廣東康華醫療股份有限公司

GUANGDONG KANGHUA HEALTHCARE CO., LTD.*

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

(Stock Code: 3689)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

- Revenue for the year decreased by 5.5% to RMB1,845.6 million (2021: RMB1,953.9 million).
- Profit for the year decreased by 58.6% to RMB27.7 million (2021: RMB66.9 million).
- Profit for the year attributable to owners of the Company decreased by 35.3% to RMB61.0 million (2021: RMB94.3 million).
- Earnings per share for the year decreased by 35.3% to RMB18.3 cents (2021: RMB28.2 cents).
- Adjusted Earnings Before Interest, Taxes, Depreciation and Amortisation# ("**Adjusted EBITDA**") for the year decreased by 30.0% to RMB215.8 million (2021: RMB308.1 million).
- The Board does not recommend the distribution of a final dividend for the year (2021: nil).

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

FINAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Guangdong Kanghua Healthcare Co., Ltd. (the "**Company**" or "**our Company**", "**we**" or "**us**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**" or "**our Group**") for the financial year ended 31 December 2022 (the "**Reporting Period**") together with the comparative audited figures for the preceding financial year ended 31 December 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	NOTES	**2022** **RMB'000**	2021 *RMB'000*
Revenue	3	**1,845,633**	1,953,944
Cost of revenue		**(1,584,283)**	(1,601,196)
Gross profit		**261,350**	352,748
Other income	4	**54,858**	45,149
Other expenses, gains and losses, net	5	**677**	(5,210)
Net provision for impairment losses under the expected credit loss model		**(4,210)**	(2,931)
Impairment loss on goodwill		**–**	(15,512)
Administrative expenses		**(228,323)**	(225,223)
Finance costs	6	**(15,043)**	(19,812)
Profit before taxation	7	**69,309**	129,209
Income tax expense	8	**(41,573)**	(62,284)
Profit and total comprehensive income for the year		**27,736**	66,925
Profit/(loss) and total comprehensive income/ (loss) for the year attributable to:			
Owners of the Company		**61,032**	94,307
Non-controlling interests		**(33,296)**	(27,382)
		27,736	66,925
Earnings per share			
Basic *(RMB cents)*	10	**18.3**	28.2
Diluted *(RMB cents)*	10	**18.3**	28.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment		**1,085,833**	1,031,363
Right-of-use assets		**319,916**	354,133
Goodwill		**29,101**	29,101
Other asset		**19,417**	–
Deposits paid for acquisition of property, plant and equipment		**58,073**	91,597
Financial assets at fair value through profit or loss	11	**82,449**	73,326
Total non-current assets		**1,594,789**	1,579,520
Current assets			
Inventories		**86,746**	83,939
Accounts and other receivables	12	**281,183**	268,208
Financial assets at fair value through profit or loss	11	**490,000**	530,000
Restricted bank balances	13	**2,279**	2,592
Fixed bank deposits	13	**–**	3,000
Bank balances and cash	13	**264,337**	237,343
Total current assets		**1,124,545**	1,125,082
Current liabilities			
Accounts and other payables and provision	14	**717,811**	633,410
Amount due to non-controlling shareholder of a subsidiary		**26,861**	49,939
Bank loans – due within one year	15	**28,822**	28,727
Lease liabilities		**41,610**	36,490
Tax payables		**19,881**	29,082
Total current liabilities		**834,985**	777,648
Net current assets		**289,560**	347,434
Total assets less current liabilities		**1,884,349**	1,926,954
Non-current liabilities			
Bank loans – due after one year	15	**252,111**	282,119
Lease liabilities		**107,375**	147,201
Deferred tax liabilities		**22,356**	23,207
Total non-current liabilities		**381,842**	452,527
Net assets		**1,502,507**	1,474,427

	2022	2021
	RMB'000	*RMB'000*
Equity		
Share capital	**334,394**	334,394
Reserves	**1,153,475**	1,092,443
Equity attributable to owners of the Company	**1,487,869**	1,426,837
Non-controlling interests	**14,638**	47,590
Total equity	**1,502,507**	1,474,427

NOTES:

1. CORPORATE AND GROUP INFORMATION

廣東康華醫療股份有限公司 (Guangdong Kanghua Healthcare Co., Ltd.*) (the "**Company**") was established as a limited liability company in the People's Republic of China (the "**PRC**") and its overseas listed ordinary shares ("**H Shares**") are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"). In the opinion of the directors, the Company's immediate and ultimate holding company is 東莞市康華投資集團有限公司 (Dongguan Kanghua Investment Group Co., Ltd.*), a limited liability company established in the PRC. The addresses of the registered office and principal place of business in Hong Kong of the Company are 3/F, Outpatient Zone One, Dongguan Kanghua Hospital, 1000 Dongguan Avenue, 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 consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company.

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), issued by the International Accounting Standards Board (the "**IASB**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost convention, except for certain financial assets that are measured at fair value.

Amendments to IFRSs that are mandatorily effective for the current year

The Group has adopted the following revised IFRSs for the first time for the current year's consolidated financial statements:

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 IAS41

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

New and amendments to IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the consolidated financial statements:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
IFRS 17	Insurance Contracts[1]
Amendments to IFRS 17	Insurance Contracts[1,3]
Amendment to IFRS 17	Initial Application of IFRS 17 and IFRS 9 – Comparative Information[4]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1	Non-current Liabilities with Covenants[5]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 No mandatory effective date yet determined but available for adoption

3 As a consequence of the amendments to IFRS 17 issued in October 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

4 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17

5 Effective for annual periods beginning on or after 1 January 2024

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

3. REVENUE AND SEGMENT INFORMATION

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

Revenue

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

	2022	2021
	RMB'000	*RMB'000*
Recognised over time – output method:		
Hospital services:		
– Inpatient healthcare services	**927,086**	1,079,632
– Outpatient healthcare services	**640,699**	616,776
– Physical examination services	**153,677**	143,067
	1,721,462	1,839,475
Rehabilitation and other healthcare services:		
– Rehabilitation hospital and other healthcare services	**53,093**	40,841
– Rehabilitation centre services and other services	**58,621**	60,666
	111,714	101,507
Elderly healthcare services	**12,457**	12,236
	1,845,633	1,953,218
Recognised at a point in time:		
Sale of pharmaceutical products	–	726
Revenue from contracts with customers	**1,845,633**	1,953,944

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.

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments 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 the 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 year ended 31 December 2022

	Hospital services *RMB'000*	**Rehabilitation and other healthcare services** *RMB'000*	**Elderly healthcare services** *RMB'000*	**Sale of pharmaceutical products** *RMB'000*	**Total** *RMB'000*
SEGMENT REVENUE					
External sales	**1,721,462**	**111,714**	**12,457**	**–**	**1,845,633**
Segment profit	**238,533**	**18,762**	**4,055**	**–**	**261,350**
Other income					**54,858**
Other expenses, gains and losses, net					**677**
Net provision for impairment losses under the expected credit loss model					**(4,210)**
Administrative expenses					**(228,323)**
Finance costs					**(15,043)**
Profit before taxation					**69,309**

For the year ended 31 December 2021

	Hospital services *RMB'000* *(note)*	Rehabilitation and other healthcare services *RMB'000*	Elderly healthcare services *RMB'000*	Sale of pharmaceutical products *RMB'000*	Total *RMB'000*
SEGMENT REVENUE					
External sales	1,839,475	101,507	12,236	726	1,953,944
Segment profit	316,669	16,273	4,178	116	337,236
Other income					45,149
Other expenses, gains and losses, net					(5,210)
Net provision for impairment losses under the expected credit loss model					(2,931)
Administrative expenses					(225,223)
Finance costs					(19,812)
Profit before taxation					129,209

Note: During the year ended 31 December 2021, impairment loss on goodwill of RMB15,512,000 is allocated to the hospital services segment.

There were no inter-segment sales during both years.

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

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

Segment assets and liabilities

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

Geographical information and information about major customers

All revenues are generated in the PRC where almost all of the non-current assets of the Group are also located in the PRC. The Group has a highly diversified patient portfolio. No single patient contributed over 10% of the Group's total revenue during both years.

4. OTHER INCOME

	2022	2021
	RMB'000	*RMB'000*
Investment income from financial assets at fair value through profit or loss *(note (i))*	**13,285**	8,612
Clinical trial and related income	**10,853**	4,842
COVID-19-related rent concession	**7,396**	–
Government subsidies *(note (ii))*	**5,730**	11,186
Fixed operating lease income	**3,851**	3,873
Bank and other interest income	**3,226**	1,869
Compensation pursuant to a profit guarantee given by a shareholder of a subsidiary	**–**	6,520
Others	**10,517**	8,247
	54,858	45,149

Notes:

(i) The amount represents investment income mainly in the form of dividend income or interest income from financial assets at fair value through profit or loss.

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

5. OTHER EXPENSES, GAINS AND LOSSES, NET

	2022 *RMB'000*	2021 *RMB'000*
Net exchange gain/(loss)	**5,907**	(2,290)
Fair value loss on financial assets at fair value through profit or loss	**(4,436)**	(2,328)
Loss on disposals of property, plant and equipment	**(579)**	(451)
Donations	**(215)**	(141)
	677	(5,210)

6. FINANCE COSTS

	2022 *RMB'000*	2021 *RMB'000*
Interest on bank loans	**18,558**	17,991
Interest on lease liabilities	**9,738**	11,479
	28,296	29,470
Less: Amount capitalised in property, plant and equipment	**(13,253)**	(9,658)
	15,043	19,812

The capitalised borrowing costs represent the borrowing costs incurred by a subsidiary on borrowings raised specifically for the construction in progress during the year.

7. PROFIT BEFORE TAXATION

	2022 *RMB'000*	2021 *RMB'000*
The Group's profit before taxation is arrived at after charging:		
Directors' emoluments	**3,103**	3,040
Other staff costs:		
Supervisors' emoluments	**886**	918
Other salaries and allowances and bonus	**588,170**	532,696
Retirement benefit schemes contributions (defined contribution scheme)	**32,173**	31,979
Total staff costs	**624,332**	568,633
Cost of inventories recognised as expenses (representing pharmaceutical products, consumables and others used)	**814,510**	875,486
Depreciation of property, plant and equipment	**113,007**	113,603
Depreciation of right-of-use assets	**36,434**	35,840
Variable lease rentals in respect of hospitals	**6,015**	11,136
Short-term lease expenses	**1,445**	2,279
Research and development expenditure	**1,096**	835
Auditor's remuneration	**1,650**	1,696

8. INCOME TAX EXPENSES

	2022 *RMB'000*	2021 *RMB'000*
PRC Enterprise Income Tax ("**EIT**")		
Current tax	**42,016**	**61,505**
Under/(over)-provision of EIT in prior years	**330**	**(402)**
	42,346	**61,103**
Current tax of Hong Kong Profits tax	**56**	**72**
Under/(over)-provision of Hong Kong Profits Tax in prior years	**22**	**(153)**
	42,424	**61,022**
Deferred tax (credit)/charge	**(851)**	**1,262**
	41,573	**62,284**

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 years. 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% (2021: 2.5% to 10%) for both years.

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

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

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2022 (2021: nil), nor has any dividend been proposed since the end of the reporting period.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 334,394,000 (2021: 334,394,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

The calculation of basic earnings per share is based on:

	2022	2021
	RMB'000	*RMB'000*
Earnings:		
Profit for the year attributable to owners of the Company for the purpose of calculating earnings per share	**61,032**	94,307

	2022	2021
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**334,394,000**	334,394,000

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

The diluted earnings per share amount is the same as the basic earnings per share amount for the years ended 31 December 2022 and 2021.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022	2021
	RMB'000	*RMB'000*
Portfolio investment fund *(note (i))*	**64,449**	63,326
Fund investment *(note (ii))*	**18,000**	10,000
Structured bank deposits *(note (iii))*	**490,000**	530,000
	572,449	603,326
Analysed for reporting purpose as:		
Current assets	**490,000**	530,000
Non-current assets	**82,449**	73,326
	572,449	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. 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) 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 31 December 2022, the fund had made equity investments in two (2021: one) unlisted companies and the aggregate carrying amounts of the equity investments was RMB18,000,000 (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.

12. ACCOUNTS AND OTHER RECEIVABLES

	2022	2021
	RMB'000	*RMB'000*
Accounts receivable	**241,558**	235,665
Less: allowance for credit loss	**(11,939)**	(9,194)
	229,619	226,471
Prepayments to suppliers	**19,315**	13,341
Others	**34,569**	30,293
	53,884	43,634
Less: allowance for credit loss	**(2,320)**	(1,897)
Total other receivables	**51,564**	41,737
Total accounts and other receivables	**281,183**	268,208

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

The following is an ageing 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:

	2022	2021
	RMB'000	*RMB'000*
Within 30 days	**103,728**	133,762
31 to 90 days	**64,322**	61,106
91 to 180 days	**15,189**	14,273
181 to 365 days	**16,829**	8,905
Over 365 days	**29,551**	8,425
	229,619	226,471

13. FIXED BANK DEPOSITS/RESTRICTED BANK BALANCES/BANK BALANCES AND CASH

Bank balances carried prevailing market rates ranging from 0.00% to 0.75% (2021: 0.00% to 2.03%) per annum as at 31 December 2022.

The fixed bank deposits carried fixed interest rates ranging from 1.05% to 3.10% per annum with original maturity of 3 months as at 31 December 2021.

Restricted bank balances represented (i) deposits required by the Dongguan Social Insurance Bureau which are based on annual assessment on the medical service quality of the hospitals, such deposits will be discharged upon completion of the annual assessment; (ii) proceeds from the initial public offering of the Company's H Shares remitted to PRC banks, the usage of which is subject to relevant approval; and (iii) a fixed-term guarantee deposit. The restricted bank balances carried fixed interest at rates ranging from 0.25% to 0.275% (2021: 0.3% to 2.10%) per annum.

14. ACCOUNTS AND OTHER PAYABLES AND PROVISION

	2022	2021
	RMB'000	*RMB'000*
Accounts payables	**348,810**	321,645
Accrued expenses	**106,224**	98,166
Receipt in advance *(note)*	**197,085**	147,243
Payables for acquisition of property, plant and equipment	**36,607**	30,550
Other tax payables	**3,669**	3,634
Others	**24,182**	30,275
Other payables	**367,767**	309,868
Sub-total accounts and other payables	**716,577**	631,513
Provision for medical dispute claims	**1,234**	1,897
Total accounts and other payables and provision	**717,811**	633,410

Note: Included in the balance are contract liabilities of RMB42,961,000 (2021: RMB44,277,000) and advances from the PRC social insurance bureau of RMB154,124,000 (2021: RMB102,966,000) for the daily hospital operations of the Group.

The credit period of accounts payables ranges from 30 to 90 days from the invoice date.

The following is an ageing analysis of accounts payable based on the date of receipt of goods:

	2022 *RMB'000*	2021 *RMB'000*
Within 30 days	**94,494**	116,643
31 to 90 days	**124,444**	122,212
91 to 180 days	**77,870**	39,820
181 to 365 days	**26,086**	17,003
Over 365 days	**25,916**	25,967
	348,810	321,645

Provision for medical dispute claims relate to medical disputes in which the Group is involved as defendants arising from its ordinary course of business. The following is the movement in the provision for medical dispute claims:

	2022 *RMB'000*	2021 *RMB'000*
At the beginning of the year	**1,897**	2,956
Provision for the year	**2,440**	2,326
Reversal of the provision	**(1,469)**	(1,146)
Utilisation of the provision	**(1,634)**	(2,239)
At the end of the year	**1,234**	1,897

15. BANK LOANS

	2022 *RMB'000*	2021 *RMB'000*
Variable-rate secured bank loan	**243,004**	265,237
Fixed-rate secured bank loan	**37,929**	45,609
	280,933	310,846

	2022 *RMB'000*	2021 *RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**28,822**	28,727
In the second year	**29,139**	29,025
In the third to fifth years, inclusive	**87,257**	88,865
Beyond five years	**135,715**	164,229
	280,933	310,846
Less: Amount due within one year shown under current liabilities	**(28,822)**	(28,727)
Amount shown under non-current liabilities	**252,111**	282,119

16. CAPITAL COMMITMENTS

	2022	2021
	RMB'000	*RMB'000*
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**262,531**	149,561

17. CONTINGENT LIABILITIES

The Group is involved as defendants in certain medical disputes arising from its normal business operations. Except for those disputes with provision made as disclosed in Note 14, the management of the Group believes that the final result of other medical disputes with total claims of RMB13,983,000 (2021: RMB7,501,000) as at 31 December 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 2022

The year 2022 was a year filled with challenges; the uncertainties in the economic environment and emergencies, such as the resurging pandemic, posed challenges to our business development and operations. For the most of year 2022, the coronavirus disease 2019 ("**COVID-19**") pandemic continued and the operation of our hospitals and medical facilities have experienced a certain degree of business interruptions as the local healthcare administrative authorities have imposed strict controls on healthcare services. The mass COVID-19 testing and strict lockdowns in parts of Guangzhou and many other cities around China, in an effort to uphold zero-COVID policy, have resulted in substantial economic and social disruption. Isolated cases identified at our medical facilities have also resulted in temporary access restriction which in turn had an adverse impact on our operations. Patients generally avoided visiting medical institutions and pharmacies to minimize the risk of infection. In addition, the government's control over business activities have materially and adversely affected customer demand for our healthcare services.

Towards the end of year 2022, China announced relaxations of its COVID-19 controls and the intention of reopening of its borders in 2023. In December 2022, the government announced, people infected with COVID-19, including those who were asymptomatic or with minor symptoms, could isolate at home or in a dedicated facility. However, the relaxation had raised concerns of a potential wave of confirmed cases, which overwhelmed the country's medical system and disruption on production and supply chains. The National Health Commission (**NHC**) released multiple circulars to provide guidance on home quarantine and medical treatment processes for the COVID-19 confirmed cases. The NHC also released guidelines for hospitals to properly handle the potential surge of COVID-19 cases.

The surge of confirmed cases towards the end of year 2022, the lack of resources for COVID-19 treatment and the imbalance between supply and demand presented both threats and opportunities to our operations. The Chinese government had taken measures to shore up capacity, with increase in medical clinics and supplies for COVID-19 patients. The Chinese government required all primary and secondary-level hospitals to open fever clinics for COVID-19 patients. In addition, the government promoted the use of online medical services for COVID-19 patients in order to reduce peak demand and crowds at hospitals and clinics. The NHC also required medical institutions to provide 24-hour online consultation and medical guidance for patients, as well as appointment services.

In late December 2022, most provinces in China announced that employees in the public and private sectors tested positive for COVID-19 with no symptoms or mild symptoms were permitted to go to work as normal if their health situations permit. Hospitals were also calling for normal work of infected medical workers amid the surge of COVID-19 cases. It is considered as a remarkable turnaround for China considering the zero-COVID policy was still strictly implemented in November 2022. It is widely believed that the Chinese economy will start to improve after March 2023, after the first wave of COVID-19 case surge subsides. However, in the short term, the sudden pivot in COVID-19 policy and the surge in cases may continue to disrupt the supply chain and business operations. However, it is certain that the COVID-19 pandemic over the past three years has improved the public health awareness in China.

In 2022, the Group's consolidated revenue for the year amounted to RMB1,845.6 million (2021: RMB1,953.9 million), representing a year-on-year decrease of 5.5%, mainly attributable to the decrease in revenue from our hospital services segment of 6.4% caused by the decrease in overall patient visits of our self-owned hospital operations. The decrease was partly offset by the increase in revenue from our rehabilitation and other healthcare services and elderly healthcare services segments, which recorded an increase in revenue of 10.1% and 1.8%, respectively.

Our hospital services segment has recorded a revenue for the year of RMB1,721.5 million (2021: RMB1,839.5 million), representing a year-on-year decrease of 6.4%. Our Dongguan Kanghua Hospital ("**Kanghua Hospital**") and Dongguan Renkang Hospital ("**Renkang Hospital**") have both recorded a decrease in revenue of 8.0% and 4.2%, respectively. However, our Chongqing Kanghua Zhonglian Cardiovascular Hospital ("**Kangxin Hospital**"), has recorded an increase in revenue of 41.8% as compared with year 2021.

Our rehabilitation and other related healthcare services segment, through our ownership of 57% equity interest in Anhui Hualin Medical Investment Co., Ltd.* ("**Anhui Hualin**") (Anhui Hualin directly and indirectly (through its wholly-owned subsidiaries) 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 year of RMB111.7 million (2021: RMB101.5 million), representing a year-on-year increase of 10.1%. Our rehabilitation and other related healthcare services segment mainly consist of our two major rehabilitation hospitals, namely, Hefei Kanghua Rehabilitation Hospital and Hefei Jingu Hospital, Bengbu Renkang Hospital (a class I general hospital) and an out-patient centre (these hospitals and out-patient centre represent our rehabilitation hospital and other healthcare services operation), and thirteen rehabilitation centres and one vocational training school (representing our rehabilitation centre services and other services). Revenue from our rehabilitation hospitals and other healthcare services operation increased by 30.0%, however, this is offset by a decrease in revenue from our rehabilitation centre services and other services of 3.4%.

The overall increase 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 as well as gradual recovery from the impact of the pandemic.

Our elderly healthcare services segment represents the operation of Renkang Elderly Care Centre. Our comprehensive elderly healthcare centre with a capacity of 108 (2021: 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. Our elderly healthcare services segment has recorded a revenue for the year of RMB12.5 million (2021: RMB12.2 million), representing a year-on-year increase of 1.8%, primarily due to the gradual maturity of the elderly centre operation since its official opening in 2019.

The Group's consolidated profit for the Reporting Period amounted to RMB27.7 million (2021: RMB66.9 million), representing a year-on-year decrease of 58.6%, the decrease is mainly attributable to: (i) the decrease in revenue and profit recorded at Kanghua Hospital and Renkang Hospital, which were primarily affected by a series of factors including the fall in number of inpatient and outpatient visits as well as business interruptions due to isolated COVID-19 cases identified within Kanghua Hospital that caused temporary closures of our outpatient department during the Reporting Period; (ii) despite the significant increase in revenue from Kangxin Hospital, however, Kangxin Hospital continued to operate at loss for the Reporting Period; and (iii) the drop in overall operating margin from 18.1% for to 14.2% for the Reporting Period.

The Group's Adjusted EBITDA (Adjusted EBITDA is earnings before accounting for bank and other interest income, finance costs, taxes, depreciation and amortisation, fair value gain/(loss) and investment income from financial assets at fair value through profit or loss ("**FVTPL**"), net exchange gain/(loss) and impairment loss on goodwill) recorded a year-on-year decrease of 30.0% to RMB215.8 million (2021: RMB308.1 million), which 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.

With the relaxation of COVID-19 controls in late 2022, the local economy is set to rebound in year 2023 as mobility and activity pick up after the lifting of pandemic restrictions and border controls, providing a potential boost to our business operations. In 2023, the Group adhered to the strategy of focusing on operation and execution of our post-pandemic recovery plans, and extend our efforts to upgrade our hospitals and elderly healthcare medical facilities.

Hospital Services

The Group's self-owned hospitals, namely, Kanghua Hospital (our approved Grade A Class III standard general hospital), Renkang Hospital (our Grade A Class II standard general hospital operating based on Grade A Class II standard) and Kangxin Hospital (our private hospital specializing in cardiovascular discipline), represented 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 were as follows: (i) the total number of inpatient visits decreased to 63,053 (2021: 67,546), representing a year-on-year decrease of 6.7%; (ii) the overall average spending per inpatient visit amounted to RMB14,703.3 (2021: RMB15,983.7), representing a year-on-year decline of 8.0%; (iii) the overall bed utilisation rate declined to 62.2% (2021: 72.1%), primarily attributable to the decrease in number of inpatient visits; (iv) the average length of stay decreased to 6.6 days (2021: 7.1 days); (v) the total number of outpatient visits decreased to 1,456,072 (2021: 1,487,674), representing a year-on-year decrease of 2.1%; (vi) the overall average spending per outpatient visit amounted to RMB440.0 (2021: RMB414.6), representing a year-on-year increase of 6.1%; (vii) the total number of physical examination visits slightly increased to 174,143 (2021: 170,702), representing a year-on-year increase of 2.0%; and (viii) the total number of surgical operations decreased to 42,346 (2021: 46,647), representing a year-on-year decrease of 9.2%.

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

		For the year ended 31 December	
	Change	**2022**	2021
Inpatient healthcare services			
Inpatient visits	-6.7%	**63,053**	67,546
Average length of stay *(days)*	-0.5	**6.6**	7.1
Average spending per visit *(RMB)*	-8.0%	**14,703.3**	15,983.7
Outpatient healthcare services			
Outpatient visits	-2.1%	**1,456,072**	1,487,674
Average spending per visit *(RMB)*	+6.1%	**440.0**	414.6
Physical examination services			
Physical examination visits	+2.0%	**174,143**	170,702
Average spending per visit *(RMB)*	+5.3%	**882.5**	838.1

Kanghua Hospital

In 2022, Kanghua Hospital's medical staff adhered to the hospital's mission of "caring for the people and practicing medicine with integrity", and put the patients' needs and interests as top priority in their work. The medical teams faced the challenges of saving lives and healing the wounded with professionalism and dedication during the COVID-19 outbreak. As the pandemic prevention and control policies changed frequently, the hospital had to cope with many challenges, such as staff shortage, heavy workload and strict pandemic measures. However, under the guidance of the Board and the alignment with the hospital's fourth five-year development plan, all the departments and units of the hospital managed to overcome these obstacles and complete the annual missions.

During the Reporting Period, Kanghua Hospital recorded a revenue of RMB1,403.9 million (2021: RMB1,526.0 million), representing a year-on-year decrease of 8.0%. Kanghua Hospital had 1,031,835 (2021: 1,091,737) outpatient and emergency outpatient visits, a year-on-year decrease of 5.5% and 50,575 (2021: 53,115) discharged inpatient visits, a year-on-year decrease of 4.8%.

Kanghua Hospital continued to improve its management efficiency in 2022 by strengthening various mechanisms and ensuring that all management tasks followed clear and rational rules and principles. This provided a solid institutional foundation for standardizing and scientizing hospital management. The human resources department updated the KPI assessment system and criteria for the whole hospital, which helped each department to prioritize quality and safety management and to enhance the medical and service quality significantly. Kanghua Hospital also initiated the hospital classification re-evaluation work in 2022, applying the "Class III Hospital Evaluation Standards (2022 Edition)" (《三級醫院評審標準(2022年版)》) and its implementation rules. Kanghua Hospital has established a Class III Grade A re-evaluation working group, seven professional inspection groups, and internal audit teams for each specialty. It held meetings for the whole hospital and instructed each department to conduct evaluation work according to the relevant standards. The evaluation work focused on seven aspects: hospital management, medical management, medical service, medical safety, clinical outcome, technical level and continuous improvement. Kanghua Hospital aims to pass the Class III Grade A re-evaluation by the end of 2023.

In terms of information technology construction in 2022, Kanghua Hospital introduced the Diagnosis Related Groups (DRGs) hospital management system, the single-disease management system, and the venous thromboembolism (VTE) prevention management system to build an internal control information system, which effectively improved the hospital's management efficiency, enhanced the level of medical quality control, increased the utilization rate of internal control information, and improved the patient's medical experience. During the year, Kanghua Hospital upgraded its online electronic invoice, social security settlement, report and other functions, enhancing patient satisfaction. It applied information technology to improve the patient's medical experience, meeting the new model of online and offline integrated smart medical services before, during, and after diagnosis. Adopting the construction of electronic medical records with high standardization as the work focus, it accelerated the process of “smart hospital”, promoted digital transformation, continuously strengthened medical service supervision, and provided more convenient and high-quality smart medical services for patients. It strengthened the characteristics of Internet+Medical Care, reduced the workload of medical staff, met the patients’ online needs in various aspects, and promoted Internet medical services.

In 2022, Kanghua Hospital strengthened the standardized management of medical technology application. According to the requirements of the Implementation Rules for Clinical Application of Medical Technology in Guangdong Province (《廣東省醫療技術臨床應用實施細則》), the management team timely completed and updated the filing of restricted technologies in Kanghua Hospital, urged the departments to report the relevant data of the restricted technologies that have been carried out regularly, and completed the filing of the national restricted technologies ECMO (extracorporeal membrane oxygenation) and allogeneic hematopoietic stem cell transplantation technology with the health department. At the same time, it visited and reviewed each department and each item for the provincial-level restricted technologies that have been carried out and planned to be updated, and preliminarily completed the tracking and updating of the provincial-level restricted technologies. According to the Measures for the Management of Clinical Application of Medical Technology (《醫療技術臨床應用管理辦法》), it revised the new technology and new project access system of Kanghua Hospital, reviewed each new technology and new project reported by the departments, strictly controlled the quality, and tracked and followed up the number of cases, medical quality and safety monitoring indicators of the new technologies and new projects that have been carried out, further ensuring medical safety and improving medical quality.

In 2023, Kanghua Hospital continued to integrate the strategic theme of “three-precision management, starting from me”, and further demanded quality, efficiency, and service from management. Adopting the “hospital classification re-evaluation”, “JCI coaching training and certification work”, and “national industry evaluation of the China Non-public Medical Institutions Association” as the focus, it had carried out work around fine management, precise treatment, and sincere service, further innovated the work ideas, optimized the management mode, and closely focused on the center of continuously strengthening the hospital’s connotation construction, and worked hard to forge ahead with unity and dedication. Kanghua Hospital will comprehensively increase the inspection and supervision efforts, standardize the diagnosis and treatment behavior, and create a good reputation for the hospital. Kanghua Hospital will strictly implement the medical insurance policies, strengthen the fine management of medical insurance, and improve the efficiency of medical insurance fund use. Starting from January 2022, the Diagnosis-Intervention Packet (DIP) payment method was implemented. The new medical insurance policy canceled the annual service volume of the hospital and added the auxiliary catalog library, adjusted the deviation medical record standard and other score correction mechanisms, and the designated medical institutions faced new challenges and opportunities. At the same time, Kanghua Hospital will actively improve the construction of smart hospital and promote Internet medical services.

Renkang Hospital

In 2022, Renkang Hospital persevered in fighting the pandemic, striving for the Class II accreditation, and carrying out daily diagnosis and treatment at the same time. While implementing normalized pandemic prevention and control, Renkang Hospital followed the working principle of "promoting construction and improvement through evaluation, advancing evaluation and construction simultaneously, and focusing on integrity", and vigorously promoted the Class II accreditation work, constantly improved the medical quality control, enhanced the diagnosis and treatment service level, and ensured medical safety. Striving for the Class II accreditation was the top priority of Renkang Hospital's work in 2022, and all the staff actively participated in the accreditation evaluation work. The hospital, according to the latest requirements of the Dongguan Municipal Health Commission (東莞市衛生健康局), reorganized the clauses, revised the evaluation working group, and in accordance with the requirements of the Municipal Hospital Association (市醫院協會), aims to pass the Class II accreditation evaluation by the end of 2023.

During the Reporting Period, Renkang Hospital recorded a revenue of RMB263.9 million (2021: RMB275.6 million), representing a year-on-year decrease of 4.2%. Renkang Hospital had 394,190 (2021: 373,384) outpatient and emergency outpatient visits, a year-on-year increase of 5.6%, and 10,442 (2021: 12,746) discharged inpatient visits, a year-on-year decrease of 18.1%.

In 2022, Renkang Hospital had received several government requests and promptly formulated and implemented inspection plans in accordance with the relevant requirements and the operating circumstances of the hospital, and from time to time carried out self-inspection, supervision and summary analysis according to the implementation plans. Renkang Hospital had paid close attention to medical quality control, improved the level of medical technology, introduced quality control leaders in scientific disciplines, clarified job responsibilities and improved the organizational structure, established and improved the hospital's medical service capacity and quality safety monitoring data management system, strengthened departmental quality control management such as single disease management and clinical pathway management, promoted the application of quality control system and standardized medical record writing, and improved the level of medical quality. During the year, Renkang Hospital moved forward with the "Trauma Center" construction, implemented the first ECMO technology under the guidance of Kanghua Hospital, continuously improved the hospital's emergency and critical care capability and multidisciplinary collaboration, and ensured medical quality and safety. In terms of medical staff training, Renkang Hospital revised the core medical system, strengthened the training, education and assessment of medical staff, the seriousness of medical record writing and medical record quality control; the timeliness of critical value handling; the timeliness and effectiveness of consultation; the standardization of difficult case discussion; the approval process of major surgery and other key links were further continuously improved, ensuring the effective implementation of the core medical quality and safety system, and vigorously improving the medical service capability.

During the year, Renkang Hospital increased the construction of informatization, equipment and facilities, and improved the quality of management. The hospital invested more in the information system construction, such as HIS server, information disaster recovery room, electronic medical record quality control and clinical pathway, DRGs system, etc., with an increase of 60% in spending as compared with 2021. In 2022, the hospital introduced endoscopic photography system and energy platform, mobile flat-panel C-arm X-ray machine, electronic endoscope, X-ray machine, hemodialysis filtration device and other equipment, which significantly upgraded the hospital's service capabilities.

In 2023, Renkang Hospital will strengthen the medium and long-term development vision and strategic goals, and focus on creating the "reputable hospital, reputable departments, reputable doctors" construction with refined management, precise medical care and sincere service. In order to better implement the strategy of "focusing on integrity and building reputation", the hospital staff will work together to promote the hospital's "safety, quality, service, management and performance" to the next level.

Kangxin Hospital

In 2022, Kangxin Hospital adhered to the patient-centered principle, vigorously developed its talent team, and continuously expanded its business scope. Facing the severe impact of the COVID-19 pandemic, all staff of Kangxin Hospital courageously took on the responsibility, rose to the challenge, actively responded to the government's call, and effectively carried out various anti-pandemic and prevention work. At the same time, in light of the obstacles encountered in the hospital's development, the hospital comprehensively analyzed the market situation, strengthened its operation, gradually developed smaller comprehensive disciplines on the back of a solid foundation of major disciplines, further improved its service awareness, and focused on medical quality and safety development, achieving decent social and economic benefits, and taking the hospital's comprehensive development to the next level.

In 2022, the operational performance of Kangxin Hospital had significantly improved and recorded a rise in the number of outpatient, inpatient and physical examination visits. Although still operating at loss, during the Reporting Period, Kangxin Hospital has recorded a revenue of RMB53.6 million (2021: RMB37.8 million), representing a year-on-year increase of 41.8%. Kangxin Hospital had 30,047 (2021: 22,553) outpatient and emergency outpatient visits, a year-on-year increase of 33.2%, and 2,036 (2021: 1,685) discharged inpatient visits, a year-on-year increase of 20.8%; completed 76 cases of various cardiac operations, with a success rate of 98.7%; and conducted 694 interventional surgeries with an increase of 56.3% over 2021. The heart function room has completed 16,747 examinations of various types, an increase of 40% over 2021.

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 cooperation with a German medical group – "Artemed". The management arrangements will leverage the network, resources and healthcare capability of Silver Mountain to improve and optimize the operations of Kangxin Hospital. The Board considers the management arrangements a good opportunity to leverage Silver Mountain's network and resources to ramp up and optimize the operations of Kangxin Hospital in a shorter timeframe, and minimize 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.

In 2022, Kangxin Hospital continued to strengthen the organizational leadership of medical quality and safety management, and established a hospital-level medical quality control committee chaired by the hospital president, which was mainly responsible for the establishment of the medical quality control management system, the approval of work plans, and the decision of major issues arising from medical quality control. At the department level, there were medical quality control groups composed of department heads, deputy heads, and head nurses, which were responsible for the medical quality control work within their responsible areas. Each medical staff member acted as the first quality controller of their work and was accountable for their own work. This system built a quality control system covering all levels from the frontline to the leadership, which is conducive to improving the quality management of prevention, control, and improvement before, during, and after the processes, ensuring that there are responsible personnel for each juncture, and that each quality requirement was implemented.

According to the hospital's development plans, Kangxin Hospital timely revised and organized training for relevant systems, organized several special training sessions on the knowledge of the 120-emergency system online, formulated the fever clinic system and process, improved the outpatient quality control, medical dispute handling process, and doctor consultation and other systems. It strengthened the management of anesthetic drugs and psychotropic drugs, and revised various management systems for anesthetic and psychotropic drugs. Kangxin Hospital continued to develop new technologies and projects. This year, it applied for three new technologies and projects. The ultrasound department and the anesthesia department cooperated to carry out painless transesophageal echocardiography, and pioneered in Chongqing to carry out transesophageal echocardiography combined with right heart acoustic contrast, which improved the diagnostic accuracy of patients with congenital heart disease.

Kangxin Hospital also strengthened cooperation and exchange during the year, laying the foundation for the hospital's sustainable development, deepening the cooperation with the Heart Alliance, and strengthening international cooperation. This year, the cardiology system held an academic forum, namely the Chongqing Kangxin Hospital Cardiovascular Disease Forum, and invited local and international experts to participate, which was a huge success. At the same time, it carried out "hypertension+whole-process pharmaceutical care", which promoted home pharmaceutical services and innovated pharmaceutical service models by following the concept of whole-process management inside and outside the hospital, exploring new chargeable service models, and gradually promoting VIP annual card services, family pharmacist, family nursing and other family health management services. It created a PCCM (Pulmonary and Critical Care Medicine) cough and asthma pharmaceutical clinic (CWPC project), completed the project acceptance, and obtained the PCCM cough and asthma pharmaceutical clinic certificate. It ensured the quality and quantity of the evaluation indicators and monitored the medical quality throughout the process. The laboratory participated in the inter-laboratory quality assessment of the NHC's Clinical Laboratory Center and the Chongqing Clinical Laboratory Center in 2022, including clinical biochemistry, immunology, hematology, and blood bank testing. All quality control scores were excellent, and it once again achieved the relevant industry standards at the national and provincial/municipal levels with excellent results.

In 2023, Kangxin Hospital will focus on the work idea of "optimizing clinical cooperation, improving technical level, strengthening talent cultivation, promoting hospital construction, and strictly managing various aspects", improve the hospital's reputation, further enhance the medical technical level, improve the hospital's organizational structure, strictly control various potential risks, and with greater determination and stronger measures, act in accordance with the situation, work solidly, and strive to achieve the "social and economic benefits" of the hospital, and create a new horizon for the hospital's development.

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

Healthcare disciplines	Change	**For the year ended 31 December** 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)	-12.9%	**230,402**	**13.4**	264,436	14.4
Cardiovascular related disciplines (心血管有關科室)	+0.9%	**206,477**	**12.0**	204,550	11.1
Internal medicine related disciplines (內科有關科室)	-8.0%	**193,127**	**11.2**	209,894	11.4
General surgery related disciplines (普通外科有關科室)	-9.7%	**120,944**	**7.0**	133,923	7.3
Neurology related disciplines (神經醫學有關科室)	-5.4%	**117,593**	**6.8**	124,301	6.8
Orthopaedics related disciplines (骨科有關科室)	-17.7%	**87,888**	**5.1**	106,851	5.8
Emergency medicine related disciplines (急診有關科室)	-21.6%	**87,094**	**5.1**	111,153	6.0
Oncology related disciplines (腫瘤科有關科室)	-2.9%	**66,198**	**3.8**	68,189	3.7
Nephrology related disciplines (腎臟科有關科室)	+4.4%	**65,335**	**3.8**	62,574	3.4
Medical aesthetic related disciplines (醫學美容有關科室)	-19.8%	**42,725**	**2.5**	53,283	2.9
Paediatrics related disciplines (兒童醫學有關科室)	-17.5%	**35,128**	**2.0**	42,581	2.3
Physical examination (體檢科)	+7.4%	**153,678**	**8.9**	143,068	7.8
Other disciplines (其他臨床科室)	+0.1%	**314,873**	**18.3**	314,672	17.1
Total		**1,721,462**	**100.0**	1,839,475	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 2022, the Group performed a total of 42,346 surgeries (2021: 46,647), including 16,107 surgeries (2021: 13,687) with level 3 or level 4 complexities. The decrease is primarily attributable to a drop in the overall number of patient visits, which was partly caused by the temporary closures of our medical facilities at Kanghua Hospital during the Reporting Period.

O&G related disciplines, cardiovascular related disciplines, internal medicine related disciplines, general surgery related disciplines and neurology related disciplines were the top five revenue-generating disciplines from the Group's hospital services segment for both years, accounting for approximately 50.4% of the Group's revenue from the hospital services segment (2021: 51.0%).

During the Reporting Period, although our O&G related disciplines remained our largest medical discipline, it recorded a year-on-year decrease in revenue of 12.9%. Our cardiovascular related disciplines recorded an increase in revenue of 0.9%, mainly caused by the improvement in performance of Kangxin Hospital. Revenue from orthopaedics related disciplines, emergency medicine related disciplines, medical aesthetic related disciplines and paediatrics related disciplines have recorded a considerable drop of 17.7%, 21.6%, 19.8% and 17.5%, respectively, primarily attributable to the fall in the number of patient visits during the temporary closures of Kanghua Hospital during Reporting Period.

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 2022, the total revenue derived from special services amounted to RMB156.1 million (2021: RMB173.6 million), representing a year-on-year decrease of 10.1%.

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

	Change	For the year ended 31 December **2022** *RMB'000*	2021 *RMB'000*
VIP healthcare services	-13.5%	**86,932**	100,467
Reproductive medicine	-3.8%	**45,133**	46,900
Laser treatment	-8.4%	**19,840**	21,659
Plastic and aesthetic surgery	-9.4%	**4,159**	4,591
Total revenue from special services		**156,064**	173,617

The operation of our VIP healthcare services was adversely affected by the impact of the pandemic in year 2022, whilst the number of VIP inpatient and outpatient visits has decreased as compared with last year. The demand for our service offerings from Huaxin Building (a complex in Kanghua Hospital dedicated to VIP healthcare services) has dopped mainly caused by the occasional access restrictions at Kanghua Hospital and lockdown during the year. Our revenue from VIP healthcare services (included VIP inpatient and outpatient services and VIP O&G services) recorded RMB86.9 million (2021: RMB100.5 million), representing a year-on-year decrease of 13.5%.

Rehabilitation and other Healthcare Services

During the Reporting Period, the Group's rehabilitation and other related healthcare services segment, through its ownership of 57% equity interest in Anhui Hualin, recorded a revenue of RMB111.7 million (2021: RMB101.5 million), representing a year-on-year increase of 10.1%. Anhui Hualin directly and indirectly (through its wholly-owned subsidiaries) holds sponsor interests in the managed and controlled entities, certain of which are private non-enterprise entities in Anhui Province, the PRC (collectively referred to as "**Anhui Hualin Group**"). At 31 December 2022, it mainly operates two rehabilitation hospitals, a general hospital, an outpatient centre, thirteen rehabilitation centres and one vocational training school.

Anhui Hualin Group currently employs more than 950 (2021: 840) staff and has a stable cooperation with the Anhui Disabled Persons Federation (安徽省殘疾人聯合會) and local governments in the provision of training services for the disabled. The Anhui Hualin Group is also a major organisation offering children rehabilitation services in Auhui Province, the PRC. Our two major rehabilitation hospitals operated by Anhui Hualin Group, namely, Hefei Kanghua Rehabilitation Hospital and Hefei Jingu Hospital, have a total of 200 (2021: 200) registered beds. During the Reporting Period, the two rehabilitation hospitals have 30,688 (2021: 28,761) outpatient visits and 2,380 (2021: 2,255) inpatient visits.

In 2022, revenue from rehabilitation hospital and other healthcare services has recorded a year-on-year increase of 30.0% to RMB53.1 million (2021: RMB40.8 million) mainly caused by the significant growth in rehabilitation patient visits at Hefei Kanghua Rehabilitation Hospital as the operation gradually matures since its official opening in 2018. Revenue from rehabilitation centres services and other services (in particular our children rehabilitation operations) has recorded a slight year-on-year decrease of 3.4% to RMB58.6 million (2021: RMB60.7 million).

For the most of 2022, due to the overall requirements of regional pandemic prevention and control, the admission of patients to Hefei Jingu Hospital and Hefei Kanghua Rehabilitation Hospital was significantly restricted. During 2022, the 13 children's rehabilitation centers were affected to varying degrees as a result of the pandemic prevention and control requirements of the Anhui Provincial Disabled Persons' Federation. There were at least four instances of school suspension, with the longest one lasting for 71 days. However, even under the impact of the pandemic, the business still showed resilience, with each rehabilitation center and hospital achieving different degrees of growth. Among them, Hefei Kanghua Rehabilitation Hospital had the highest growth rate of business income. Both rehabilitation hospitals had relatively large increases in outpatient and inpatient volumes, due to factors such as the enhancement of hospital brand influence, team cooperation, patient satisfaction, and the further improvement of transportation facilities and the increase in number of surrounding residents.

In 2022, Hefei Kanghua Rehabilitation Hospital and Hefei Jingu Hospital were awarded the "2021 Hefei Advanced Units in Respect for the Elderly Activities" 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.

In January 2022, Hefei Kanghua Rehabilitation Hospital passed the expert group review and renewed various ISO certifications, including quality management system certification, occupational health and safety management system certification, and environmental management system certification. In September 2022, Hefei Jingu Hospital successfully passed the special inspection of private hospitals in Hefei. The development of the rehabilitation sector expanded further in 2022, according to the planning and layout of the children's rehabilitation business, and won the bids for the rehabilitation centers of Hanshan County in Ma'anshan City and Mingguang City in Chuzhou City in July and August respectively, expanding the children's rehabilitation business to 13 rehabilitation centers in five regions of Anhui Province.

In 2023, Anhui Hualin Group adhered to the "rehabilitation" principle and followed the "differentiated" development approach. While ensuring the stability of the existing rehabilitation business, it formed an innovation team, developed new projects, and ensured that the rehabilitation projects of Anhui Hualin Group always maintained technological advancement and industry leadership. It continued to strengthen the development of standards, constantly improved the management system, refined the Kanghua Smart Rehabilitation System, enhanced the internal inspection management, and provided guidance and teaching, making all personnel and institutions pay attention to the development of standards with a view to ensuring safety and sustainability.

Elderly Healthcare Services

The Group's elderly healthcare services segment comprised our comprehensive elderly healthcare centre located inside Renkang Hospital, namely, Renkang Elderly Care Centre with the vision of providing quality high-end elderly care services to local residents in Houjie Town, Dongguan City, the PRC. In view of the accelerating aging population issue 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 2022, Renkang Elderly Care Centre had a total of 108 (2021: 108) beds with a daily average elderly inpatient of 93 (2021: 93) persons and achieved an average annual bed utilisation rate of 86.1% (2021: 86.2%). Revenue from provision of elderly healthcare services for the Reporting Period amounted to RMB12.5 million (2021: RMB12.2 million), representing a year-on-year increase of 1.8%. As the operation matures, Renkang Elderly Care Centre continued to gain reputation for its elderly healthcare services in the district. In 2022, the centre had strengthened its management capability and firmly implemented the requirements issued by the social insurance system in Dongguan.

In 2022, Renkang Elderly Care Centre, in accordance with the requirements of the National Medical Security Information Platform, standardized the information of the elderly residents according to the standards of the designated medical insurance institutions, and timely updated the information and management of laboratory tests, examinations, drugs and consumables. It carried out health consultation, health examination, health management intervention, drug management service, daily care service, etc., and completed the diagnosis and treatment, chronic disease management and treatment, and emergency care of the common diseases of the elderly residents. It established and improved the green channel for the elderly residents to seek medical treatment, and exerted the characteristic advantages of the nursing home. It conducted comprehensive geriatric assessment (CGA) for each elderly resident, and based on the analysis results, formulated scientific, reasonable and effective prevention, healthcare, treatment, rehabilitation and nursing plans, and orderly promoted the improvement of various functional status of the elderly, thereby improving their quality of life and self-care ability. Renkang Elderly Care Centre also began to admit elderly people requiring professional nursing care such as hemodialysis, insulin injection, tracheal intubation care, central venous catheter care, urinary catheter care, nasogastric feeding, etc. The diseases were also diversified, and there were elderly people who needed care after vegetative state, cerebral infarction/hemorrhage sequelae, dementia, fracture, etc., which fully reflected the professional ability of the nurses in the elderly nursing work.

In 2023, Renkang Elderly Care Centre will proactively prepare for and welcome the on-site inspection of the "Dongguan City 2022 Medical and Nursing Integration Service Quality Evaluation" conducted by the Municipal Health Commission, and complete the on-site evaluation of the city's elderly care service work in 2021 organized by the Dongguan Municipal Civil Affairs Bureau and its cooperative service providers, thereby further standardizing the implementation of various management systems in Renkang Elderly Care Centre, and achieving the purpose of promoting improvement and continuous quality improvement through inspection. It will also actively apply for the qualification of Guangdong Province's Elderly-Friendly Medical Institution.

Furthermore, in 2022, the development project of the third phase elderly centre building within Renkang Hospital (construction cost will be provided by the landlord of Renkang Hospital) continued, the construction and development plans has been submitted to the relevant government authority with the aim to obtain approval in 2023. The third phase development of the Renkang Elderly Care Centre aims to provide the best in the class elderly healthcare services and satisfy the overwhelming demand for elderly healthcare services in the district.

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 (2021: RMB0.7 million).

Industry Outlook and Strategy

In 2022, as the medical reform continued to deepen, the medical industry introduced a number of policies to address the supply and demand relationship, focusing on the strategic goal of high-quality development of hospitals, including hospital specialty development, medical insurance reform, domestic substitution of medical devices, medical digitalization, tiered diagnosis and treatment, centralized procurement, relaxation of medical qualifications, and promotion of private medical services. These measures will gradually narrow the gap between medical resources supply and demand, improve the efficiency of medical insurance fund utilization, reflect the value of medical services, and enhance the medical science and technology capabilities.

The COVID-19 pandemic has had a huge impact on the medical industry in the past three years, such as the surge in market demand for medical protective products, disinfection products, nucleic acids, vaccines and COVID-19 drugs. Relevant enterprises have expanded their production capacity and increased their investment in product research and development in these three years. With the announcement issued by the NHC in December 2022, COVID-19 infection was adjusted from "Class B with Class A management" to "Class B with Class B management". This was another major adjustment of the pandemic prevention and control policy since China began to implement strict Class A infectious disease prevention and control measures in January 2020. Year 2023 is a key year for the Chinese healthcare market to transition to the "post-pandemic" era, as well as an important window of opportunity for the reshaping, transformation and upgrading of the pharmaceutical and healthcare industry.

Aging population and awareness of health management

The aging population and the increasing awareness of health management drive the growth of medical demand, while the penetration rate of disease diagnosis and treatment still needs to be improved, and the medical service scenarios become more diversified. According to the National Population Development Plan (2016–2030), the number of elderly people aged 60 and above in China grows steadily, and the growth rate will accelerate more significantly from 2021 to 2030. The proportion of elderly people will reach about 25% by 2030, and the total number and proportion of the elderly aged 80 and above will continue to increase. The middle-aged and elderly population is a high-risk group for diseases, and the prevalence of diseases related to tumors, cardiovascular and cerebrovascular, autoimmune, ophthalmology and dentistry is high, driving up huge medical demand. The diagnosis and treatment rate of various diseases needs to be improved in the future.

Digitalisation of healthcare services

Since the outbreak of COVID-19, the healthcare insurance consumption approach of Chinese consumers and patients has gradually shifted from offline to online, with digital touchpoints opening up in every juncture. Medical service activities such as appointment registration, consultation, prescription refill, doctor-patient interaction and self-health management can be accomplished through digital means, and benefit from further catalysis and maturity under backdrop of the pandemic. According to studies, more than 70% of Chinese patients are receptive to the digital healthcare services provided by tech giants. Among them, about 50% of patients are willing to pay extra fees for the advantages of convenience and other benefits of digitalization, and China ranks first in both willingness indicators among the surveyed countries. In addition to the open attitude of consumers towards digital healthcare, the accumulation of medical big data, the extension of digital application scenarios and the collaboration of more relevant parties such as the government have enabled China's healthcare services to extend and expand from post-disease treatment to pre-disease prevention and health management. In the future, more innovative business models will emerge in digital healthcare services, bringing consumers a universal, precise and full-cycle digital healthcare journey experience.

Medical payment reform

Medical payment still faces pressure, and structural optimization of the payment end is imperative. By the end of 2021, the National Healthcare Security Administration issued the "Three-Year Action Plan for DRG/DIP Payment Method Reform", proposing that by the end of 2024, all regions with unified healthcare security in China will carry out DRG/DIP payment method reform, and by the end of 2025, the healthcare security fund and disease categories will be fully covered. Since the simulation of DRG/DIP in pilot cities, combined with the gradual implementation of volume-based procurement, the pressure on China's healthcare security fund has been effectively alleviated, and the surplus of the healthcare security fund has achieved continuous growth since 2021. However, there are still structural shortcomings in the supply end of China's medical payment, and the proportion of commercial health insurance claims in direct medical expenditure is less than 5%. More payment pressure is still borne by patients themselves. Riding on the trend of rapid development, more relevant parties such as the government, pharmaceutical and medical device enterprises, and third-party service organizations have actively entered the field, bringing many supports such as channels, credit endorsement, value-added services, etc. for commercial health insurance to further achieve product innovation, quality improvement and expanded coverage.

Medical infrastructure at a rapid development stage

Since the outbreak of the COVID-19 pandemic in 2020, China's new medical infrastructure has entered a rapid development stage, to make up for the structural shortcomings of the supply of medical resources. Under the guidance and support of a series of policies, such as the Implementation Plan for Building a High-quality and Efficient Medical and Health Service System in the 14th Five-Year Plan Period, the number of new medical infrastructure projects, such as expanding the capacity of tertiary hospitals and improving the quality of primary hospitals, has significantly increased compared to previous years. In September 2022, the Notice on Carrying Out Fiscal Subsidy Loans to Update and Renovate Medical Equipment by the NHC was officially issued, which is expected to bring more than RMB200 billion of financial support, effectively alleviating the fiscal pressure of various levels of government and the funding pressure of medical institutions, and further accelerating the development of new medical infrastructure. As a result, in addition to the early-stage construction work, the demand for medical equipment required for the mid-term construction of operating rooms, ICUs, radiology departments, pathology departments, laboratory departments and pharmacies, as well as the related demand for medical informatization projects in the later stage, will continue to increase.

Rapid development of Chinese medicine industry

Consumption health, the irreversible trend of population aging, and the huge number of middle-aged and elderly people and chronic disease patients shape the demand base for the consumption health market. Under the backdrop of the COVID-19 pandemic, consumers' health awareness has increased, further driving the market expansion. Among them, sub-sectors such as ophthalmology, medical aesthetics, home care, and nutrition and health care will further release their development potential. Traditional Chinese medicine: The "14th Five-Year Plan for Pharmaceutical Development" was issued, which proposed 15 specific quantitative development indicators for the traditional Chinese medicine industry, such as the number of traditional Chinese medical institutions, the number of public traditional Chinese hospital beds per thousand population, etc. At the same time, the pilot sales of traditional Chinese medicine granules ended, and the sales scope expanded to all medical institutions with traditional Chinese medicine practice, and they were included in the standard medical insurance category B list. Under the relatively small risk of centralized procurement and leading enterprises leading the way, the traditional Chinese medicine industry will exhibit a continuous and rapid growth trend.

Our Strategy

Healthcare reform has been one of the key topics on the government agenda in China. Due to the rise in the cost of healthcare, more than 10% of the income is spent on healthcare, which is greater than that spent on education and transportation. The rise in the cost in healthcare would likely have an outcome of the high cost of the drugs. At present, the social healthcare insurance is under reforms to control the increasing healthcare costs. The development of commercial healthcare insurance in China lags behind. But the commercial healthcare insurance market has ample growth potential. Today, China has the largest healthcare market in the world. The Chinese healthcare industry is one of the fastest-growing sectors in China, growing at double digit rate each year.

In the future, the Group will improve the construction of smart hospitals, promote the improvement of internet-based medical services, enhance the characteristics of internet plus medical care, and gradually expand the scope of services, making it more convenient and smooth for patients to consult and visit online; advance the pilot work of the national/provincial/municipal "internet plus nursing services", explore the development of internet plus health consultation services, enrich the service content, and increase patient satisfaction.

Looking ahead into 2023, 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

The Kanghua Qingxi Healthcare Complex (康華 • 清溪分院)

The Kanghua Qingxi Healthcare Complex is the Group's new elderly medical and 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 in 2021. 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.

The Kanghua Qingxi Healthcare Complex has a total construction area of more than 130,000 square meters, and the planned architectural content includes several medical technology buildings, inpatient buildings, and nursing buildings, among which we expect there will be 500 inpatient beds and about 800 nursing and rehabilitation beds. The first phase of construction covers the medical technology building, the inpatient building, and the rehabilitation building, with a total construction area of approximately 44,000 square meters. We expect the construction and inspection of the main structure of the buildings for the first phase of the construct to complete by April 2024, the relevant interior decoration to complete by February 2025, and aim to put the first phase of the project into operation by March 2025.

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 self-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 (iv) 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, cost of revenue, gross profit and gross profit margin of the Group by segment for the years indicated:

For the year ended 31 December 2022

	Hospital services *RMB'000*	**Rehabilitation and other healthcare services** *RMB'000*	**Elderly healthcare services** *RMB'000*	**Total** *RMB'000*
Revenue	**1,721,462**	**111,714**	**12,457**	**1,845,633**
Cost of revenue	**(1,482,929)**	**(92,952)**	**(8,402)**	**(1,584,283)**
Gross profit	**238,533**	**18,762**	**4,055**	**261,350**
Gross profit margin	**13.9%**	**16.8%**	**32.6%**	**14.2%**

For the year ended 31 December 2021

	Hospital services *RMB'000*	Rehabilitation and other healthcare services *RMB'000*	Elderly healthcare services *RMB'000*	Sale of pharmaceutical products *RMB'000*	Total *RMB'000*
Revenue	1,839,475	101,507	12,236	726	1,953,944
Cost of revenue	(1,507,294)	(85,234)	(8,058)	(610)	(1,601,196)
Gross profit	332,181	16,273	4,178	116	352,748
Gross profit margin	18.1%	16.0%	34.1%	16.0%	18.1%

Revenue from the Group's hospital services amounted to RMB1,721.5 million (2021: RMB1,839.5 million), representing a year-on-year decrease of 6.4% and accounting for 93.3% (2021: 94.1%) of the total revenue of the Group.

Revenue from hospital services comprised (i) revenue from inpatient healthcare services amounted to RMB927.1 million (2021: RMB1,079.6 million), representing a year-on-year decrease of 14.1%, accounting for 50.2% (2021: 55.3%) of the total revenue of the Group; (ii) revenue from outpatient healthcare services amounted to RMB640.7 million (2021: RMB616.8 million), representing a year-on-year increase of 3.9%, accounting for 34.7% (2021: 31.6%) of the total revenue of the Group; and (iii) revenue from physical examination services amounted to RMB153.7 million (2021: RMB143.1 million), representing a year-on-year increase of 7.4%, accounting for 8.3% (2021: 7.3%) of the total revenue of the Group. The decrease in revenue from hospital services is mainly due to (i) the decrease in the number of inpatient visits at both Kanghua Hospital and Renkang Hospital during the Reporting Period which contributed most of the drop in revenue of our inpatient healthcare services; (ii) the drop in patient average spending of our inpatient healthcare services; (iii) the decrease in revenue in a number of our major medical disciplines and our special services; and (iv) several incidents of temporary closure of our outpatient department due to COVID-19 cases identified at Kanghua Hospital during the Reporting Period. However, revenue of our outpatient healthcare services and physical examination had increased during the Reporting Period, and is primarily due to (i) the increase in outpatient visits at Renkang Hospital and an overall increase in patient average spending of our outpatient healthcare services; (ii) the increase in the number of patient visits and increase in patient average spending of our physical examination services; and (iii) the increase in number of COVID-19 tests and related medical treatment performed at our hospitals during the Reporting Period.

During the Reporting Period, the revenue from our special services amounted to RMB156.1 million (2021: RMB173.6 million), accounted for approximately 8.5% (2021: 8.9%) of the Group's total revenue and 9.1% (2021: 9.4%) of the Group's revenue from our hospital services segment. The decrease in revenue from our hospital services was mainly due to the operational disruptions of our hospitals during the most severe times of the pandemic. The Board is of the view that the decrease in number of patient visits in year 2022 is largely temporary. As the relaxations of COVID-19 controls announced in December 2022, business operations and medical services have substantially returned to normal level. The Board is of the view that the fundamental demand for our services remained strong and stable.

Revenue from rehabilitation and other healthcare services amounted to RMB111.7 million (2021: RMB101.5 million), representing a year-on-year increase of 10.1%, accounting for 6.1% (2021: 5.2%) of the total revenue of the Group. Revenue from rehabilitation and other healthcare services comprised (i) revenue from rehabilitation hospital and other healthcare services amounted to RMB53.1 million (2021: RMB40.8 million), representing a year-on-year increase of 30.0% and (ii) revenue from rehabilitation centres services and other services (in particular our children rehabilitation operations) amounted to RMB58.6 million (2021: RMB60.7 million), representing a year-on-year decrease of 3.4%. The increase in revenue of our rehabilitation hospital and other healthcare services is mainly attributable to the significant growth in rehabilitation patient visits at Hefei Kanghua Rehabilitation Hospital as the operation gradually matures since its official opening in 2018. However, the decrease in revenue of our rehabilitation centres services and other services is mainly attributable to business interruptions and suspensions of our children's rehabilitation centers as a result of the pandemic prevention and control during the year.

Revenue from elderly healthcare services represented the provision of elderly healthcare services at Renkang Elderly Care Centre, which amounted to RMB12.5 million (2021: RMB12.2 million), representing a year-on-year increase of 1.8%, accounting for 0.7% (2021: 0.6%) of the total revenue of the Group. The relatively stable revenue level is mainly attributable to the maturing business operation of Renkang Elderly Care Centre which is already operating at our maximum capacity.

No revenue from sales of pharmaceutical products and medical consumables was recorded during the Reporting Period (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 cost of pharmaceuticals and medical consumables, staff cost, depreciation and amortisation, service expenses, utilities expenses, rental expenses and other costs. Cost of revenue of the Group's hospital services segment decreased to RMB1,482.9 million (2021: RMB1,507.3 million), representing a year-on-year decrease of 1.6%. The decrease in cost of revenue for hospital services segment was mainly attributable to drop in business operations at Kanghua Hospital and Renkang Hospital, which corresponded with the decrease in variable costs such as cost of pharmaceuticals and medical consumables, as well as the fall in the number of inpatient visits of both hospitals during the Reporting Period. Whereas, Kangxin Hospital recorded an increase in cost of revenue due to improvement in business operation, however, Kangxin Hospital is still at its stage of ramping up its operation and running at negative gross margin during the Reporting Period.

Cost of revenue of the Group's rehabilitation and other healthcare services segment amounted to RMB93.0 million (2021: RMB85.2 million), representing a year-on-year increase of 9.1%, and primarily consisted of staff costs, medical consumables, depreciation, utilities and rental expenses. The increase in cost of revenue was in line with the increase in revenue for the year, mainly as a result of increase in operation of our rehabilitation hospitals and increase in number of direct staff headcounts, as well as departmental direct costs including direct consumables and office expenses.

Cost of revenue of the Group's elderly healthcare services represents direct operating costs at Renkang Elderly Care Centre, which amounted to RMB8.4 million (2021: RMB8.1 million), representing a year-on-year increase of 4.3%, which mainly consisted of 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. The increase was mainly due to the increase in staff headcounts.

For the Reporting Period, costs of pharmaceuticals, costs of medical consumables and staff cost accounted for approximately 25.7% (2021: 26.2%), 25.7% (2021: 28.5%) and 34.2% (2021: 30.8%), respectively, of the total cost of revenue of the Group. The proportion of cost of pharmaceuticals as percentage of total cost of revenue has declined during the Reporting period, which is mainly attributable to the continuing downward adjustment on cost of pharmaceutical consumptions by patients which is also in line with medical reforms at the national level. Our total staff-related costs including salary, bonus and other benefits increased by 9.8% as compared with 2021, which reflected the rise in general salary level, compensation for overtime payments in effort for fighting against the pandemic and intense competition for medical professionals over the past year.

Gross Profit and Gross Profit Margin

Total gross profit of the Group amounted to RMB261.4 million (2021: RMB352.7 million), representing a year-on-year decrease of 25.9%. The overall gross profit margin decreased to 14.2% (2021: 18.1%), primarily due to: (i) the decrease in the overall average patient spending from our inpatient healthcare services; (ii) the decrease in number of complex surgeries performed at Kanghua Hospital; (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 utilities expenses of 9.8% and 7.9%, respectively.

Other Income

The other income of the Group primarily consisted of bank and other interest income, investment income from financial assets at FVTPL, government subsidies, fixed operating lease income (rental income), clinical trial and related income, COVID-19-related rent concession and others. During the Reporting Period, other income amounted to RMB54.9 million (2021: RMB45.1 million), representing a year-on-year increase of 21.5%, primarily due to (i) a decrease in government subsidies to RMB5.7 million (2021: RMB11.2 million), primarily due to a decrease in vaccination and other COVID-19 related subsidies received from government bodies during the year. Other subsidies include subsidized funding for operation of our rehabilitation centres and hospitals as well as specific research and development projects; (ii) an increase in investment income from financial assets at FVTPL of 54.3% to RMB13.3 million (2021: RMB8.6 million), which represented investment return from structured deposits with banks in the PRC, primarily due to an increase in average amount of structured deposits being placed during the Reporting Period; (iii) an increase in clinical trial and related income to RMB10.9 million (2021: RMB4.8 million); (iv) COVID-19 related rent concession of RMB7.4 million (2021: nil) represented the special COVID-19 related rent concession was granted by the landlord of Kanghua Hospital and Renkang Hospital during the Reporting Period; and (v) an increase in bank and other interest income to RMB3.2 million (2021: RMB1.9 million).

As part of the Group's cash management to maximise return on idle cash, the Group invested in certain low-risk structured deposit products issued by a PRC commercial bank and portfolio investment fund (all classified as financial assets at FVTPL) to achieve higher interest income and capital gain return without interfering with business operations or capital expenditures to earn better return on our excess cash balance, which is consistent with our cash management policy.

Other Expenses, Gains and Losses, net

The other expenses, gains and losses of the Group primarily consisted of fair value gain/(loss) on financial assets at FVTPL, loss on disposals of property, plant and equipment, donations and net exchange gain/(loss). During the Reporting Period, other expenses, gains and losses amounted to a net gain of RMB0.7 million (2021: net loss of RMB5.2 million), primarily comprised (i) a recorded fair value loss on financial assets at FVTPL of RMB4.4 million (2021: fair value loss of RMB2.3 million); (ii) a recorded net exchange gain of RMB5.9 million (2021: net exchange loss of RMB2.3 million) mainly arising from our Hong Kong dollar denominated financial assets; (iii) loss on disposal of property, plant and equipment amounted to RMB0.6 million (2021: loss of RMB0.5 million); and (iv) donations made of RMB0.2 million (2021: RMB0.1 million).

Net Provision of Impairment Losses under the Expected Credit Loss Model

During the Reporting Period, impairment losses under the expected credit loss (ECL) model recorded a net provision of RMB4.2 million (2021: RMB2.9 million). The net provision for the Reporting Period was mainly attributable to (i) an increase in the balances of accounts and other receivables at the end of the reporting period; and (ii) the effects of increase in the Group's accounts receivables aging and deterioration in credit rating of certain corporate customers and outstanding debts from patients as well as certain other receivable balances. Over the past few years, the Group 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 account receivables from the PRC government's social insurance scheme and certain credit-impaired debtors which are assessed for ECL individually. The provision rates are based on internal credit ratings as groupings of various receivables that have similar loss patterns. The collective assessment is based on the Group's historical default rates taking into consideration forward looking information that is reasonable and available without undue costs or effort. At every reporting date, the historically observed default rates are reassessed and changes in the forward-looking information are considered.

The management of the Group closely monitors the credit quality of accounts 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 account 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. During the Reporting Period, administrative expenses amounted to RMB228.3 million (2021: RMB225.2 million), representing a year-on-year increase of approximately 1.4%, primarily due to (i) an increase in administrative staff related costs to RMB83.7 million (2021: RMB74.4 million) as a result of the increase staff salary renumerations and bonus payments as well as staff related benefits; (ii) a slight increase in depreciation and amortisation to RMB24.1 million (2021: RMB23.2 million); (iii) a decrease in administrative and office expenses to RMB16.9 million (2021: RMB17.3 million); and (iv) a substantial decrease in overall repair and maintenance expenditure to RMB16.2 million (2021: RMB27.7 million).

Finance Costs

Finance costs for the year amounted to RMB15.0 million (2021: RMB19.8 million), representing a year-on-year decrease of 24.1%. Finance costs for the Reporting Period comprised (i) interest on bank loans raised of RMB18.6 million (2021: RMB18.0 million); (ii) the interest element relating to lease liabilities charged to profit or loss during the Reporting period of RMB9.7 million (2021: RMB11.5 million); and (iii) less amount of interest capitalised in the cost of qualifying assets of RMB13.3 million (2021: RMB9.7 million).

Income Tax Expenses

The income tax expenses of the Group primarily consisted of PRC enterprise income tax and Hong Kong Profits Tax. In 2022, income tax expenses amounted to RMB41.6 million (2021: RMB62.3 million), representing a year-on-year decrease of 33.3%. The subsidiaries of the Group in the PRC are generally subject to income tax rate of 25% on their respective taxable income. Certain subsidiaries of the Group in the PRC are regarded as "small and micro enterprises" and, accordingly, were entitled to a preferential income tax rate of 2.5% to 10% (2021: 2.5% to 10%) during the Reporting Period. Our effective tax rate for the Reporting Period is 60.0% (2021: 48.2%). The decrease in income tax expenses is primarily due to the decrease in profits generated at Kanghua Hospital and Renkang Hospital during the Reporting Period. The increase in effective tax for the Reporting Period is mainly due to the tax effect of tax losses not recognised for losses incurred by Kangxin Hospital.

Profit for the Year

The Group recorded profit for the Reporting Period amounting to RMB27.7 million (2021: RMB66.9 million), and profit attributable to shareholders of the Company amounting to RMB61.0 million (2021: RMB94.3 million).

FINANCIAL POSITION

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

During the Reporting Period, the Group acquired property, plant and equipment and incurred expenditure on construction in progress of RMB73.6 million (2021: RMB69.5 million) and RMB94.5 million (2021: RMB99.8 million), respectively, mainly for the purpose of upgrading and expanding the service capacity of the Group's hospital and rehabilitation services operations and construction cost incurred of Phase II medical facility at Kangxin Hospital and the Kanghua Qingxi Healthcare Complex.

As at 31 December 2022, the Group has right-of-use assets of RMB319.9 million (2021: RMB354.1 million) which includes leasehold lands of RMB221.6 million (2021: RMB226.6 million) and leasehold land and buildings relating to leases of RMB98.3 million (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 8 years. The Group is required to make fixed monthly payments. On lease commencement, the Group recognised right-of-use assets and lease liabilities of RMB2.2 million (2021: RMB7.1 million) each relating to those new leases.

As at 31 December 2022, the Group has deposits paid for acquisition of property, plant and equipment amounting to RMB58.1 million (2021: RMB91.6 million). The deposits mainly represent deposits paid for construction cost of Phase II medical facility at our Kangxin Hospital and the Kanghua Qingxi Healthcare Complex 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.

Other Asset

On 23 May 2022, the Company entered into 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 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 and 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 RMB20.0 million (the "**Brand Introduction Fee**") to procure the introduction of "Artemed", and an annual fixed management fee of RMB10.0 million together with variable management fee which is based on certain percentage of Kangxin Hospital's annual revenue during the Service Period.

During the Reporting Period, Silver Mountain had procured "Artemed" license holder 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 RMB20.0 million to Silver Mountain and classified as other asset in the consolidated statement of financial position of the Group. 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. During the Reporting Period, the amortisation of the Brand Introduction Fee (other asset) of RMB0.6 million has been charged to profit or loss.

Accounts and Other Receivables

The account receivables of the Group primarily consisted of balances due from social insurance funds, certain corporate customers and individual patients. As at 31 December 2022, accounts receivables decreased to RMB229.6 million (2021: RMB226.5 million), of which 73.2% (2021: 86.0%) were aged within 90 days. Average accounts receivables turnover days for the current year is 45.1 days (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 31 December 2022, the Group has carried out credit assessment on its accounts receivables and a net provision of impairment loss of RMB4.2 million (2021: impairment loss of RMB2.9 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. As at 31 December 2022, other receivables increased to RMB54.0 million (2021: RMB44.0 million) and primarily due to (i) an increase in prepayments to suppliers to RMB19.3 million (2021: RMB13.3 million); and (ii) an increase in other receivables comprising prepayments to other non-trade suppliers, security deposits and other prepaid expenses mainly due to expansion of the Group's operations and purchases during the Reporting Period.

Accounts and Other Payables and Provisions

The accounts and other payables and provisions of the Group primarily consisted of accounts payables, accrued expenses, receipt in advance, payables for acquisition of property, plant and equipment, provision for medical dispute claims, other tax payables and others. As at 31 December 2022, accounts and other payables and provisions increased to RMB717.8 million (2021: RMB633.4 million) primarily due to (i) an increase in accounts payable to RMB348.8 million (2021: RMB321.6 million) due to increase in purchases of supplies (in particular COVID-19 related supplies) during the Reporting Period; (ii) increase of accrued expenses to RMB106.2 million (2021: RMB98.2 million) mainly due to increase in operational and administrative charges and accrued staff costs; (iii) an increase in receipt in advance to RMB197.1 million (2021: RMB147.2 million) mainly due to an increase in temporary funds received from social security insurance fund; (iv) an increase in payable for acquisition of property, plant and equipment to RMB36.6 million (2021: RMB30.6 million) due to increase in purchases of medical equipment and improvement works carried out at our facilities during the year; and (v) a decrease in provision for medical dispute claims to RMB1.2 million (2021: RMB1.9 million), comprising provision for the year of RMB2.4 million (2021: RMB2.3 million), reversal of provision for the year of RMB1.5 million (2021: RMB1.1 million) and utilisation of provision for the year of RMB1.6 million (2021: RMB2.2 million).

Net Current Assets

As at 31 December 2022, the Group recorded net current assets of RMB289.6 million (2021: RMB347.4 million) and net assets position of RMB1,502.5 million (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 RMB264.3 million as at 31 December 2022 (2021: RMB237.3 million) and fixed bank deposits of nil as at 31 December 2022 (2021: RMB3.0 million). The Group continues to generate steady cash inflow from operations and coupled with sufficient cash and bank balances, in the opinion of the Directors, the Group will have adequate and sufficient liquidity and financial resources to meet the working capital requirement of the Group for at least the next twelve months following the end of the Reporting Period.

As at 31 December 2022, as part of the Group's cash management activities, the Group had investments (classified as financial assets at FVTPL) in aggregate of RMB572.4 million (2021: RMB603.3 million), primarily consisting of, (i) portfolio investment fund of RMB64.4 million (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. The portfolio investment fund was maintained by a discretionary fund manager and measured at fair value. As at 31 December 2022, the Group intended to such interest 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) a fund investment of RMB18.0 million (2021: RMB10.0 million). In 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 31 December 2022, the fund had made equity investments in two (2021: one) unlisted companies and the aggregate carrying amounts of the equity investments was RMB18.0 million (2021: RMB10.0 million), which were measured at fair values; and (iii) structured short-term bank deposits of RMB490.0 million (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 consolidated statement of cash flow of the Group for the years indicated:

	2022	2021
	RMB'000	*RMB'000*
Net cash flows from operating activities	**221,404**	333,369
Net cash flows used in investing activities	**(83,159)**	(299,332)
Net cash flows (used in)/from financing activities	**(110,880)**	23,269
Net increase in cash and cash equivalents	**27,365**	57,306

Net cash flows from operating activities

During the Reporting Period, the net cash generated from operating activities amounted to RMB221.4 million (2021: RMB333.4 million), representing a year-on-year decrease of 33.6%, the decrease is primarily attributable to our deteriorated performance in adjusted EBITDA for the Reporting Period. Changes in working capital include: (i) increase in inventories amounting to RMB2.8 million (2021: RMB27.2 million); (ii) increase in accounts and other receivables amounting to RMB16.9 million (2021: RMB23.1 million); and (iii) increase in accounts and other payables amounting to RMB77.2 million (2021: RMB126.4 million). Total income tax paid during the Reporting Period amounting to RMB51.6 million (2021: RMB54.8 million).

Net cash flows used in investing activities

During the Reporting Period, the net cash used in investing activities amounting to RMB83.2 million (2021: RMB299.3 million), representing a year-on-year decrease of 72.2%. The decrease is primarily attributable to: (i) a decrease in purchase of property, plant and equipment to RMB93.8 million (2021: RMB149.4 million); (ii) deposits paid for acquisition of property, plant and equipment to RMB21.4 million (2021: RMB21.8 million); (iii) a net decrease in financial assets at FVTPL; (iv) increase in investment income received from financial assets at FVTPL of RMB13.3 million (2021: RMB8.6 million); (v) payment of other asset (Brand Introduction Fee) of RMB20.0 million (2021: nil) during the Reporting Period; and (vi) acquisition of a subsidiary of RMB0.6 million (2021: nil).

Net cash flows (used in)/from financing activities

During the Reporting Period, the net cash flows used in financing activities amounting to RMB110.9 million (2021: net cash flows from financing activities of RMB23.3 million) and primarily consists of: (i) no new bank loans raised during the Reporting Period (2021: new bank loan raised of RMB60.0 million); (ii) repayment of bank loans of RMB32.9 million (2021: RMB9.8 million); (iii) net repayments to non-controlling shareholders of subsidiaries of RMB23.1 million (2021: net advances of RMB31.1 million); (iv) repayments of principal portion of lease liabilities of RMB29.5 million (2021: RMB31.4 million); and (v) increase in interest paid amounting to RMB25.3 million (2021: RMB26.6 million).

Significant Investment, Acquisition and Disposal

On 22 January 2022, the Group acquired a 57.7% equity interest in 合肥市愛康慧健康管理有限公司("**Hefei Aikanghui**") from independent third parties at a cash consideration of RMB577,000. Hefei Aikanghui and its subsidiary 合肥市愛康慧康復有限公司(collectively referred to as the "**Hefei Aikanghui Group**") were mainly engaged in providing home-based elderly rehabilitation and care services in Hefei. The transaction was completed on 22 January 2022. The book values of assets and liabilities of Hefei Aikanghui Group at the date of acquisition amounted to approximately RMB972,000 and non-controlling interest amounted to approximately RMB395,000. There is no goodwill arose from this acquisition. The Group has elected to measure the non-controlling interests in Hefei Aikanghui Group at the non-controlling interests' proportionate share of the Hefei Aikanghui Group's identifiable net assets. Net cash outflow of RMB570,000 is derived by total cash consideration paid of RMB577,000 less cash acquired of RMB7,000.

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 188 days and 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 investment 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 certain 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 RMB168.0 million (2021: RMB169.3 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**").

Up to 31 December 2022, of the net proceeds from the initial public offering, (i) RMB78.3 million, representation approximately 10% of the net proceeds, has been utilised and used as general working capital; (ii) RMB134.7 million, representing approximately 17.2% of the net proceeds, has been utilised and used on expansion of our current operations and upgrading our hospital's facilities; and (iii) RMB158.8 million, representing approximately 20.3% of the net proceeds, has been utilised and used for acquisition and potential acquisition of businesses. As at 31 December 2022, out of the balance of the unutilised net proceeds of RMB410.8 million, part of such proceeds has been used to purchase certain financial products (classified as financial assets at FVTPL) to achieve higher interest income and capital return without interfering with our business operations or capital expenditures to earn better return on our excess cash balance, and the remaining balance has been kept at the bank accounts of the Group (included in bank balances and cash). As at the date of this announcement, the Company does not anticipate any material change to its plan on the use of proceeds as stated in the Prospectus.

INDEBTEDNESS

Bank Loans

In 2019, the Group obtained new bank loan facilities in the aggregate amount of RMB620.0 million for the purpose of funding the development of the Phase II medical facility and financing the operations of Kangxin Hospital. Up to 31 December 2022, RMB345.4 million has been drawn down. As at 31 December 2022, the Group had secured bank loans of carrying amount of RMB280.9 million (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 was drawn down in year 2019, RMB50.0 million was drawn down in year 2020 and RMB60.0 million was drawn down 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 31 December 2022, the effective interest rate of the secured bank loan is 5.81% (2021: 5.72%) per annum. As at 31 December 2022, the carrying amount of the borrowing in respect of such arrangement amounted to RMB243.0 million (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 31 December 2021, 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% (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 31 December 2022, the carrying amount of the borrowing in respect of such arrangement amounted to RMB37.9 million (2021: RMB45.6 million). As at 31 December 2022, the property, plant and equipment with net book value of RMB21.0 million (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 course 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 31 December 2022, the total stated claim amount of the Group's on-going medical disputes was approximately RMB14.0 million (2021: RMB7.5 million) and there were certain medical disputes without claim amount stated. Based on the Group's assessment, as at 31 December 2022, approximately RMB1.2 million (2021: RMB1.9 million) had been provided and included in accounts and other payables and provision of the Group.

As at 31 December 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 31 December 2022, certain property, plant and equipment of the Group with net book value of RMB21.0 million (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 31 December 2022, the capital commitments in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements were RMB262.5 million (2021: RMB149.6 million).

Financial Instruments

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

Exposure to Fluctuation in Exchange Rates

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

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

Gearing Ratio

As at 31 December 2022, the Group's gearing ratio (total interest-bearing bank loans divided by total equity and multiplied by 100%) was 18.7% (2021: 21.0%).

Employment Related Matters

As at 31 December 2022, the Group employed a total of 3,848 (2021:3,607) employees. Staff costs (excluding directors' and supervisors' emoluments) amounted to approximately RMB620.3 million (2021: RMB564.7 million) for the Reporting Period. The Group endeavours to ensure that the compensation level of its employees remains competitive and in line with market conditions and its employees are appropriately rewarded based on their performance within the general framework of the Group's salary and bonus system. In relation to staff training, the Group also provides different types of programs for its staff to improve their skills and develop their respective expertise.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31 December 2022, 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 the Directors, each of the Directors has confirmed that he has complied with the required standards as set out in the Model Code during the Reporting Period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

EVENTS AFTER THE REPORTING PERIOD

Change of Auditor

As disclosed in the announcement of the Company dated 3 February 2023, Ernst & Young ("**EY**") has resigned as the auditor of the Company with effect from 3 February 2023. The Board has resolved, having regard to the recommendation from the audit committee of the Company (the "**Audit Committee**"), to approve the appointment of Baker Tilly Hong Kong Limited ("**Bakertilly**") as the new auditor of the Company to fill the casual vacancy following the resignation of EY with effect from 3 February 2023 and to hold office until the conclusion of the next annual general meeting of the Company. For further details, please refer to the announcement of the Company dated 3 February 2023.

As at the date of this announcement, save as disclosed above, the Group did not have any other significant event after the Reporting Period.

FINAL DIVIDEND

The Board does not recommend the distribution of final dividend for the year ended 31 December 2022.

ANNUAL GENERAL MEETING

The Company will hold the annual general meeting (the "**AGM**") at Meeting Room 1, 2nd Floor of Dongguan Kanghua Hospital Administration Center in 1000 Dongguan Avenue, Nancheng District, Dongguan, Guangdong Province, PRC at 3:00 p.m. on Wednesday, 21 June 2023 for the Shareholders to consider, and if thought fit, approve the resolutions relating to, among others, (i) the 2022 Work Report of the Board; (ii) the 2022 Work Report of the Supervisory Committee; (iii) the 2022 Financial Reports; (iv) the Annual Report for 2022; and (v) the re-appointment of domestic auditor and international auditor of the Company for 2023 and authorise the Board to determine their respective remuneration. A special resolution will be proposed at the AGM approve the general mandate to issue Shares.

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

The register of members of H Shares of the Company will be closed from Monday, 22 May 2023 to Wednesday, 21 June 2023, both days inclusive, during which no transfer of H Shares will be registered. In order to qualify for attending the AGM and vote for all resolutions to be submitted thereat, all transfer instruments of the H Shares together with the relevant share certificates shall be lodged with the Company's H Shares registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, before 4:30 p.m., on Friday, 19 May 2023 for registration.

REVIEW OF RESULTS ANNOUNCEMENT

The Audit Committee has reviewed the Group's annual results for the financial year ended 31 December 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 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).

SCOPE OF WORK OF MESSRS. BAKERTILLY

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Bakertilly, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Messrs. Bakertilly in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Bakertilly on the preliminary announcement

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

APPRECIATION

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

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

Hong Kong
31 March 2023

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

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

Non-executive Director:
Mr. Lv Yubo

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

* *English translated name for identification purpose only.*