit or loss	13	**620,000**	530,000
Restricted bank balances		**1,588**	2,592
Fixed bank deposits		**–**	3,000
Bank balances and cash		**122,288**	237,343
Total current assets		**1,113,579**	1,125,082
CURRENT LIABILITIES			
Accounts and other payables and provision	14	**659,159**	633,410
Amounts due to non-controlling shareholders of subsidiaries		**81,939**	49,939
Bank loans – due within one year	15	**28,663**	28,727
Lease liabilities		**39,139**	36,490
Tax payables		**17,280**	29,082
Total current liabilities		**826,180**	777,648
NET CURRENT ASSETS		**287,399**	347,434
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,871,198**	1,926,954

	NOTES	At 30 June 2022 RMB'000 (unaudited)	At 31 December 2021 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Bank loans – due after one year	15	**266,561**	282,119
Lease liabilities		**128,363**	147,201
Deferred tax liabilities		**23,054**	23,207
Total non-current liabilities		**417,978**	452,527
NET ASSETS		**1,453,220**	1,474,427
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	**334,394**	334,394
Reserves		**1,088,287**	1,092,443
		1,422,681	1,426,837
Non-controlling interests		**30,539**	47,590
TOTAL EQUITY		**1,453,220**	1,474,427

NOTES:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

廣東康華醫療股份有限公司 (Guangdong Kanghua Healthcare Co., Ltd.*) (the "**Company**") was established as a limited liability company in the People's Republic of China (the "**PRC**" or "**China**") and its overseas listed ordinary shares (the "**H Shares**") are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"). The Company's immediate and ultimate holding company is 東莞市康華投資集團有限公司 (Dongguan Kanghua Group Co., Ltd.*) ("**Kanghua Group**"), a limited liability company established in the PRC. The addresses of the registered office and the principal place of business in Hong Kong of the Company are 3/F, Outpatient Zone One, Dongguan Kanghua Hospital, Nancheng Street Road, Dongguan, Guangdong Province, PRC and Unit 3207, Metroplaza Tower 2, 223 Hing Fong Road, Kwai Fong, New Territories, Hong Kong, respectively.

The Company and its subsidiaries (collectively referred as the "**Group**") are principally engaged in the provision of hospital services, provision of rehabilitation and other healthcare services, provision of elderly healthcare services and sale of pharmaceutical products in the PRC.

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

The interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("**IASB**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on Hong Kong Stock Exchange. The interim condensed consolidation financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2021.

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised International Financial Reporting Standards ("**IFRSs**") for the first time for the current period's financial information.

Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRSs 2018–2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

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

3. REVENUE AND OPERATING SEGMENT INFORMATION

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

Revenue

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

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Recognised over time:		
Hospital services:		
– Inpatient healthcare services	**444,340**	487,392
– Outpatient healthcare services	**315,637**	281,633
– Physical examination services	**46,766**	52,321
Rehabilitation and other healthcare services:		
– Rehabilitation hospital services	**22,600**	19,723
– Rehabilitation centre services and other healthcare services	**26,816**	24,524
Elderly healthcare services	**6,563**	5,166
	862,722	870,759
Recognised at a point in time:		
Sale of pharmaceutical products	**–**	726
Total revenue from contract with customers	**862,722**	871,485

Operating segment information

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

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

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

(ii) Rehabilitation and other healthcare services: Provision of rehabilitation services generally refers to provision of special care services to patients with permanent or long-term physical or mental disabilities. Other healthcare services include elderly healthcare and training services for the disabled.

(iii)	Elderly healthcare services:	Provision of elderly healthcare services, including assisted living, adult daycare, long-term care, residential care and hospice care to the aged patients.
(iv)	Sale of pharmaceutical products:	Sales of pharmaceutical products to patients of the Group's hospitals and outside customers.

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

Segment revenues and results

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

For the six months ended 30 June 2022 (unaudited)

	Hospital services *RMB'000*	**Rehabilitation and other healthcare services** *RMB'000*	**Elderly healthcare services** *RMB'000*	**Total** *RMB'000*
SEGMENT REVENUE				
External sales	**806,743**	**49,416**	**6,563**	**862,722**
Segment profit	**81,169**	**5,121**	**2,233**	**88,523**
Other income				**28,795**
Other expenses, gains and losses, net				**691**
Net provision for impairment losses under the expected credit loss model				**(2,991)**
Administrative expenses				**(115,340)**
Finance costs				**(8,550)**
Loss before tax				**(8,872)**

For the six months ended 30 June 2021 (unaudited)

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

There were no inter-segment sales during both periods.

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

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

4. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Investment income from financial assets at fair value through profit or loss	**7,907**	4,729
Vaccine-related income	**5,793**	1,828
Clinical trial and related income	**3,919**	1,274
COVID-19 related rent concession	**3,691**	–
Fixed operating lease income	**2,383**	1,826
Local health service income	**1,202**	1,116
Bank and other interest income	**946**	904
Government subsidies	**789**	236
Others	**2,165**	3,837
	28,795	15,750

5. OTHER EXPENSES, GAINS AND LOSSES, NET

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Fair value (loss)/gain on financial assets at fair value through profit or loss	**(2,361)**	3,692
Net exchange gain/(loss)	**3,076**	(977)
Donations	**(10)**	(110)
Loss on disposals of property, plant and equipment	**(14)**	(9)
	691	2,596

6. (LOSS)/PROFIT BEFORE TAX

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
(Loss)/profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**57,008**	55,585
Depreciation of right-of-use assets	**18,127**	17,807
Research and development expenditure	**563**	686
Short-term lease rentals	**1,421**	2,071
Variable lease rentals in respect of hospitals	**3,029**	5,771
Cost of inventories recognised as expenses (representing pharmaceutical products and consumables and others used, included in cost of revenue)	**394,965**	397,972

7. INCOME TAX

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("**EIT**")		
Current tax	**12,887**	20,989
Over provision of EIT in prior years	**(4)**	(17)
	12,883	20,972
Hong Kong Profits Tax		
Under provision in prior years	**–**	4
	12,883	20,976
Deferred tax charge	**(153)**	68
	12,730	21,044

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and the Implementation Regulation of the EIT Law, a subsidiary which operates in Mainland China is subject to corporate income tax at a rate of 25% on the taxable income for both periods. Certain subsidiaries of the Group in Mainland China are regarded as "small and micro enterprises" and, accordingly, were entitled to a preferential income tax rate of 2.5% to 10% (six months ended 30 June 2021: 2.5% to 10%) during the current interim period.

No provision for the Hong Kong Profits Tax has been made as the Group did not generate any assessable profits in Hong Kong during the current interim period (six months ended 30 June 2021: nil).

8. DIVIDENDS

No dividends were paid, declared or proposed during the current interim period (six months ended 30 June 2021: nil). The directors of the Company have determined that no dividend will be declared and paid in respect of the current interim period (six months ended 30 June 2021: nil).

9. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the (loss)/profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 334,394,000 (six months ended 30 June 2021: 334,394,000) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2022 and 2021.

The calculation of basic (loss)/earnings per share is based on:

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
(Loss)/earnings:		
(Loss)/profit for the period attributable to ordinary equity holders of the Company for the purpose of calculating (loss)/earnings per share	**(4,156)**	30,875

	Six months ended 30 June	
	2022	2021
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	**334,394,000**	334,394,000

The diluted (loss)/earnings per share amount is the same as the basic (loss)/earnings per share amount for the six months ended 30 June 2022 and 2021.

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

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB24,000 (six months ended 30 June 2021: RMB164,000) for cash proceeds of RMB10,000 (six months ended 30 June 2021: RMB155,000), resulting in a loss on disposals of RMB14,000 (six months ended 30 June 2021: RMB9,000).

In addition, during the current interim period, the Group acquired property, plant and equipment and incurred expenditure on construction in progress of RMB48,911,000 and RMB29,798,000 (six months ended 30 June 2021: RMB32,724,000 and RMB44,354,000), respectively, for the purpose of upgrading and expanding the service capacity of the Group's hospital operations.

During the current interim period, the Group renewed or entered into new lease agreements for the use of properties in the PRC for 2 to 5 years (six months ended 30 June 2021: 2 to 5 years). The Group is required to make fixed monthly payments. On commencement of the leases, the Group recognised right-of-use assets and lease liabilities of RMB1,918,000 (six months ended 30 June 2021: RMB6,661,000) each relating to those new leases.

11. OTHER ASSET

On 23 May 2022, the Company entered into the certain management arrangements ("**Management Arrangements**") with Silver Mountain Capital Limited ("**Silver Mountain**"), an independent third party, pursuant to which Silver Mountain has assumed management of the day-to-day operations of Chongqing Kanghua Zhonglian Cardiovascular Hospital Co., Ltd. (重慶康華衆聯心血管病醫院有限公司) ("**Kangxin Hospital**"), a non-wholly owned subsidiary of the Company, for a period of 20 years ("**Service Period**") subject to certain terms and conditions. Details of the Management Arrangements are set out in the Company's announcement dated 23 May 2022.

Pursuant to the Management Arrangements, Silver Mountain shall provide a series of services with a view to improving and optimising the operations of Kangxin Hospital including the introduction of a German medical group "Artemed" to Kangxin Hospital to participate in daily management and operations, overseas resources, domestic resources, research capabilities, clinical achievement transformation, policy innovation, cooperation with medical colleges, key scientific construction, medical informatics, medical payment system, quality control, expert collaboration and cost control.

In return, Kangxin Hospital shall pay to Silver Mountain a fee of RMB20 million (the "**Brand Introduction Fee**") to procure the introduction of "Artemed", and an annual fixed management fee of RMB10 million together with variable management fee which is based on certain percentage of Kangxin Hospital's annual revenue during the Service Period. During the period, Silver Mountain had procured "Artemed" to sign a trademark licensing agreement with Kangxin Hospital for a non-exclusive right to use Artemed brand in Mainland China and the Group paid the Brand Introduction Fee of RMB20 million to Silver Mountain. According to the Management Arrangements, Silver Mountain shall refund a certain portion of the Brand Introduction Fee paid to Kangxin Hospital under certain circumstances, including, among others, in the event that Kangxin Hospital is not able to achieve the growth of audited revenue based on an agreed threshold during the performance period (i.e. the 12-month period beginning from the 1st day of the month after the completion of the transfer of management rights of Kangxin Hospital to Silver Mountain). In the opinion of the Directors, the payment of the Brand Introduction Fee is part of the Management Arrangements with Silver Mountain for its services during the Service Period and the introduction of German medical group "Artemed" brand could bring long-term benefits to the operations of Kangxin Hospital, and accordingly, the Brand Introduction Fee is amortised over the Service Period.

12. ACCOUNTS AND OTHER RECEIVABLES

	At 30 June 2022 *RMB'000* **(unaudited)**	At 31 December 2021 *RMB'000* (audited)
Accounts receivable	**267,818**	235,665
Less: Allowance for credit loss	**(11,024)**	(9,194)
Total accounts receivable	**256,794**	226,471
Prepayments to suppliers	**14,995**	13,341
Others	**37,157**	30,293
	52,152	43,634
Less: Allowance for credit loss	**(2,043)**	(1,897)
Total other receivables	**50,109**	41,737
Total accounts and other receivables	**306,903**	268,208

The individual patients of the Group usually settle payments by cash, credit cards, mobile payments or governments' social insurance schemes. For credit card and mobile payments, the banks and counterparties normally settle the amounts approximately 30 days after the transaction date. Payments by governments' social insurance schemes normally be settled by the local social insurance bureau or similar government departments which are responsible for the reimbursement of medical expenses for patients who are covered by the government medical insurance schemes ranged from 30 to 180 days from the transaction date. Corporate customers will normally settle the amounts within 90 days after the transaction date by bank transfers.

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

	At 30 June 2022 *RMB'000* **(unaudited)**	At 31 December 2021 *RMB'000* (audited)
Within 30 days	**95,230**	133,762
31 to 90 days	**97,959**	61,106
91 to 180 days	**33,938**	14,273
181 to 365 days	**26,760**	8,905
Over 365 days	**2,907**	8,425
	256,794	226,471

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2022	At 31 December 2021
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Portfolio investment fund *(note (i))*	**63,833**	63,326
Fund investment *(note (ii))*	**18,000**	10,000
Structured bank deposits *(note (iii))*	**620,000**	530,000
	701,833	603,326
Analysed for reporting purpose as:		
Current assets	**620,000**	530,000
Non-current assets	**81,833**	73,326
	701,833	603,326

Notes:

(i) The Group has a portfolio investment fund as part of the Group's cash management activities. The underlying portfolio of which includes a mixture of shares that are primarily listed in Hong Kong. The portfolio investment fund was maintained by a discretionary fund manager and measured at fair value. As at 30 June 2022 and 31 December 2021, the Group intended to invest in the fund for long-term purposes and did not expect any immediate use of the portfolio investment fund in the short term. Thus, the portfolio investment fund is classified as non-current assets and measured at fair value. The Group may at its discretion redeem the fund subject to the relevant procedures, requirements and restrictions.

(ii) During the year ended 31 December 2021, the Group entered into a partnership agreement with two independent third parties for the establishment of a fund, namely, Guangdong Bosong Kanghua Equity Investment Partnership, L.P. (廣東鉑頌康華股權投資合夥企業(有限合夥)), a limited partnership established under the laws of the PRC. The purpose of the fund is to achieve investment returns and capital appreciation through carrying out investment, investment management and other activities in accordance with PRC laws, business scope under business registration, and the partnership agreement. To the extent permitted by the applicable laws, the fund will invest primarily in the fields of medical services, biotechnology, medical equipment, and medical informatics. The initial term of the fund shall be seven years. As at 30 June 2022, the fund had made equity investments in two (31 December 2021: one) unlisted companies and the aggregate carrying amounts of the equity investments was RMB18,000,000 (31 December 2021: RMB10,000,000), which were measured at fair values.

(iii) The Group has structured deposits with commercial banks in the PRC for variable investment returns. The majority of these structured deposits are with maturities of less than six months and the principal is generally renewed when matured.

14. ACCOUNTS AND OTHER PAYABLES AND PROVISION

	At 30 June 2022 *RMB'000* **(unaudited)**	At 31 December 2021 *RMB'000* (audited)
Accounts payable	**256,855**	321,645
Accrued expenses	**96,004**	98,166
Contract liabilities	**42,745**	48,820
Receipts in advance *(note)*	**205,002**	102,966
Payables for acquisition of property, plant and equipment	**28,995**	30,550
Other tax payables	**2,274**	3,634
Others	**24,705**	25,732
Other payables	**399,725**	309,868
Sub-total accounts and other payables	**656,580**	631,513
Provision for medical dispute claims	**2,579**	1,897
Total accounts and other payables and provision	**659,159**	633,410

Note: Balance represented advances from the PRC social insurance bureau for the daily operations of the hospitals operated by the Group.

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

The following is an aging analysis of accounts payable based on the date of receipt of goods at the end of the reporting period:

	At 30 June 2022 *RMB'000* **(unaudited)**	At 31 December 2021 *RMB'000* (audited)
Within 30 days	**78,325**	116,643
31 to 90 days	**94,088**	122,212
91 to 180 days	**40,078**	39,820
181 to 365 days	**29,025**	17,003
Over 365 days	**15,339**	25,967
	256,855	321,645

15. BANK LOANS

	At 30 June 2022 *RMB'000* **(unaudited)**	At 31 December 2021 *RMB'000* (audited)
Variable rate secured bank loans *(note a)*	**253,442**	265,237
Fixed rate secured loan *(note b)*	**41,782**	45,609
	295,224	310,846

	At 30 June 2022 *RMB'000* **(unaudited)**	At 31 December 2021 *RMB'000* (audited)
The carrying amounts of the loans are repayable:		
Within one year	**28,663**	28,727
Within a period of more than one year but not exceeding two years	**28,980**	29,025
Within a period of more than two years but not exceeding five years	**88,844**	88,865
Within a period of more than five years	**148,737**	164,229
	295,224	310,846
Less: Amount due within one year shown under current liabilities	**(28,663)**	(28,727)
Amount shown under non-current liabilities	**266,561**	282,119

Notes:

(a) At 30 June 2022, a secured bank loan, amounting to RMB253,442,000 (31 December 2021: RMB265,237,000), carried interest at the benchmark interest rate for loan offered by the People's Bank of China adjusted annually from the draw down date. The effective interest rate of the secured bank loan is 5.81% (31 December 2021: 5.72%) per annum. The main purpose of the loan is to finance the payment for the phase two medical facility development of Kangxin Hospital and to settle a certain amount due to a non-controlling shareholder of a subsidiary.

At 30 June 2022, the bank loan was secured with the key terms and securities pledged as follows:

(i) financial guarantees provided by the Company, Mr. Wang Junyang, the chairman of the Group, 東莞市東成石材有限公司, a company controlled by Dongguan Xingye Group Co., Ltd. ("**Xingye Group**") which is a controlling shareholder of the Company, and 東莞嘉德醫療投資有限公司 (collectively referred to as the "**Guarantors**") with respective maximum amounts of RMB500,000,000 (31 December 2021: RMB500,000,000); and

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

(b) At 30 June 2022, a fixed rate secured loan, amounting to RMB41,782,000 (31 December 2021: RMB45,609,000), represented a financing arrangement with Industrial and Commercial Bank of China Leasing Co., Ltd., an independent third party. Pursuant to the arrangement, the Group has transferred legal title of certain items of medical equipment to Industrial and Commercial Bank of China Leasing Co., Ltd., which shall then be leased back for use by the Group. Upon expiry of the lease term, the Group has an option to repurchase these items of medical equipment at a cash consideration of RMB1. At 30 June 2022, the carrying amount of these items of medical equipment was approximately RMB25,912,000 (31 December 2021: RMB32,218,000), and is guaranteed by the Guarantors.

The transfers of these medical equipment do not satisfy the requirements of IFRS 15 to be accounted for as a sale of assets. The Group continued to recognise the transferred assets and initially recognised a secured loan equal to the transfer proceeds. The loan carried an effective interest rate of 6.74% (31 December 2021: 6.74%) per annum and would be settled by quarterly instalments until September 2027.

16. SHARE CAPITAL

	Number of domestic shares *’000*	**Number of H shares** *’000*	**Share capital** *RMB’000*
At 1 January 2021, 31 December 2021 (audited) and 30 June 2022 (unaudited)	**250,000**	**84,394**	**334,394**

17. CAPITAL COMMITMENTS

	At 30 June 2022 *RMB’000* **(unaudited)**	At 31 December 2021 *RMB’000* (audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the interim condensed consolidated financial information	**135,708**	149,561

18. CONTINGENT LIABILITIES

The Group is involved as defendants in certain medical disputes arising from its normal business operations. Except for those disputes with provision made as disclosed in note 14, the management of the Group believes that the final result of other medical disputes with total claims of RMB9,320,000 (31 December 2021: RMB7,501,000) as at 30 June 2022 will not have a material impact on the financial position or operations of the Group and the amount of outflow, if any, cannot be determined with sufficient reliability prior to judicial appraisals. Accordingly, no provision is made in this regard.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Overview for the six months ended 30 June 2022

In 2022, as the coronavirus disease 2019 ("**COVID-19**") pandemic continued, the local healthcare administrative authorities in China have imposed controls on healthcare services except for those in need of urgent medical attention, with the objective of reducing unnecessary travel. During the past year, China's "dynamic COVID-zero" strategy, with the aim to avoid turning businesses and economic activities to a halt as compared to the outbreaks seen in Shanghai and Wuhan, has proven to be a success.

During the Reporting Period, the operation of our hospitals and medical facilities have experienced a certain degree of business interruptions. Isolated cases that were identified at our medical facilities have resulted in temporary access restriction. Patients generally avoided visiting medical institutions and pharmacies to minimize the risk of infection. Whilst the government's control over business activities may materially and adversely affect customer demand for non-critical healthcare services, the COVID-19 pandemic has improved the health awareness of the public in China.

In the first half of 2022, the Group's consolidated revenue amounted to RMB862.7 million (six months ended 30 June 2021: RMB871.5 million), representing a period-on-period decrease of 1.0%. This was mainly attributable to the decrease in revenue from our hospital services segment of 1.8%. The decrease was partly offset by the increase in revenue from our rehabilitation and other healthcare services and elderly healthcare services segments, which both recorded an increase in revenue of 11.7% and 27.0%, respectively.

Our hospital services segment recorded a decrease in revenue of 1.8% as compared to same period last year. The Group's self-owned hospitals (making up our hospital services segment), namely Dongguan Kanghua Hospital (康華醫院) ("**Kanghua Hospital**"), Dongguan Renkang Hospital (仁康醫院) ("**Renkang Hospital**") and Chongqing Kanghua Zhonglian Cardiovascular Hospital (康心醫院) ("**Kangxin Hospital**") have recorded changes in revenue of decrease of 2.8%, increase of 0.7% and increase of 19.0%, respectively.

Our rehabilitation and other related healthcare services segment, through our ownership of 57% equity interest in Anhui Hualin Medical Investment Co., Ltd.* (安徽樺霖醫療投資有限公司) ("**Anhui Hualin**") (Anhui Hualin directly and indirectly (through its wholly-owned subsidiaries, collectively the "**Anhui Hualin Group**") holds sponsor interests in the managed and controlled entities, certain of which are private non-enterprise entities in Anhui Province, the PRC), has recorded a revenue for the Reporting Period of RMB49.4 million (six months ended 30 June 2021: RMB44.2 million), representing a period-on-period increase of 11.7%.

Our rehabilitation and other related healthcare services segment mainly consists of our two major rehabilitation hospitals, namely, Hefei Kanghua Rehabilitation Hospital (合肥康華康復醫院) and Hefei Jingu Hospital (合肥金谷醫院), a Grade A class I general hospital, Bengbu Renkang Hospital (蚌埠仁康醫院) and an out-patient centre (these hospitals and out-patient centre represent our rehabilitation hospital operations), thirteen rehabilitation centres and one vocational training school (representing our rehabilitation centre services and other healthcare services operations). Revenue from our rehabilitation hospitals operations and rehabilitation centre services and other healthcare services operations increased by 14.6% and 9.3%, respectively. The increases in revenue are primarily due to improvement in the patient intake of our rehabilitation hospitals, the expansion of our rehabilitation centres network and increased collaboration with local Disabled Persons Federation (殘疾人聯合會) as well as gradual recovery from the impact of the pandemic.

Our elderly healthcare services segment represents the operation of Renkang Elderly Care Centre (仁康護理院). Our comprehensive elderly healthcare centre with a capacity of 108 elderly beds located inside Renkang Hospital aims to provide quality high-end elderly care services to local residents in Houjie Town, Dongguan City, the PRC. Revenue from our elderly healthcare services segment increased by 27.0%, primarily due to the gradual maturity of the elderly centre operation since its official opening in 2019.

The Group's consolidated loss for the Reporting Period amounted to RMB21.6 million (six months ended 30 June 2021: profit of RMB14.8 million). The loss for the Reporting Period as compared to profit in the corresponding period last year is mainly attributable to: (i) the decrease in revenue and profit recorded at Kanghua Hospital, which was primarily affected by a series of factors including the fall in number of inpatient and outpatient visits as well as business interruptions due to a COVID-19 case identified within Kanghua Hospital that caused a temporary closure of our outpatient department during the Reporting Period; (ii) continual losses incurred at Kangxin Hospital for the Reporting Period; and (iii) the drop in overall operating margin from 14.9% for the six months ended 30 June 2021 to 10.3% for the Reporting Period.

The Group's Adjusted EBITDA (Adjusted EBITDA is earnings before accounting for bank and other interest income, interest expenses, taxes, depreciation and amortisation, fair value gain/(loss) on financial assets at fair value through profit or loss, investment income from financial assets at fair value through profit or loss and net exchange gain/(loss)) recorded a period-on-period decrease of 41.3% to RMB65.2 million (six months ended 30 June 2021: RMB111.1 million). The Group's Adjusted EBITDA remained positive and indicates that the Group's core operation as a whole remained profitable, after eliminating the effects of financing, investment-related income, fair value changes of investments, effects of exchange rates, capital expenditures and extraordinary non-cash related losses.

Hospital Services

The Group's self-owned hospitals, namely, Kanghua Hospital, Renkang Hospital and Kangxin Hospital, represent our Group's hospital services segment. During the Reporting Period, the Group recorded a drop in most of our key performance indicators. Our key operating performance indicators during the Reporting Period are as follows: (i) the total number of inpatient visits decreased to 29,761 (for six months ended 30 June 2021: 31,308), representing a period-on-period decrease of 4.9%; (ii) the overall average spending per inpatient visit amounted to RMB14,930.3 (six months ended 30 June 2021: RMB15,567.7), representing a period-on-period decrease of 4.1%; (iii) the overall bed utilisation rate decreased to 61.2% (six months ended 30 June 2021: 69.1%); (iv) the average length of stay at 6.7 days (six months ended 30 June 2021: 7.2 days); (v) the total number of outpatient visits decreased to 692,141 (six months ended 30 June 2021: 698,486), representing a period-on-period decrease of 0.9%; (vi) the overall average spending per outpatient amounted to RMB456.0 (six months ended 30 June 2021: RMB403.2), representing a period-on-period increase of 13.1%; and (vii) the total number of surgical operations decreased to 17,826 (six months ended 30 June 2021: 19,416), representing a period-on-period decrease of 8.2%.

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

		For the six months ended 30 June	
	Change	**2022**	2021
Inpatient healthcare services			
Inpatient visits	-4.9%	**29,761**	31,308
Average length of stay *(days)*	-0.5	**6.7**	7.2
Average spending per visit *(RMB)*	-4.1%	**14,930.3**	15,567.7
Outpatient healthcare services			
Outpatient visits	-0.9%	**692,141**	698,486
Average spending per visit *(RMB)*	+13.1%	**456.0**	403.2
Physical examination services			
Physical examination visits	+14.7%	**72,278**	63,015
Average spending per visit *(RMB)*	-22.1%	**647.0**	830.3

Kanghua Hospital

In the first half of 2022, Kanghua Hospital has continued to place efforts to improve the quality of medical care and enhance the survivability, competitiveness, development and sustainability of Kanghua. Furthermore, Kanghua Hospital focused on cost control by implementing energy saving measures as well as improvements in quality of our departments, which significantly improved the awareness of quality and safety throughout the hospital. However, earlier in the year, a confirmed COVID-19 case with one of our staff at Kanghua Hospital (who was, to the best of our knowledge, infected outside of our hospital facility) was identified that caused temporary closure of our outpatient department and had an adverse impact over our revenue for the Reporting Period. In addition to actively fighting against the pandemic, Kanghua Hospital has implemented policies to strengthen staff behavioural management and promotion of service quality as well as incorporating reforms and improvement in medical technology, management ability and service quality as the guidelines in the daily work. In 2022, Kanghua Hospital implemented the system of responsibility management which clarified the requirements of responsibilities with our medical professionals as well as optimizing workflows and improved work quality.

During the Reporting Period, Kanghua Hospital recorded a revenue of RMB653.2 million (six months ended 30 June 2021: RMB672.2 million), representing a period-on-period decrease of 2.8%.

Renkang Hospital

In the first half of 2022, Renkang Hospital has continued to strengthen the management capability within the hospital, paying close attention to medical quality control and improving the level of medical technology. In 2022, Renkang Hospital has strengthened the development of medical alliances (醫聯體建設) with other hospitals and implemented hierarchical diagnosis and treatment. The work towards approval in the application for Grade A Class II hospital grading continues to be one of our top priorities in 2022. As part of this project, Renkang Hospital has revised and reformed the evaluation leadership working group to clarify the work and responsibility of each supervision group. In terms of pandemic control, Renkang Hospital did an outstanding job in normalizing the prevention and control of the pandemic. Fever clinics were opened in 2021 and the persons responsible for the fever clinics have been established to play the role of checkpoints in pandemic prevention and control. At the same time, the "Emergency Plan for the Prevention and Control of the New Crown Epidemic in Dongguan Renkang Hospital"《東莞仁康醫院院內新冠疫情防控應急預案》and "Emergency Response Procedures for Positive Cases in the Hospital"《院內發生陽性病例應急處置流程》were formulated and medical personnel were organized to conduct drills to ensure the safety of the people. During the Reporting Period, Renkang Hospital recorded a rise in the total number of patient visits as compared with the same period last year.

During the Reporting Period, Renkang Hospital recorded a revenue of RMB131.0 million (six months ended 30 June 2021: RMB130.1 million), representing a period-on-period increase of 0.7%.

Kangxin Hospital

In the first half of 2022, the operational performance of Kangxin Hospital has significantly improved and recorded a rise in the number of outpatient, inpatient and physical examination visits. Although still operating at loss, the revenue of Kangxin Hospital for the Reporting Period has recorded a 19.0% growth as compared with the same period last year. In May 2022, Kangxin Hospital entered into the management arrangements with Silver Mountain (further details as set out in the Company's announcement dated 23 May 2022), pursuant to which Silver Mountain has assumed management of the day-to-day operations of Kangxin Hospital and established a medical cooperative with a German medical group – "Artemed". The management arrangements will leverage the network, resources and healthcare capability of Silver Mountain to improve and optimise the operations of Kangxin Hospital. While the Board is confident about the long-term prospects of Kangxin Hospital, the COVID-19 pandemic has adversely affected the ramp up of its operations. The Board considers the management arrangements a good opportunity to leverage Silver Mountain's network and resources to ramp up and optimise the operations of Kangxin Hospital in a shorter timeframe, and minimise further loss the Group may incur in connection with Kangxin Hospital. The management arrangements, which commenced in June 2022, has introduced to Kangxin Hospital management experience of international hospitals and an international team of medical experts in the cardiovascular field, thus accelerating the standardization of the hospital.

During the Reporting Period, Kangxin Hospital recorded a revenue of RMB22.6 million (six months ended 30 June 2021: RMB19.0 million), representing a period-on-period increase of 19.0%.

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

Healthcare disciplines	Change	For the six months ended 30 June 2022 *RMB'000*	**% of revenue of the Group's owned hospitals**	2021 *RMB'000*	% of revenue of the Group's owned hospitals
O&G related disciplines (婦產科有關科室)	-6.6%	**114,054**	**14.1**	122,077	14.9
Internal medicine related disciplines (內科有關科室)	+0.0%	**95,339**	**11.8**	95,367	11.6
Cardiovascular related disciplines (心血管有關科室)	+2.7%	**95,242**	**11.8**	92,703	11.3
Neurology related disciplines (神經醫學有關科室)	+1.1%	**57,215**	**7.1**	56,605	6.9
General surgery related disciplines (普通外科有關科室)	-3.1%	**55,662**	**6.9**	57,457	7.0
Orthopaedics related disciplines (骨科有關科室)	-12.8%	**44,210**	**5.5**	50,717	6.2
Emergency medicine related disciplines (急診有關科室)	-18.5%	**43,681**	**5.4**	53,610	6.5
Nephrology related disciplines (腎臟科有關科室)	+8.5%	**31,729**	**3.9**	29,232	3.6
Oncology related disciplines (腫瘤有關科室)	+7.0%	**31,446**	**3.9**	29,394	3.6
Medical aesthetic related disciplines (醫學美容有關科室)	-10.7%	**21,488**	**2.7**	24,062	2.9
Paediatrics related disciplines (兒童醫學有關科室)	-20.1%	**15,739**	**2.0**	19,700	2.4
Physical examination (體檢科)	-10.6%	**46,766**	**5.8**	52,321	6.4
Other disciplines (其他臨床科室)	+11.6%	**154,172**	**19.1**	138,102	16.8
Total	-1.8%	**806,743**	**100.0**	821,347	100.0

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

In the first half of 2022, the Group performed a total of 17,826 surgeries (six months ended 30 June 2021: 19,416), including 5,691 surgeries (six months ended 30 June 2021: 7,218) with level 3 or level 4 complexities, representing a period-on-period decrease of 8.2% and 21.2%, respectively. The decrease is primarily attributable to a drop in the overall number of patient visits, which was partly caused by the temporary closure of our medical facilities at Kanghua Hospital during the Reporting Period.

Obstetrics and gynaecology ("**O&G**") disciplines, internal medicine disciplines, cardiovascular disciplines, neurology disciplines and general surgery disciplines (six months ended 30 June 2021: internal medicine disciplines, cardiovascular disciplines, general surgery disciplines and neurology disciplines) were the top five revenue-generating disciplines of the Group for the first half of 2022, accounting for approximately 51.7% of the Group's total revenue in the same period (six months ended 30 June 2021: 51.7%).

During the Reporting Period, although our O&G-related disciplines remained our largest medical discipline, it recorded a period-on-period decrease in revenue of 6.6%. Our cardiovascular disciplines recorded an increase in revenue of 2.7%, mainly caused by the improvement in performance of Kangxin Hospital. Revenue from orthopaedics disciplines, emergency medicine disciplines, medical aesthetic disciplines, paediatrics disciplines and physical examination have recorded a considerable drop of 12.8%, 18.5%, 10.7%, 20.1% and 10.6%, respectively, primarily attributable to the fall in the number of patient visits during the temporary closure of Kanghua Hospital in the first half of 2022.

VIP Special Services

The Group's special services are high-end healthcare services that extend beyond basic medical services and are specifically catered for more affluent patients who are willing to pay a premium for higher quality and customised services that are not generally available in public hospitals. The Group's special services consist of VIP healthcare services, reproductive medicine, plastic and aesthetic surgery and laser treatment. In the first half of 2022, the total revenue derived from special services amounted to RMB85.7 million (six months ended 30 June 2021: RMB85.8 million), representing a period-on-period decrease of 0.1%.

The table below sets forth the revenue contribution for the Group's special services for the periods indicated:

		For the six months ended 30 June	
	Change	**2022**	2021
		RMB'000	*RMB'000*
VIP healthcare services	-4.9%	**50,328**	52,900
Reproductive medicine	+14.5%	**22,853**	19,963
Plastic and aesthetic surgery	+25.8%	**2,582**	2,053
Laser treatment	-8.5%	**9,952**	10,872
Total revenue from special services	-0.1%	**85,715**	85,788

In the first half of 2022, the operation of our VIP healthcare services remained stable whilst the number of VIP inpatient and outpatient visits maintained relatively the same as compared with the same period last year. The demand for our service offerings from Huaxin Building (華心樓) (a complex in Kanghua Hospital dedicated to VIP healthcare services) has remained relatively stable. Our revenue from VIP healthcare services (included VIP inpatient and outpatient services and VIP O&G services) recorded RMB50.3 million (six months ended 30 June 2021: RMB52.9 million), representing a period-on-period decrease of 4.9%.

Our revenue from reproductive medicine has increased to RMB22.9 million (six months ended 30 June 2021: RMB20.0 million) with a period-on-period increase of 14.5%, which demonstrated the continual demand for this service. At the same time, Kanghua Hospital had increased investment and deployed more resources in its business development team over this discipline.

Rehabilitation and other Healthcare Services

During the Reporting Period, the Group's rehabilitation and other related healthcare services segment, through its ownership of 57% equity interest in Anhui Hualin, has recorded a revenue of RMB49.4 million (six months ended 30 June 2021: RMB44.2 million), representing a period-on-period increase of 11.7%. Anhui Hualin directly and indirectly (through its wholly-owned subsidiaries) holds sponsor interests in the managed and controlled entities, some of which are private non-enterprise entities in Anhui Province, the PRC. As at 30 June 2022, it primarily operated two rehabilitation hospitals, a general hospital, an outpatient centre, thirteen rehabilitation centres and one vocational training school.

Anhui Hualin Group currently employs more than 880 staff and has a stable cooperation with the Anhui Disabled Persons Federation (安徽省殘疾人聯合會) and local governments in the provision of training services for the disabled. The Anhui Hualin Group is also a major organisation offering children rehabilitation services in Auhui Province. Our two major rehabilitation hospitals, namely, Hefei Kanghua Rehabilitation Hospital (合肥康華康復醫

院) and Hefei Jingu Hospital (合肥金谷醫院) currently operate a total of 200 (31 December 2021: 200) registered beds. During the Reporting Period, the two rehabilitation hospitals have 13,830 (six months ended 30 June 2021: 8,084) outpatient visits, 1,043 (six months ended 30 June 2021: 331) inpatient visits and served 171,206 (six months ended 30 June 2021: 169,560) rehabilitation patient visits.

In the first half of 2022, Hefei Kanghua Rehabilitation Hospital and Hefei Jingu Hospital were awarded the "2021 Hefei Advanced Units in Respect for the Elderly Activities" (2021年合肥市敬老月活動先進單位) in appreciation for their efforts of enrichment in the cultural life of the elderly and promotion of various forms of old-age filial piety for the elderly in the region. In 2022, Anhui Hualin Group continued to deploy its resources in promoting the Kanghua rehabilitation brand name in the Hefei region and participate in numerous social and charity activities.

During the Reporting Period, revenue from rehabilitation hospital services recorded a period-on-period increase of 14.6% to RMB22.6 million (six months ended 30 June 2021: RMB19.7 million) and revenue from rehabilitation centres services and other healthcare service recorded a period-on-period increase of 9.3% to RMB26.8 million (six months ended 30 June 2021: RMB24.5 million).

Elderly Healthcare Services

The Group's elderly healthcare services segment comprised of our comprehensive elderly healthcare centre, the Renkang Elderly Care Centre (仁康護理院), which aims to provide quality high-end elderly care services to local residents in Houjie Town, Dongguan City, the PRC. In view of the accelerating aging population problem in the PRC that leads to the high development potential of the healthcare and elderly care industry, Renkang Elderly Care Centre signifies our Group's presence and extension of our big health concept business development.

In the first half of 2022, Renkang Elderly Care Centre had a total of 108 beds with an average elderly inpatient of 96, achieving an average bed utilisation rate of 88.9%. Revenue from the provision of elderly healthcare services for the Reporting Period amounted to RMB6.6 million (six months ended 30 June 2021: RMB5.2 million), representing a period-on-period increase of 27.0%, primarily due to an increase in intake of patients during the Reporting Period. As the operation matures, Renkang Elderly Care Centre continued to gain reputation for its elderly healthcare services in the district. In 2022, the centre will further strengthen its management capability and firmly implement the requirements issued by the social insurance system in Dongguan.

In the Reporting Period, the development of the third phase elderly centre building inside Renkang Hospital continued (construction cost will be provided by the landlord of Renkang Hospital) with the aim to provide the best in the class elderly healthcare services and satisfy the overwhelming demand for elderly healthcare services in the district.

With respect to the new elderly healthcare complex development in Qingxi Town, Dongguan City (the land use rights of a land parcel which was acquired in year 2020), construction work of the main facilities had commenced during the Reporting Period. The development involves a comprehensive elderly healthcare medical facility with a particular focus on geriatric patients and rehabilitation, and will further enhance the Group's capability in providing high-end integrated medical care to meet the increasing demand for such services in Guangdong Province, the PRC.

Sales of Pharmaceutical Products

In 2021, the Group had retrenched the operation of this segment and gradually integrated it with our hospital services segment. No revenue was recorded for this segment during the Reporting Period (six months ended 30 June 2021: RMB0.7 million).

Industry Outlook and Strategy

2022 marks an important year for deepening and strengthening the reform of the medical and healthcare system in China. The 19th National Congress of the Communist Party of China has promoted the development of a healthy China and in-depth medical reform through expansion and balanced distribution of high-quality medical resources, deepening the reform of medical healthcare, social insurance and pharmaceutical connectedness, and continual transformation from medical treatment to the people's health, gradually resolving the problem of expensive medical treatment.

China's medical healthcare system is generally still in the development stage with relatively disconnected business operations, low efficiency and low transparency, while the new medical service model promotes a more interconnected, well-organized, smooth collaboration, online and offline integration, high efficiency, and high transparency. The new medical service model emphasises a medical ecology without physical boundaries – shared data, shared knowledge, and allowing AI and big data to become new medical elements. In this process, digital technology and model innovation play a crucial role. With the parallel promotion of national policies, economy, society and technology, the strategic development and functional positioning of the hospital in China has continuously evolved and become a new direction for the development of modern hospitals.

Favourable Government Policies

The Chinese government has always attached great importance to improving the operational efficiency of the medical and healthcare industry through digital means, especially the operational efficiency of social medical insurance funds, so as to effectively solve the problems of difficult and expensive medical treatment for patients. In recent years, the Chinese government has introduced a number of policies to promote the digital development of the industry. For example, the Chinese government has implemented internet hospital standards and opened up online payment of social medical insurance, which has promoted the development of various forms of internet plus medical services and products.

COVID-19 Pandemic Accelerates the Development of the Healthcare Industry

Faced with enormous pressure on the healthcare system, China's new healthcare service market is accelerating its digital transformation, which involves multiple healthcare processes among multiple healthcare players. During the COVID-19 pandemic, more and more medical institutions have begun to participate in digital medical health platforms and provide online consultations. This drives more patients to experience digital healthcare services. The acceptance of digital healthcare by patients and doctors has increased significantly. As a supplement to traditional healthcare services, digital healthcare platforms are widely recognized by the Chinese government for the value they create.

Our Strategy

Looking ahead to the remainder of 2022, the Group will continue to strive to optimise our medical services and improve the operational efficiency of our medical service business. Furthermore, the Group will capitalize on our strengths, focus on our main businesses and improve our management standards as well as strengthen our relationship with our stakeholders including our patients and employees.

Future Plans for Material Investments and Capital Assets

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

FINANCIAL REVIEW

Segment Revenue

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

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

For the six months ended 30 June 2022 (unaudited)

	Hospital services *RMB'000*	**Rehabilitation and other healthcare services** *RMB'000*	**Elderly healthcare services** *RMB'000*	**Total** *RMB'000*
Revenue	**806,743**	**49,416**	**6,563**	**862,722**
Cost of revenue	**(725,574)**	**(44,295)**	**(4,330)**	**(774,199)**
Gross profit	**81,169**	**5,121**	**2,233**	**88,523**
Gross profit margin	**10.1%**	**10.4%**	**34.0%**	**10.3%**

For the six months ended 30 June 2021 (unaudited)

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

Revenue from the Group's hospital services amounted to RMB806.7 million for the Reporting Period (six months ended 30 June 2021: RMB821.3 million), representing a period-on-period decrease of 1.8%, accounting for 93.5% (six months ended 30 June 2021: 94.2%) of the total revenue of the Group.

Revenue from hospital services comprised (i) revenue from inpatient healthcare services amounting to RMB444.3 million (six months ended 30 June 2021: RMB487.4 million), representing a period-on-period decrease of 8.8%, accounting for 51.5% (six months ended 30 June 2021: 55.9%) of the total revenue of the Group; (ii) revenue from outpatient healthcare services amounting to RMB315.6 million (six months ended 30 June 2021: RMB281.6 million), representing a period-on-period increase of 12.1%, accounting for 36.6% (six months ended 30 June 2021: 32.3%) of the total revenue of the Group; and (iii) revenue from physical examination services amounting to RMB46.8 million (six months ended 30 June 2021: RMB52.3 million), representing a period-on-period decrease of 10.6%, accounting for 5.4% (six months ended 30 June 2021: 6.0%) of the total revenue of the Group. The decrease in revenue from hospital services is primarily due to (i) the decrease in the number of inpatient and outpatient visits during the Reporting Period mainly caused by the temporary closure of our outpatient department at Kanghua Hospital; (ii) the drop in revenue in a number of our major medical disciplines; and (iii) the drop in patient average spending on our inpatient healthcare services and physical examination services. Revenue from physical examination has decreased to RMB46.8 million (six months ended 30 June 2021: RMB52.3 million), and is primarily due to decrease in patient average spending during the Reporting Period.

Revenue from rehabilitation and other healthcare services amounted to RMB49.4 million (six months ended 30 June 2021: RMB44.2 million), representing a period-on-period increase of 11.7%, accounting for 5.7% (six months ended 30 June 2021: 5.1%) of the total revenue of the Group. Anhui Hualin Group is principally engaged in provision of rehabilitation services to the patients with physical or mental disabilities and other healthcare related services including care services for elderly and training services for the disabled. The increase in revenue is mainly attributable to the gradual recovery of patient visits as the impact of the pandemic subsidied, also the maturity and improvement in business operations of our rehabilitation hospitals.

Revenue from elderly healthcare services represents the provision of elderly healthcare services at our Renkang Elderly Care Centre, which amounted to RMB6.6 million (six months ended 30 June 2021: RMB5.2 million), representing a period-on-period increase of 27.0%, accounting for 0.8% (six months ended 30 June 2021: 0.6%) of the total revenue of the Group. The increase in revenue is mainly attributable to the increase in intake of patients during the Reporting Period and rising reputation of the centre in the local district.

No revenue from sales of pharmaceutical products and medical consumables was recorded during the Reporting Period (six months ended 30 June 2021: RMB0.7 million). In 2021, the Group had retrenched the operation of this segment and gradually integrated such operation into our hospital services segment.

Cost of Revenue

Cost of revenue of the Group's hospital services segment (consisting of inpatient healthcare services, outpatient healthcare services and physical examination services) primarily consisted of pharmaceuticals, medical consumables, staff cost, depreciation, service expenses, utilities expenses, rental expenses and other costs. Cost of revenue of the Group's hospital services segment increased to RMB725.6 million (six months ended 30 June 2021: RMB693.6 million), representing a period-on-period increase of 4.6%. The increase in cost of revenue of our hospital services segment is mainly attributable to the increase direct staff cost and other major operating expenses during the Reporting Period. In addition, our Kangxin Hospital is still at its stage of ramping up its operation and continued to operate at negative gross margin during the Reporting Period.

Cost of revenue of the Group's rehabilitation and other healthcare services segment amounts to RMB44.3 million (six months ended 30 June 2021: RMB43.3 million), representing a period-on-period increase of 2.4%, and primarily consisted of staff costs, medical consumables, depreciation, utilities and rental expenses. The increase in cost of revenue of our rehabilitation and other healthcare services segment is mainly attributable to the increase in operation of our rehabilitation hospitals and rehabilitation centres during the Reporting Period.

Cost of revenue of the Group's elderly healthcare services represents cost of revenue at Renkang Elderly Care Centre amounted to RMB4.3 million (six months ended 30 June 2021: RMB4.2 million), representing a period-on-period increase of 3.0%, which mainly represent the cost of services including direct staff cost and consumables incurred at the elderly care centre. There was no significant increase in cost of revenue primarily due to the full operation of the centre and full deployment of its services since 2020.

For the six months ended 30 June 2022, pharmaceuticals, medical consumables and staff cost accounted for approximately 25.7% (six months ended 30 June 2021: 25.7%), 25.3% (six months ended 30 June 2021: 27.9%) and 34.6% (six months ended 30 June 2021: 31.1%), respectively, of the total cost of revenue of the Group. The proportion of cost of pharmaceuticals and medical consumables as percentage of total cost of revenue recorded slight decrease during the Reporting period, which is mainly attributable to our continuing efforts on cost control in line with the medical reforms at the national level. Our total staff related costs including salary, bonus and other benefits had increased by 16.3% as compared with the prior period, which demonstrate the continual rise in general salary level and intense competition for medical professionals over the past years.

Gross Profit and Gross Profit Margin

Total gross profit of the Group amounted to RMB88.5 million (six months ended 30 June 2021: RMB129.8 million), representing a period-on-period decrease of 31.8%. The overall gross profit margin decreased to 10.3% (six months ended 30 June 2021: 14.9%), primarily due to: (i) the decrease in the average patient spending from our inpatient healthcare services and physical examination services; (ii) the decrease in number of surgeries performed; (iii) the drop in revenue caused by the temporary closure of our outpatient department at Kanghua Hospital during the Reporting Period; and (iv) the continual loss incurred at Kangxin Hospital which is currently operating at negative gross margin. In addition, there is an increase in overall direct staff costs and depreciation expenses of 16.3% and 4.2%, respectively.

Other Income

The other income of the Group primarily consisted of bank and other interest income, investment income from financial assets at fair value through profit or loss, government subsidies, vaccine-related income, COVID-19 related rent concession, fixed operating lease income (rental income), clinical trial and related income and others. In the first half of 2022, other income amounted to RMB28.8 million (six months ended 30 June 2021: RMB15.8 million), representing a period-on-period increase of approximately 82.8%, primarily attributable to (i) increase in investment income from financial assets at fair value through profit or loss to RMB7.9 million (six months ended 30 June 2021: RMB4.7 million) primarily due to an increase in average investment being placed during the Reporting Period; (ii) increase in fixed operating lease income to RMB2.4 million (six months ended 30 June 2021: RMB1.8 million) due to an increase rental income from staff quarters; (iii) increases in government subsidies and vaccine related income mainly attributable to COVID-19 pandemic related support and vaccination subsidy received from the government; (iv) COVID-19 rent concession received of RMB3.7 million during the Reporting Period (six months ended 30 June 2021: nil); and (v) an increase in clinical trial and related income to RMB3.9 million (six months ended 30 June 2021: RMB1.3 million).

Other Expenses, Gains and Losses

The other expenses, gains and losses of the Group primarily consisted of fair value gain (loss) on financial assets at fair value through profit or loss, loss on disposals of property, plant and equipment, donations and net exchange gain (loss). In the first half of 2022, other expenses, gains and losses amounted to a net gain of RMB0.7 million (six months ended 30 June 2021: RMB2.6 million), primarily attributable to (i) a recorded fair value loss on financial assets at fair value through profit or loss of RMB2.4 million (six months ended 30 June 2021: fair value gain of RMB3.7 million) during the Reporting Period; and (ii) a recorded net exchange gain of RMB3.1 million (six months ended 30 June 2021: net exchange loss of RMB1.0 million) mainly arising from our Hong Kong dollar denominated financial assets.

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

During the Reporting Period, impairment losses under expected credit loss model recorded a net provision of RMB3.0 million (six months ended 30 June 2021: net reversal of provision of RMB1.3 million). The net provision for the Reporting Period is mainly attributable to: (i) an increase in the overall balance of accounts and other receivables at the end of the Reporting Period; and (ii) the effects of increase in the Group's accounts receivable aging and deterioration in credit rating of certain corporate customers and outstanding debts from patients. Over the past few years, the Group has increased its efforts to recover overdue debts, including recovering receivables from patients through legal actions, as well as tightening credit reviews given to corporate customers.

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

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

Administrative Expenses

The administrative expenses of the Group primarily consisted of staff costs, repairs and maintenance expenses, office expenses, depreciation and amortisation, rental expenses, utilities expenses, entertainment and travelling expenses and other expenses. In the first half of 2022, administrative expenses amounted to RMB115.3 million (six months ended 30 June 2021: RMB103.4 million), representing a period-on-period increase of approximately 11.5%, primarily due to (i) a significant increase in administrative staff related costs to RMB43.0 million (six months ended 30 June 2021: RMB36.9 million) as a result of an increase in bonus payments and related staff benefits expenditure during the Reporting Period; and (ii) an increase in other general expenditure including administrative office expenses, management fees, utilities and general consumables.

Finance Costs

Finance costs for Reporting Period amounted to RMB8.6 million (six months ended 30 June 2021: RMB10.2 million), representing a period-on-period decrease of 16.3%. Finance costs for the Reporting Period represents (i) interest on bank loans amounting to RMB9.6 million (six months ended 30 June 2021: RMB8.7 million), which is consistent with the increase in the Group's bank borrowings during the Reporting Period; (ii) the interest element relating to lease liabilities charged to profit or loss during the Reporting Period due to application of IFRS 16 relating to leases of RMB5.1 million (six months ended 30 June 2021: RMB5.9 million); and (iii) less the amount of interest capitalised in the cost of qualifying assets of RMB6.2 million (six months ended 30 June 2021: RMB4.4 million).

Income Tax

The income tax expenses of the Group primarily consisted of PRC enterprise income tax and Hong Kong Profits Tax. In the first half of 2022, income tax expenses amounted to RMB12.7 million (six months ended 30 June 2021: RMB21.0 million), representing a period-on-period decrease of approximately 39.5%. The subsidiaries of the Group in the PRC are generally subject to income tax rate of 25% on their respective taxable income. The decrease in income tax expenses was primarily due to the decrease in profits generated at Kanghua Hospital and Renkang Hospital during the Reporting Period.

(Loss) Profit for the Period

In the first half of 2022, the Group recorded loss for the Reporting Period amounting to RMB21.6 million (six months ended 30 June 2021: profit for the period of RMB14.8 million), and loss attributable to the shareholders amounted to RMB4.2 million (six months ended 30 June 2021: profit of RMB30.9 million).

FINANCIAL POSITION

Property, Plant and Equipment, Right-of-use assets and Deposits Paid for Acquisition of Property, Plant and Equipment

During the Reporting Period, the Group acquired property, plant and equipment and incurred expenditure on construction in progress of RMB48.9 million (six months ended 30 June 2021: RMB32.7 million) and RMB29.8 million (six months ended 30 June 2021: RMB44.4 million), respectively, mainly for the purpose of upgrading and expanding the service capacity of our hospital operations and construction cost incurred at Phase II medical facility at our Kangxin Hospital.

At 30 June 2022, the Group had right-of-use assets of RMB337.9 million (31 December 2021: RMB354.1 million) which includes leasehold lands of RMB224.1 million (31 December 2021: RMB226.5 million) and leasehold land and buildings relating to leases of RMB113.8 million (31 December 2021: RMB127.6 million) recognised in accordance with IFRS 16. During the Reporting Period, the Group entered into new lease agreements for the use of properties in the PRC ranging from 2 to 5 years. The Group is required to make fixed monthly payments. On lease commencement, the Group recognised right-of-use assets and lease liabilities of RMB1.9 million (six months ended 30 June 2021: RMB6.7 million) each relating to those new leases.

At 30 June 2022, the Group had deposits paid for acquisition of property, plant and equipment amounting to RMB61.1 million (31 December 2021: RMB91.6 million). The deposits mainly represent deposits paid for construction cost of Phase II medical facility at our Kangxin Hospital and amount paid for acquisition of new medical equipment and other new facilities as the Group continues to upgrade its medical facilities and expand its operation capacity.

Accounts and Other Receivables

The account receivables of the Group primarily consisted of balances due from social insurance funds, certain corporate customers and individual patients. As at 30 June 2022, accounts receivables increased to RMB256.8 million (31 December 2021: RMB226.5 million), of which 75.2% (31 December 2021: 86.0%) were aged within 90 days. Average accounts receivables turnover days for the Reporting Period is 50.7 days (31 December 2021: 40.3 days). The increase in accounts receivables and increase in accounts receivable turnover days is primarily due to the increase in balance due from social insurance funds and other government authorities, and certain corporate customers. As at 30 June 2022, the Group has carried out credit assessment on its accounts and other receivables and a net provision of impairment loss of RMB3.0 million (six months ended 30 June 2022: net reversal of impairment loss of RMB1.3 million) has been charged to profit or loss during the Reporting Period.

The other receivables of the Group primarily consisted of prepayments to suppliers and others (including prepaid expenses and deposits). As at 30 June 2022, other receivables increased to RMB50.1 million (31 December 2021: RMB41.7 million) primarily due to (i) an increase in prepayments to suppliers to RMB15.0 million (31 December 2021: RMB13.3 million); and (ii) an increase in other receivables mainly due to increases in other prepaid expenses made during the Reporting Period.

Accounts and Other Payables and Provision

The accounts and other payables and provision of the Group primarily consisted of accounts payable, accrued expenses, receipts in advance, payables for acquisition of property, plant and equipment, provision for medical dispute claims, other tax payables and others. At 30 June 2022, accounts and other payables and provision increased to RMB659.2 million (31 December 2021: RMB633.4 million) primarily attributable to: (i) a decrease in accounts payable to RMB256.9 million (31 December 2021: RMB321.6 million) mainly due to acceleration of payments to suppliers during the Reporting Period; (ii) a decrease of accrued expenses to RMB96.0 million (31 December 2021: RMB98.2 million); and (iii) an increase in receipt in advance to RMB205.0 million (31 December 2021: RMB103.0 million) due to an increase in temporary funds received from social security insurance fund.

Net Current Assets and Net Assets

At 30 June 2022, the Group recorded net current assets of RMB287.4 million (31 December 2021: RMB347.4 million) and net assets position of RMB1,453.2 million (31 December 2021: RMB1,474.4 million).

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources

The Group continued to maintain a strong financial position with cash and cash equivalents of RMB122.3 million as at 30 June 2022 (31 December 2021: RMB237.3 million) and fixed bank deposits of nil as at 30 June 2022 (31 December 2021: RMB3.0 million). The Group continues to generate steady cash flow from operations. Coupled with sufficient cash and bank balances, in the opinion of the directors of the Company, the Group will have adequate and sufficient liquidity and financial resources to meet the working capital requirement of the Group for at least the next twelve months following the end of the Reporting Period.

As at 30 June 2022, as part of the Group's cash management activities, the Group had investments (classified as financial assets at fair value through profit or loss) in aggregate of RMB701.8 million (31 December 2021: RMB603.3 million), primarily consisting of: (i) portfolio investment fund of RMB63.8 million (31 December 2021: RMB63.3 million), representing an investment fund, the underlying portfolio of which included a mixture of cash and shares that are primarily listed in Hong Kong; (ii) a fund investment of RMB18.0 million (31 December 2021: RMB10.0 million). In year 2021, the Group entered into a partnership agreement with two independent third parties for establishment of a fund, namely, Guangdong Bosong Kanghua Equity Investment Partnership, L.P.* (廣東鉑頌康華股權投資合夥企業(有限合夥)), a limited partnership established under the laws of the PRC pursuant to the partnership agreement. The purpose of the fund is to achieve investment returns and capital appreciation through carrying out investment, investment management and other activities in accordance with PRC laws, business scope under business registration, and the partnership agreement. To the extent permitted by the applicable laws, the fund will invest primarily in the fields of medical services, biotechnology, medical equipment, and medical informatics. The initial term of the fund shall be seven years; and (iii) structured short-term bank deposits of RMB620.0 million (31 December 2021: RMB530.0 million), representing low-risk structured investment products issued by commercial banks in the PRC for variable investment returns. Majority of these structured deposits are with maturities of less than six months and the principal is generally renewed when matured.

As part of the Group's cash management policy to manage excess cash, the Group purchases investment products from financial institutions to achieve higher interest income without interfering with business operations or capital expenditures. The Group carefully balances the risks and returns associated with the investment products when making the investment decisions. The senior management of the Group is closely involved in scrutinizing any decision of the Group to purchase investment products. The investment products should generally satisfy the following criteria, including: (i) its term should generally not exceed one year; (ii) it should not interfere with the Group's business operations or capital expenditures; (iii) it should be issued by a reputable bank which the Group has a long-term relationship, preferably exceeding five years; and (iv) the underlying investment portfolio should generally be low risk.

Cash Flow Analysis

The table below sets forth the information as extracted from the interim condensed consolidated statement of cash flow of the Group for the periods indicated:

	Change	For the six months ended 30 June 2022 RMB'000	2021 RMB'000
Net cash flow from operating activities	-67.6%	**50,421**	155,770
Net cash flow used in investing activities	-8.7%	**(149,356)**	(163,611)
Net cash flow (used in) from financing activities	N/A	**(16,490)**	41,989
Net (decrease)/increase in cash and cash equivalents		**(115,425)**	34,148

Net cash flow from operating activities

During the Reporting Period, the net cash flow from operating activities amounted to RMB50.4 million (six months ended 30 June 2021: RMB155.8 million), representing a period-on-period decrease of 67.6%, which is primarily attributable to the deterioration of our performance in adjusted EBITDA for the Reporting Period.

Net cash flow used in investing activities

During the Reporting Period, the net cash flow used in investing activities amounted to RMB149.4 million (six months ended 30 June 2021: RMB163.6 million), representing a period-on-period decrease of 8.7%, which is primarily attributable to (i) net increase in purchase of financial assets at fair value through profit or loss; (ii) increase investment income received financial assets at fair value through profit or loss as compared with same period last year; (iii) decrease in purchase of property, plant and equipment; and (iv) payment of a brand introduction fee (classified as other asset under non-current assets) made by Kangxin Hospital during the Reporting Period.

Net cash flow (used in)/from financing activities

During the Reporting Period, the net cash flow used in financing activities amounted to RMB16.5 million (six months ended 30 June 2021: net cash flow from financing activities of RMB42.0 million), which is primarily attributable to (i) no new bank loan raised during the Reporting Period (six months ended 30 June 2021: new bank loan raised of RMB30.0 million); (ii) the Group has net advances from the non-controlling shareholders of subsidiaries of RMB32.0 million (six months ended 30 June 2021: net advance of RMB45.6 million); and (iii) repayment of bank loans of RMB15.8 million (six months ended 30 June 2021: RMB4.1 million).

Significant Investment, Acquisition and Disposal

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

Cash Management Activities

As part of the Group's cash management, the Group has from time to time purchased investment products (structured bank deposits) issued by a reputable PRC commercial bank with terms ranging from 7 days to 244 days and portfolio investment funds to achieve higher interest income without interfering with business operations or capital expenditures. The investment products are not rated by any credit rating agency but is classified as low-risk by the issuing bank and may involve liquid listed securities. The Group carefully balances the risks and returns associated with the investment products when making the investment decisions. The senior management of the Group is closely involved in scrutinizing any decision of the Group to purchase investment products. Furthermore, the Group has also invested in portfolio fund and equity investment fund for the purpose of generating long-term investment returns. It has been the strategy of the Group to explore new potential investments projects and capital market investments in order to diversify business risk as well as broaden income source and spectrum of the Group and eventually maximizing shareholders' values. The Company considers that these investment funds involve scopes that covers quality capital market stocks and high value-added health industries which are in line with PRC's development trajectories in the healthcare and technology space which is highly relevant to the Group's core business. The Directors consider that, through appropriate market screening of investment projects by the funds, they will in the long term be a reasonable investment of the Company and some of which may facilitate the Group's entry into the relevant healthcare space and establishing strategic cooperation with relevant players in the market.

Capital Expenditure

The Group regularly makes capital expenditures to expand its operations, maintain its medical facilities and improve its operating efficiency. Capital expenditure primarily consists of purchases of property, plant and equipment. The capital expenditure of the Group during the Reporting Period was RMB78.7 million (six months ended 30 June 2021: RMB77.1 million). The Group has financed its capital expenditure mainly through cash flows generated from operating activities and bank loans.

USE OF PROCEED FROM THE INITIAL PUBLIC OFFERING

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

As at 30 June 2022, of the net proceeds from the initial public offering, (i) RMB78.3 million, representing approximately 10% of the net proceeds, have been utilised and used as general working capital; (ii) RMB134.7 million, representing approximately 17.2% of the net proceeds, have been utitlised on expansion of our current operations and upgrade of our hospital's facilities; and (iii) RMB158.8 million, representing approximately 20.3% of the net proceeds, have been utitlised for acquisition of businesses. As at 30 June 2022, out of the balance of the unutilised net proceeds of RMB410.8 million, part of such proceeds have been used to purchase certain financial products (classified as financial assets at fair value through profit or loss) to achieve higher interest income and capital return without interfering with our business operations or capital expenditures to earn better return on our excess cash balance, and the remaining balance have been kept at the bank accounts of the Group (included in bank balances and cash). As at the date of this announcement, the Company does not anticipate any material change to its plan on the use of proceeds as stated in the Prospectus.

INDEBTEDNESS

Bank Loans

In 2019, the Group obtained new bank loan facilities in the aggregate amount of RMB620.0 million for the purpose of funding the development of the Phase II medical facility and financing the operations of Kangxin Hospital. Up to 30 June 2022, RMB345.4 million has been drawn down. As at 30 June 2022, the Group had secured bank loans of carrying amount of RMB295.2 million (31 December 2021: RMB310.8 million). The principal agreements underlying such bank loan facilities include the following:

(i) a RMB420.0 million fixed asset facility agreement (固定資產借款合同) with Industrial and Commercial Bank of China Limited, Chongqing Jiangbei Branch, pursuant to which RMB169.4 million has been drawn down in year 2019, RMB50.0 million has been drawn down in year 2020 and RMB60.0 million has been draw down during in year 2021. The bank loan carried an interest rate at the benchmark lending rate offered by the People's Bank of China (adjusted annually from the drawn down date) and is secured by shares pledged over the entire equity in Kangxin Hospital held by the Company and its non-controlling shareholder. As at 30 June 2022, the effective interest rate of the secured bank loan is 5.81% (31 December 2021: 5.72%) per annum. As at 30 June 2022, the carrying amount of the borrowing in respect of such arrangement amounted to RMB253.4 million (31 December 2021: RMB265.2 million); and

(ii) a RMB200.0 million financial leasing agreement (融資租賃合同) with Industrial and Commercial Bank of China Leasing Co., Ltd., pursuant to which, up to 30 June 2022, RMB66.0 million has been drawn down. The loan carried an interest rate at the benchmark lending rate offered by the People's Bank of China plus 5%, which was fixed at the drawn down date. This agreement involves a sale and lease back arrangement over certain medical equipment assets of Kangxin Hospital, pursuant to which such assets have been transferred to the lender and leased back to Kangxin Hospital, with an option exercisable by Kangxin Hospital to purchase the assets at a nominal consideration upon the maturity of the lease. Despite that such arrangement assumes the legal form of a lease, the Group retains effective control over such assets. Thus, the Group accounted for such arrangement as a secured loan at amortised cost at an effective interest rate of 6.74% (31 December 2021: 6.74%) per annum and repayable in quarterly variable instalments until September 2027. In addition, such assets have been pledged to the lender as security throughout the loan period. As at 30 June 2022, the carrying amount of the borrowing in respect of such arrangement amounted to RMB41.8 million (31 December 2021: RMB45.6 million). As at 30 June 2022, the property, plant and equipment with net book value of RMB25.9 million (31 December 2021: RMB32.2 million) had been pledged to secure the banking facility granted.

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

Contingent Liabilities

The Group is subject to legal proceedings and claims in the ordinary of business primarily arising from medical disputes brought by patients. Provision for medical disputes is made based on the status of potential and active claims outstanding as at the end of the relevant period, and primarily taking into account any judicial appraisal or court determination against the Group. As at 30 June 2022, except for those disputes with provision made, the total stated claim amount of the Group's on-going medical disputes was approximately RMB9.3 million (31 December 2021: RMB7.5 million) and there were certain medical disputes without claim amount stated. Based on the Group's assessment, as at 30 June 2022, approximately RMB2.6 million (31 December 2021: RMB1.9 million) had been provided and included in accounts and other payables and provision of the Group.

As at 30 June 2022, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

Pledge of Assets

As at 30 June 2022, certain property, plant and equipment of the Group with net book value of RMB25.9 million (31 December 2021: RMB32.2 million) had been pledged to secure banking facilities granted to the Group.

Capital Commitments

The capital commitments of the Group were primarily attributable to construction costs relating to the expansion and renovation of the Group's medical facilities. As at 30 June 2022, the capital commitments in respect of property, plant and equipment contracted for but not provided in the interim condensed consolidated financial information were RMB135.7 million (31 December 2021: RMB149.6 million).

Financial Instruments

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

Exposure to fluctuation in Exchange rates

The proceeds of raised by the Company in its initial public offering of its H Shares is denominated in Hong Kong dollars. The Group deposits certain of its financial assets in Hong Kong dollars, and is mainly exposed to fluctuation in exchange rates of Hong Kong dollars against RMB. The Group is therefore exposed to foreign exchange risk.

The Group has not used any derivatives financial instruments to hedge against its exposure to currency risk. The management manages the currency risk by closely monitoring the movement of the foreign currency rates and will consider hedging significant foreign currency exposure should such need arise.

Gearing Ratio

As at 30 June 2022, the Group's gearing ratio (total interest-bearing bank loans divided by total equity and multiplied by 100%) was 20.3% (31 December 2021: 21.1%).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: nil).

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company complied with all code provisions contained in Part 2 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules during the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

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

REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The Company's audit committee has reviewed the Group's interim results for the six months ended 30 June 2022 and has opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made by the Company.

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

PUBLICATION OF THE 2022 CONDENSED CONSOLIDATED INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.kanghuagp.com). The 2022 interim report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the above websites in due course.

APPRECIATION

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

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

Hong Kong
30 August 2022

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

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

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

Non-executive Director:
Mr. Lv Yubo

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond control of the Group. These forward-looking statements may prove to be incorrect and may not be realized in the future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Furthermore, this announcement also contains statements based on the Group's management accounts, which have not been audited or reviewed by the Group's auditor. Shareholders and potential investors should therefore not place undue reliance on such statements.

* *English translated name for identification purpose only.*